Decentralizing Inequality?

Center-Periphery Relations, Local Governance, and Conflict in Aceh

Patrick Barron
Samuel Clark
Grievances over perceived inequalities in resource distribution and political authority between the center and periphery are often a root cause of intra-country separatist conflicts. Decentralization of political and economic powers is a commonly chosen strategy for quelling separatist demands. In Aceh, at the northwest tip of Indonesia, demands from local elites for greater control of the resource pie have been evident since the discovery of one of the world’s largest natural gas fields in the early 1970s and have helped fuel a near-30 year conflict over the political status of the province that claimed 15,000 lives. Demands for greater political authority to manage economic, social, and religious affairs stretch even further to the time of Indonesian independence. The Helsinki peace agreement (MoU) signed by the rebel Free Aceh Movement (GAM) and the Indonesian Government in August 2005 is the latest of a series of special autonomy deals—many not fully implemented—which aim to keep Aceh within Indonesia. Key tenets of the agreement, which follows and extends Indonesia-wide decentralization, are arrangements for the province to retain 70 percent of natural resource revenues and additional resource allocations from Jakarta. Significant devolution of political powers include the allowance of local political parties, independent candidates, control over many areas of policymaking, and the incorporation of local cultural and religious symbols and practice into the political sphere. Redefining center-periphery relations is seen as the means of quelling separatist unrest and cementing Aceh’s place within the Indonesian state and nation.

This paper challenges the notion that addressing center-periphery inequality will in itself result in sustainable peace in Aceh. The authors argue that an evaluation of the (potential) impacts of the decentralization intrinsic in the peace agreement on conflict must look at the flow of economic and political resources within Aceh, and, more specifically, at the local government institutions that manage their distribution. There will be plentiful resources within Aceh that can be used for developmental purposes. In 2006, local government in Aceh received revenues five times higher than before decentralization in 1999. The implementation of the MoU will further increase the inflow of public resources, and the US$ 8 billion tsunami reconstruction budget and ongoing post-conflict donor and central government support will also provide a windfall. Yet local government institutions do not presently have the capacity to effectively manage and spend such resources. Corruption is widespread. Mechanisms for managing political competition are weak. Recent government expenditure has largely been concentrated in urban centers, captured by politically-connected elites, and continues to disenfranchise the rural poor. It is largely on the basis of these inequalities and grievances that GAM has been able to mobilize resentment toward the center and forge a political identity at odds with Jakarta; if such inequalities are not addressed, Aceh will continue to remain prone to conflict.

The paper draws on data from the Aceh Public Expenditure Analysis (APEA) and fieldwork associated with the World Bank’s support to the current Aceh peace process. The authors argue that over the medium- to long-run, the key challenge for securing peace in Aceh is ensuring resources and political power are equally and transparently distributed within Aceh. Ensuring such ‘internal equality’ is at least as important as tackling ‘center-periphery inequality,’ both to address community grievances and to prevent elites from mobilizing based on local discontent. This requires building strong, just, accessible and legitimate institutions with a focus on delivering services, fighting corruption, improving transparency, increasing capacity, and ensuring participation. International actors can support this by engaging directly with the state and by helping to create an enabling environment that allows good governance to flourish. Long-term engagement, working with a diverse range of partners, and local understanding are key.
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# Table of Contents

Acknowledgments................................................................................................................ .........................ii  

1. Introduction............................................................................................................................................... 1  

2. Decentralization and Conflict in Indonesia and Aceh............................................................................... 2  
   The Place of Aceh within the Indonesian State.................................................................................. ....... 3  

3. Center-Periphery Relations and the Helsinki Peace Agreement............................................................... 5  
   Contemporary Explanations for Conflict in Aceh: Dimensions of Alienation ......................................... 5  
   The Potential Impact of the Helsinki MoU and LoGA on Center-Periphery Relations................. 7  

4. Economic and Political Decentralization and Conflict: Insights from the Literature ............................... 9  
   Economic Explanations.......................................................................................................... ................. 10  
   Socio-Political Explanations ................................................................................................................... 12  
   Implications: The Contingent Nature of Peace and the Importance of Local Institutions .......... 13  

5. Implementing Autonomy and Addressing the Causes of Conflict in Aceh ............................................ 14  
   Capacity............................................................................................................................................... 15  
   Corruption ............................................................................................................................................... 16  
   Political Competition.......................................................................................................... ..................... 18  
   Local Factors and Sustainable Peace in Aceh ......................................................................................... 21  

6. Conclusions and Implications................................................................................................................. 22  
   Principles for Engagement by International Actors .............................................................................. 24  
   Direct Engagement with Local Government...................................................................................... 25  
   Support to the “Enabling Environment”.............................................................................................. 26  

References..................................................................................................................... .............................. 28
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Patrick Barron
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1. INTRODUCTION

The use of economic and political decentralization as a means for quelling unrest within regions with separatist aspirations has been both a common theoretical prescription and policy strategy for states in the post-Cold War period. Such attempts are notable in Indonesia where the fall of Suharto’s New Order in 1998 led to outbreaks of violence across the country. In Aceh, the granting of Special Autonomy through Law 18/2001 was seen as a way of ending a separatist conflict between the rebel Free Aceh Movement (GAM) and the Government that has resulted in 15,000 deaths since 1976. The collapse of peace talks in 2003 led to the Government again utilizing a ‘security approach’ (ICG 2003; Sukma 2004) and as martial law was declared, most elements of the autonomy agreement fell by the wayside. In August 2005, after four rounds of peace talks in Helsinki, a Memorandum of Understanding (MoU) was signed by the conflicting parties, which revisited and extended many of the Special Autonomy arrangements. The MoU, and the Law on Governing Aceh which implements many of its provisions (Law 11/2006 or the LoGA)\(^1\), is another attempt to use the devolution of economic resources and political authority to quell unrest. More than one year after the signing of the MoU, the peace agreement is holding.

Do the MoU and LoGA provide the basis for sustainable peace in Aceh? An answer must be grounded in an analysis of what it was that caused the conflict in the first place, what caused it to continue for almost 30 years, and an analysis of potential issues that may emerge. The bulk of the literature on the Aceh conflict identifies imbalances in center-periphery relations and alienation of the Acehnese population from Jakarta as the primary factors driving the conflict. This alienation, it is argued, was a result of a lack of recognition of Aceh’s distinct past and role in achieving Indonesia’s independence in 1946, of the distinctive characteristics of Acehnese cultural and religious practices, and of financial arrangements whereby the vast bulk of Aceh’s immense natural resource revenues made their way into Jakarta’s coffers, with few benefits accruing to the Acehnese. The argument thus follows that reconfiguring center-periphery relations in ways that enhance local economic and political autonomy will end the conflict.

In this paper we seek to examine some of the assumptions behind these causal claims. Was it imbalances in the relationship between Aceh and Jakarta that led to the conflict? Will the Helsinki MoU address these issues? And will this agreement provide the basis for sustainable peace in Aceh? We agree with the assertion that the grievances of Acehnese must be addressed for peace to be sustainable. The rise of GAM occurred in a context where disillusionment with the Indonesian state was growing. Understanding the changing relationship between the province and the center, and focusing on Aceh’s role within the Indonesian state, provides a useful framework for understanding the ebbs and flows of conflict in Aceh over the past three decades. However, we argue that focusing on center-periphery relations is less useful for considering emerging and potential issues in the post-MoU period.

The MoU and the LoGA provide for a massive devolution of economic resources and political powers to Aceh, and also allow for the incorporation of local cultural and religious symbols and practices into Acehnese political life. This has the potential to fundamentally alter the relationship between the center and periphery. However, we argue that such a reconfiguration of

\(^1\) Throughout the paper we use the common acronym, LoGA.
national-provincial relations will not in itself lead to sustainable peace. The agreement—in devolving powers and responsibilities—increases the agency of actors in Aceh to deal with the issues that drove the conflict. Yet while autonomy will exist locally to impact on such factors, this will not ensure that powers and resources are used appropriately. Center-periphery focused explanations obfuscate our understanding of how post-conflict autonomy/decentralization may mitigate conflict in Aceh and, conversely, how the new arrangements may provide a basis for future eruptions of conflict. Much will depend on the behavior of local elites and, particularly, the ability of local government to start delivering services and social and economic development to the people of Aceh. Equally important is ensuring that local state institutions are accessible to, and are seen as legitimate by, a wide range of political elites. Given severe weaknesses in the capacity and legitimacy of local government in Aceh, and undeveloped institutional frameworks and norms for regulating political competition, a real risk exists that resentment previously targeted at Jakarta could simply be decentralized and directed at local elites; local elites, in turn, may try to blame Jakarta. These dynamics could, over time, lead to the regeneration of conflict in Aceh.

The paper utilizes data from a number of sources. The Aceh Public Expenditure Analysis (APEA), conducted by the World Bank with local universities and in close partnership with the provincial planning agency (Bappeda) and the tsunami reconstruction and rehabilitation agency (BRR), provides data on sources and levels of government revenue as well as weaknesses in the capacity of local government. Other studies and fieldwork conducted by the World Bank as part of its program of post-conflict support provide information on political and social dynamics.

The paper proceeds in five parts. Section 2 provides background on conflict in Indonesia and Aceh and on decentralization and the granting of special autonomy as a strategy for ameliorating it. Section 3 looks more closely at the case of Aceh, summarizes the literature on explanations for the Aceh conflict, and then assesses the potential for the MoU and LoGA to address these issues. Section 4 continues with a summary of the theoretical and empirical literature on economic and political autonomy/decentralization and conflict. In Section 5, we apply some of the hypotheses and findings from the literature to the Aceh case post-MoU, focusing on issues relating to capacity, corruption, and political competition. Section 6 begins with a summary of conclusions before outlining the implications for those seeking to consolidate peace in Aceh.

2. DECENTRALIZATION AND CONFLICT IN INDONESIA AND ACEH

The history of Indonesia’s existence since its independence from the Dutch in the 1940s has been one of continuous attempts to keep this most diverse and geographically scattered country together. Various strategies—most notably the promotion of a common language, the use of legal instruments to homogenize cultural and political structures, the provision of development through uniform and hierarchical structures, and the encouragement of nationalist discourses and readings of history—have been used. The collapse of Suharto’s New Order regime in May 1998 led to an outburst of conflict across the country. At least 9,500 died between the onset of the collapse of the New Order regime at the beginning of 1997 and the end of 2003 (Varshney, Panggabean and

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2 This includes a pre-MoU conflict assessment, an assessment of the needs of GAM, work on the illegal economy and extortion, research on tensions around tsunami aid, newspaper conflict monitoring, and a study on tensions related to the Gubernatorial and Mayoral elections scheduled for December 2006.

Tadjoeddin 2006), and real figures are probably significantly higher. As East Timor won a bloody independence in 1999, commentators both within and outside of Indonesia began to wonder if one of the world’s most ethnically diverse states was beginning to unravel (Wilson 2001; BBC 2001).

The Indonesian state responded to such conflicts and the perceived risk of fragmentation in a number of ways. On the one hand, the Government, particularly under the leadership of President Megawati, pursued a traditional ‘security approach’ where military numbers were boosted in centers of violence such as Maluku, Central Kalimantan and Central Sulawesi. At the same time, the Government sought to decentralize power as a means of ensuring that local elites and citizens would see the benefits of remaining within Indonesia. Indonesia’s governance framework was radically decentralized and center-periphery relations were fundamentally redefined. Law 25/1999 on fiscal balance led to increases in the revenues of regional governments from Rp. 45 trillion prior to decentralization to a projected Rp. 175 trillion for 2006. Law 22/1999 on regional governance ceded authority to regional governments in all fields except defense, security, foreign policy, monetary policy, the legal system and religious matters (Aspinall and Fealy 2003). The Law created new opportunities for sub-national government structures to adapt to local differences, including legitimizing the role of *adat* (traditional) customary law and allowing local leaders to be called by traditional names (Antlov 2003). Laws 32, 33, and 34 of 2004 cemented this decentralization.

The Place of Aceh within the Indonesian State

The relationship between Jakarta and Aceh has over the past 50-odd years cycled through various highs and lows. Compared to the rest of Indonesia, Aceh experienced a different colonial relationship with the Dutch (Reid 2006). The second 1873 invasion brought some Dutch control to Aceh but, in contrast to other parts of the Indonesia archipelago, it remained a resisted military occupation. After World War II, the Acehnese were instrumental in getting rid of the Dutch and were strong supporters of, and participants in, the Indonesian independence movement. In recognition of this special role, the province (or region) was awarded special status within the Indonesian state, much like Yogyakarta in Java. However, tensions arose from the early days of Indonesian independence. Aceh was a strong supporter of the inclusion of the Jakarta Charter, which contained a clause obliging Muslims to follow Islamic *Syari'ah* law, as a preamble to the constitution (Miller 2006, p. 294). The Jakarta Charter was eventually blocked by the secular nationalist parties. Amid these tensions, in 1951 Aceh’s special status within the Indonesian state was abolished and it was incorporated into the neighboring North Sumatra province. The change of status was quickly politicized, and in 1953 Daud Beureuh’eh, a charismatic religious *Ulama* leader, participated in the Darul Islam movement and declared Aceh to be part of an Indonesian

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4 Varshney et al. (2006) generated their estimates by reading provincial papers. Their figures understate overall conflict impacts because of (a) incomplete provincial coverage including the absence of Aceh and Papua provinces in the total, and (b) because provincial papers under-report conflict impacts (Barron and Sharpe 2005).

5 The best sources on this are the series of excellent papers put out by the International Crisis Group over the 2001-2003 period.

6 The laws diluted powers at the village level; for example, village representative councils, or BPD, are now to be appointed rather than elected. However, at the district level it strengthened decentralization of powers, with District Heads (*Bupati*) to be directly elected.


8 The Acehnese are disproportionately represented among those officially named ‘Indonesian heroes.’ Prominent heroes from Aceh include Teuku Umar, Teuku Cik Di Tiro, Cut Nyak Dien and Cut Mutia.
Islamic State (Sulaiman 2006). After much fighting between Acehnese and nationalist troops, this rebellion was resolved between 1957 and 1962 with the (re)establishment of Aceh’s special status and promises of local autonomy to manage religious, educational and customary law affairs. Again, however, these provisions were unilaterally withdrawn by the central government in 1974, then led by Suharto. Although these various movements and rebellions are largely seen to be distinct from the cause of the contemporary Aceh problem (see Aspinall 2006), they provide important historical antecedents for understanding the rise of GAM and later the center-periphery conflict between Aceh and Jakarta.9

In December 1976, Hasan di Tiro, a descendant of the last sultan of Aceh, declared the formation of GAM and independence from Indonesia. GAM built upon the grievances of the many Acehnese who had failed to benefit from the discovery and development of massive natural gas fields off the east coast of the province. The movement grew in size in the 1980s and fighters were trained in Libya. In response, the Indonesian military, in a number of campaigns, sought to destroy the movement with force. The establishment of a Military Operation Zone in August 1989 led to a ten-year campaign that killed thousands and resulted in widespread human rights abuses. This only strengthened GAM, who were able to recruit from among those who had lost family members or who had witnessed atrocities. After East Timor declared independence, momentum built in Aceh for a referendum on the province’s status. In November 1999, a mass rally of 1.5 million people was held calling for Acehnese self-determination. Under President Wahid, peace talks began in the context of a deteriorating security environment. A Humanitarian Pause to the conflict was declared in September 2000, but had little effect, with GAM using the opportunity to consolidate control of territory and recruit troops.

In this context, the Indonesian Government made tentative steps toward using decentralization as a means to quell the conflict. The Special Autonomy Law (No 18/2001) sought to address the political, economic and cultural grievances of the Acehnese people. Seventy percent of oil and gas revenues were to be retained within the province and direct elections of the local government executive were provided for. The implementation of Syari’ah (Islamic) law, the establishment of a Syari’ah court, and the establishment of the Wali Nanggroe (a traditional culture body/leader) recognized the prominence of Islam in Aceh and the province’s historical distinctiveness. Many, not least the Indonesian military, saw it as a ‘final settlement’ to end the conflict. Political steps were taken with negotiations resulting in the Cessation of Hostilities Agreement (or CoHA) in December 2002.

The Special Autonomy Law was never fully implemented. It was passed at a time when Aceh was still in the midst of conflict, with some commentators suggesting that GAM controlled 70 percent of the province (Shultz 2004). CoHA collapsed in May 2003 due to spoiler activities from both sides. As martial law was applied, and the province sealed off from outside oversight, thoughts of a political or economic solution to the conflict faded. Tens of thousands of additional troops arrived in an (unsuccessful) attempt to wipe out GAM and separatist sentiment by military means (Sukma 2004). Only after the accession to power of a new Indonesian President and Vice President team with both military and peace-making credentials did attention again focus on using legal tools, focusing on political and economic arrangements, as a means of bringing peace to Aceh (ICG 2005; Aspinall 2006a; Morfit 2006). After the devastating Indian Ocean tsunami of December 26, 2004, peace talks went public and a new accord—the Helsinki Memorandum of

9 Indeed, interviews with GAM at various levels suggest that most see their struggle as a continuation of previous rebellions against outsiders.
Understanding (MoU)—was signed on August 15, 2005, offering new hope for peace. The MoU and its implementing legislation, the LoGA, extended the provisions of the Special Autonomy Law.

3. CENTER-PERIPHERY RELATIONS AND THE HELSINKI PEACE AGREEMENT

Attempts at finding peace in Aceh through the devolution of economic and political powers have been grounded in analyses that have viewed discontent in Aceh as a result of (real or perceived) marginalization of the province within Indonesia. In this section, we will examine a number of accounts of the causes of the Aceh conflict. These tend to frame the Aceh conflict in terms of Jakarta-Aceh relations. We then take a closer look at the MoU and LoGA to see whether they will sufficiently address the hypothesized causes of the Aceh conflict outlined in the literature. We find that the provisions do address many of the vertical issues over resources, political control, and authority to utilize distinctive Acehnese cultural forms and practices in public life. However, as we explore in the following sections, devolving autonomy in these areas is unlikely, in itself, to be enough to ensure that the economic and political grievances of the Acehnese are resolved.

Contemporary Explanations for Conflict in Aceh: Dimensions of Alienation

The majority of writing on the Aceh conflict has focused on Aceh’s position within the unitary state of Indonesia. The common narrative explains the rise of GAM and the conflict as a result of an imbalance in powers between Jakarta and Aceh. This view is captured in a pre-MoU East-West policy paper: “At the heart of the conflict are center/periphery relations and profound Acehnese alienation from Jakarta” (Schultz 2004, p. vii).

At the risk of pigeon-holing some commentators, three strands of literature can be identified, each emphasizing a different dimension of Acehnese marginalization. The two most common explanations are those that focus on the role of natural resource extraction and state-perpetuated violence and repression. A less prominent but important literature considers the role that socio-cultural identities and historical factors have played in the development of the center-periphery conflict.

The rise of GAM is commonly linked to the movement’s ability to capitalize on fluctuating and growing local grievances over the extraction of natural resources and the distribution of revenues (Kell 1995). Aceh is a resource rich region with abundant supplies of gas, timber and maritime resources, industries that, particularly during Suharto’s New Order government, underwent extensive development. The causal link between the presence of natural resources and conflict adopted by most commentators is not, however, that theorized in the Collier and Hoeffler

10 There is much debate and speculation about exactly what role the tsunami played in helping to resolve the conflict. Some have suggested that the tsunami forced both sides to the negotiating table, whether for compassionate or strategic reasons. What is clear is that the government, particularly the Vice-President Jusuf Kalla, had been courting GAM prior to the tsunami and that the Crisis Management Initiative (CMI – the NGO that brokered the accord) formally invited both sides to negotiate two days before the Indian Ocean tsunami struck (Morfit 2006). We would suggest that the tsunami played a larger role in ensuring both parties kept to the agreement after it was signed than in leading to the agreement itself. The massive reconstruction effort and international attention that the tsunami brought to Aceh provided an informal spotlight that prevented spoiler actions, and provided economic incentives for both sides to adhere to the agreement.
model. As Ross (2003, p. 33) argues, these resources did not provide the incentive and means for GAM to rebel against the center, but instead through their large-scale appropriation by the central government resulted in significant local grievances that GAM then managed to channel into center-periphery discontent. Tracing the origins of economic exploitation and marginalization to long before the New Order era, the late Sulaiman (2006) similarly emphasizes the primary role that the control and distribution of Aceh’s bountiful resources has had on the source and origins of center-periphery conflict. Sukma (2001) also notes the importance of these resource grievances as the underlying causes for a rebellion that intensified in the late 1990s due to national-level developments.

A second explanation looks at the contribution of state security institutions to escalating, if not causing, the Aceh conflict. As noted earlier, the Indonesian government has used military means to crack-down on movements that threaten the unitary state of Indonesia. In Aceh, the presence of a movement with explicit secessionist aims has over the past 30 years resulted in four military campaigns that resulted in state-perpetrated violence and human rights violations against civilians. However, far from helping to quell the conflict, most commentators have noted that these campaigns simply fanned center-periphery grievances and motivated new generations of fighters (Robinson 1998; ICG 2001a). In explaining the reasons for the military’s brutal behavior in Aceh, McCulloch (2006) applies the “greed-grievance” theory to the Indonesian security personnel and concludes that the incentives for security institutions to perpetuate conflict and violence coalesce with local military business opportunities. In contrast, Jemadu (2006) situates the explanation for military actions in Aceh in a much broader institutional context by considering how the actions of security personnel are linked to ongoing post-Suharto democratization and military/security reform. Arguably more sympathetic to the position of the military, Schulze (2006, p. 263) points out that the military’s lack of professionalism, weak discipline and accountability mechanisms, and policy of utilizing community defense organizations significantly weakened its counter-insurgency strategy and contributed to local grievances over the actions of security personnel.

A less prominent literature has also considered the development and role of a distinct Acehnese identity in explaining Aceh’s alienation with Indonesia and the rise of the conflict. Variations of this approach locate the source and politicization of center-periphery identities in different socio-political processes. For some, as discussed above, an Acehnese identity counter-posed to an Indonesian one can be traced back to Aceh’s unique experience of the Dutch colonial rule, enhanced by a sense of betrayal as Aceh became increasingly marginalized in the post-independence environment. Similarly, Aspinall (2006b) has investigated the way in which state-perpetuated violence has, since the 1950s, facilitated “self-other identity” processes and resulted in the development of a distinctive non-Indonesian Acehnese identity. Indeed, GAM has encouraged the adoption of an ethnic identity discourse in an attempt to conflate Indonesian nationalism with Javanese colonialism, drawing on local grievances directed at the impact of local resource and economic policies. In addition, the largely secular Indonesian state’s failure or inability to incorporate Aceh’s more devout practice of Islam and other local cultural practices

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11 Collier and Hoeffler (2000), in work that has been influential in the conflict studies field, suggest that the presence of natural resources increases the likelihood of civil or center-periphery conflict by enabling rebel groups to finance the initial and ongoing costs of their rebellion. See also World Bank (2005).
12 See also Kingsbury and McCulloch (2006).
13 Although elements of these arguments inform most explanations.
is seen to have contributed to anti-Indonesia sentiment and the ability to mobilize the population against Indonesian rule.15

The Potential Impact of the Helsinki MoU and LoGA on Center-Periphery Relations

How will the Helsinki MoU and the LoGA16 affect the factors identified above as driving the Aceh conflict? The MoU and the LoGA provide a framework for redefining Aceh’s role within the Indonesian state. Provisions of the agreement and law relate to the factors that have been cited as causes of conflict in Aceh: the distribution of, and autonomy to manage, resources between the center and province; the role of the security apparatus; and institutional mechanisms for protecting and promoting Acehnese cultural and religious identity. Our analysis suggests that the MoU and LoGA create local agency for dealing with many of the issues relating to Aceh’s place within Indonesia. How this agency is used, however, will in large part define whether conflict reemerges in Aceh.

First, the MoU and LoGA provide a basis for dealing with many of the grievances of the Acehnese over perceived center-periphery inequality in resource allocation. They put in place arrangements that ensure that a significant proportion of Aceh’s natural resources will remain with the province.17 Seventy percent of “all current and future hydrocarbon deposits and other natural resources in the territory of Aceh as well as in the territorial sea surrounding Aceh” (Clause 1.3.4 of the MoU) are to remain in Aceh. This differs from centralized arrangements elsewhere in Indonesia (outlined in Law 25/1999) where 15.5 percent of oil and 30.5 percent of gas revenues remain within the province.18 In the medium run, the provisions may have more symbolic than monetary value. While the implementation of special autonomy boosted natural resource revenues kept within Aceh by more than 150 times, from Rp. 26 billion ($2.7 million)19 in 1999 (or 1.4 percent of total revenue) to Rp. 4 trillion ($421 million) in 2004 (40 percent), it is projected that these revenues will drop significantly as oil and gas resources are exhausted.20 This is largely due to the decline in output at the Arun natural gas plant. It is estimated that since production at the Arun plant began in 1978, more than 90 percent of natural gas resources have been exploited. Production, which reached 2,200 million cubic feet per day (MCFD) in 1994 had fallen to 900 MCFD in 2005, and is projected to drop to 100 MCFD in 2018 (World Bank 2006a). Aceh will also retain 80 percent of forestry, fishery, mining and geothermal energy resources (LoGA, article 181), although this is the same as for all other provinces in Indonesia.21 Articles on the right to raise taxes locally are in-line with existing national legislation.22

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15 Explanations that focus on Aceh’s more devout Islamic practices have influenced Jakarta’s attempts to mitigate the conflict through allowing Aceh to adopt and implement syari’ah law. See, for example, ICG (2001b).
17 The LoGA differs here slightly from the MoU. While the MoU says resources are to remain in Aceh, the LoGA (article 181) outlines arrangements whereby all revenues will be collected by central government, and then redistributed to Aceh (the same revenue collection process as operates for the rest of Indonesia). The MoU (article 1.3.8) and LoGA (article 194) provide for outside auditors to monitor this process.
18 The Aceh provisions are the same as those outlined in the 2001 Special Autonomy (Law 18/2001).
19 All US$ totals are calculated at current exchange rates of Rp. 9,500 = US$1.
20 On average, 70 percent of these revenues come from gas revenue sharing, and 30 percent from oil revenue sharing (World Bank 2006a).
21 As outlined in Law 33/2004.
22 Regulations Law 32/2004, Law 33/20004 and Law 34/2004 allow all provincial and district governments to raise taxes. However, this right may be retracted (in Aceh and elsewhere) when Law 34/2000 is enacted (see May 2006).
Of more significance is the provision in the LoGA of an additional 2 percent of the DAU (the discretionary block grant from the center to the regions aimed at equalizing the fiscal capacity of regional governments) for 15 years, starting in 2008, and an additional 1 percent for five years after. The money will be paid into a Special Autonomy Fund (Dana Otonomi Kusus) managed by the provincial government. These provisions were not in the MoU and were widely viewed as being included to compensate Aceh for damage from the conflict (Rachmadi and Swamurti 2006). Nevertheless, they will amount to a massive injection of resources into the province, far eclipsing oil and gas revenues. According to the LoGA, the extra money is intended to finance infrastructure building and maintenance, poverty alleviation, activities that promote empowerment, and the financing of health, education and social sectors. These resources should amount to an approximate extra Rp. 4 trillion per year (over $421 million), around one-third of Aceh’s revenues (World Bank 2006a).

Further, the MoU and LoGA give considerable autonomy to local government to manage these and other resources. The MoU states that Aceh has the authority to “regulate and implement government functions in all public sectors except … [those] of national character, foreign affairs, defense, security, justice, monetary affairs, national fiscal affairs, and certain functions in the field of religion.” Local parties can be established and independents can stand, although only for the first post-MoU election.

The MoU and LoGA also have the potential to impact upon security dynamics and (actual and perceived) repression from the state. A number of articles are of relevance. Articles 4.5-4.7 of the MoU provide for the withdrawal of military troops and police. Over four rounds of withdrawal, 31,680 personnel left the province, leaving the number at 23,800, 14,700 military and 9,100 police (World Bank 2006b). Those that remain are organic—permanently stationed in Aceh, and usually Acehnese—and the organic police are responsible for upholding internal law and order (MoU article 4.10). Fieldwork conducted before and after the MoU found that communities feel much more comfortable with organic military and police than with those from outside of Aceh (Barron, Clark and Daud 2005; World Bank 2006c). The MoU also states that the Chief of Police in Aceh should be approved by the head of the Aceh administration and that recruitment and training should take place “in consultation with and with the consent of the Aceh administration” (article 1.4.4 of the MoU). The LoGA broadly applies these provisions.

Other relevant articles concern the establishment of a Human Rights Court (article 2.2 of the MoU), to become active within one year of the passing of the LoGA (article 259 of the LoGA), and a Commission for Truth and Reconciliation (MoU article 2.3), to be established by the Indonesian Truth and Reconciliation Commission. There has been criticism within Aceh that the Human Rights Court lacks provision for retroactive justice or detailed provisions for punishment of perpetrators of violations, although neither is promised in the MoU.

Third, the MoU and LoGA also provide for arrangements that will allow the recognition and incorporation of cultural practices and symbols into the functioning of local state institutions. This includes the right of the Acehnese legislature to determine the name of Aceh and title of senior officials (articles 1.1.3 of the MoU), the right to use regional symbols including a flag,
crest and a hymn (MoU article 1.1.4), the right for the local parliament to pass Kanun (sometimes called Qanun, regulatory instruments equivalent to local government legislation elsewhere in Indonesia) to respect “the historical traditions and customs of the people of Aceh and reflecting contemporary legal requirements of Aceh” (MoU article 1.1.6), and the establishment of the Wali Nanggroe “with all its ceremonial attributes” (MoU article 1.1.7). The Truth and Reconciliation Commission can also take “adat principles into consideration that are still alive among the Aceh community” (LoGA article 229).

Most controversial are the clauses on the Mahkamah Syari’ah (Islamic religious courts). Syari’ah was not mentioned in the MoU, probably because GAM are not particularly keen on it. Syari’ah is to cover family, civil and criminal law for all Muslims who are in Aceh (LoGA article 128) and non-Muslims for crimes not regulated in the general criminal law (LoGA article 129). Syari’ah law was introduced in the Special Autonomy deal of 2001 (Law 18), but the LoGA is seen as extending its reach. Even prior to the passing of the LoGA, in the past year there has been an upsurge in cases of Syari’ah law being used (ICG 2006). The Law also establishes an Ulama (religious leader) Deliberation Council (Majelis Permusyawaratan Ulama – MPU), to act as a “partner” of the Government of Aceh and district administrations (LoGA article 138). The right to Islamic education is given in article 216 of the LoGA.

4. Economic and Political Decentralization and Conflict: Insights from the Literature

The Aceh-specific literature identifies a number of factors that drove the Aceh conflict. Our analysis of the Helsinki MoU and the LoGA above has demonstrated that many of these are addressed in the peace deal. This would suggest that the MoU and LoGA may be effective instruments for ending the conflict. There are, however, a number of limitations of most of the Aceh-focused literature, particularly now that a peace agreement has been signed. These limitations, we argue, can lead to simplifications in the diagnosis of current conflict-related issues in Aceh and an under-specification of the responses needed to consolidate peace.

First, the literature explaining the Aceh conflict is largely from regional/country specialists rather than theorists or empiricists. The result is that most of the Aceh conflict literature has tended to draw implicitly rather than directly on theories of conflict and thus has constructed explanations.

25 In both Aceh and Papua, incidents of raising local flags have in the past led to violence, as they have been viewed by the military and Indonesian nationalists as calls for independence. For example, a Human Rights Watch report of late 2003 noted incendiary comments from Brigadier General, Guliansyah, then head of law enforcement operations for the Aceh police force: “If necessary shoot on the spot anyone who raises the GAM flag. Whoever raises the flag must be a GAM member” (Mohamed and Zia-Zarifi 2003).

26 The role of the Wali Nanggroe is unclear in the MoU. The LoGA (article 96) makes things (slightly) less opaque. The Wali Nanggroe is neither a political or government institution, is to be headed by an independent individual, and is to exercise traditional (adat) leadership to supervise the adat institutions, award titles of honor, and exercise adat rites.

27 Former GAM spokesperson, Irwandi Yusuf, who is standing for the Governor position this year, has made his views very clear, saying that GAM never fought for Syari’ah and is worried about the ways in which it is being applied (Gomes 2006). Amni Marzuki, a GAM spokesperson, has argued that the Indonesian government’s emphasis on Syari’ah was an attempt to make Aceh look like Afghanistan, with the Acehnese viewed as religious fundamentalists (quoted in Miller 2006, p. 301). Interestingly, Amni had planned to stand for the District Head election in Aceh Utara, but was disqualified after failing in the Koran reading test stipulated as part of the local election law for all Muslim candidates.

28 This raises issues over how something can be a crime if it is not in the criminal law.
with elements of different theories. This has distinct advantages, must obviously because one
single theory can rarely explain the complexities of situations like Aceh. However, at the same
time, the case of Aceh is rarely considered within comparative frameworks. Surely, there are
lessons from theory and experience in other places? Where comparisons have been made, they
have usually been within frameworks that emphasize conflict causes rather than potential
responses.29

Second, most of the work on the conflict in Aceh has been historical in method. In many ways
this is a strength; solutions to conflicts must be grounded in an understanding of how they
developed. Yet there have been few efforts to look to the future and to prescribe processes for
consolidating peace. This is understandable given that the bulk of the literature was written at
times when prospects did not look good for peace in Aceh.30 However, now that the peace
agreement has been signed and, as we discussed above, many of the broader structural issues
addressed (at least for the moment), the literature has less utility.31 What policies are necessary
after the basic center-periphery issues are dealt with?

In this section, we draw upon a different literature on decentralization, autonomy and conflict to
identify lessons applicable to the Aceh case. We argue that the literature gives some pointers for
areas of attention if peace is to be lasting. A range of theories and arguments seek to explore and
explain, directly and indirectly, the autonomy/decentralization and conflict nexus. For the sake of
simplicity, we group these into those economic and those political in nature. The former has
focused on how fiscal decentralization impacts upon key drivers of conflict such as inequality and
poverty, and on how decentralized resources can be used positively or abused in ways that
promote or stymie conflict. Socio-political theories focus on the role that political representation,
institutions, local participation in the state, and state recognition of local identities can play in the
management of conflict.32 We briefly summarize some of the main contours of the literature and
then seek to draw out areas of focus for Aceh post-MoU.

**Economic Explanations**

There is very little work— theoretical or empirical— that examines directly the impacts of fiscal
decentralization on conflict. Most of the literature has focused either on (a) the impacts of
decentralization on intermediate variables (such as poverty, inequality or corruption) without
examining the resultant impacts on conflict, or (b) the impact of changes in such factors on
conflict, without looking at how decentralization affects these variables. The result is that the
literature has generated two sets of testable hypotheses (on decentralization impacts and on
conflict causes), with few attempts to build these into broader theories that connect initial
intervention and conflict outcomes.

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29 Some such examples are Bertrand (2004), who looks at Aceh comparatively with other Indonesian
provinces, Anwar et. al. (eds.) (2005), and Tan and Boutin (eds.) (2001).
30 For example, the articles in the excellent volume edited by Reid (2006), which was published after the
signing of the MoU, were prepared while martial law was still in place.
31 A number of pieces written on why the last attempt at a peace accord (the CoSA) failed in late 2002-early
2003 are more useful (Aspinall and Crouch 2003; Huber 20004). However, still, these pieces do not really
draw on experiences from other countries or on theory in their explanations.
32 Work in these two areas has utilized very different methodological and analytical strategies. The
literature on economic decentralization and conflict primarily utilizes cross-section (usually cross-country)
large-N analysis. The literature on political decentralization has, in contrast, focused on qualitative single
case or comparative country case study analysis.
A growing body of work has looked at structural economic factors that affect conflict propensity. Burton (1990) argues that conflict is a result of the denial of absolute needs. Addison (1998), based on the African experience, and Rodrik (1999), on the Asian experience after the financial crisis, have argued that reduced growth makes violence more likely. Barron, Kaiser and Pradhan (2004) look at variations in conflict levels across localities within Indonesia and find that a higher fraction of poor people residing in the village is associated with a higher likelihood of conflict in rural areas. Urdal (2004) points to high levels of unemployment, accompanied by an economic downturn, as increasing the likelihood of conflict.

Inequality may also be associated with conflict. Fajnzylber, Lederman and Loayza (2002) find that increases in income inequality raise crime rates. Easterly (2001) presents empirical evidence from Africa that poverty, in combination with inequality, can create conflicts where violence is likely. Muller (1985) and Muller and Seligson (1987) detail links between inequality and political violence. Inequality may also act as a barrier to economic growth, in so doing making conflict more likely (Alesina et al. 1996). Inequality defined along group lines may also make conflict more likely (Tilly 1999). Stewart (2000) has argued that horizontal inequalities—differences between groups in political opportunities, economic assets, employment and incomes, and social access—play an important role in determining when and where violent conflict will take place. Few analyses however measure the impacts of the use of economic strategies by the state for reducing conflict.33

How does decentralization affect these variables? The literature on the impacts of decentralization draws conflicting conclusions. Debates on the desirability of devolving control of resources stretch back to the work of economists and philosophers such as Hume, Mill and Rousseau. Tendler (2000) has argued that central government monopoly over the provision of services can lead to inefficiencies. It may also lead to more direct and less fragmented accountability of service providers and policymakers (Tabellini 2000; Wade 1997), in particular if revenue-raising functions are also devolved (Fisman and Gatti 2000). Work that has focused on the competence of local bureaucrats (Tanzi 1996; Breukner 1999) or on difficulties in coordinating rent extraction (Shleifer and Vishney 1993) predicts increased corruption and hence sub-optimal development outcomes from decentralization.

Empirical papers have also generated different conclusions. In terms of corruption, Huther and Shah (1998) and Fisman and Gatti (2000) find that fiscal decentralization of expenditures is associated with lower levels of corruption. Treisman (2000b) finds opposite effects. Ribot (2001), in a study of ten African countries, shows that where service provision was low, decentralization increased locally produced services. Schou and Haug (2005) cite evidence showing that decentralization results in a better matching of supply and demand for public goods (Faguet 2004; Crook and Manor 1998). Others have pointed to less positive experiences (e.g., Parker 1995).

33 Justino (2004), using panel data from India, is one exception. She finds that policies that redistribute across income brackets reduce civil unrest by directly affecting causes of conflict, in particular poverty. Bracanti (2005) uses cross-country analysis to find factors associated with the success (or failure) of decentralization in quelling conflict. She finds that decentralization decreases ethnic conflict and secessionism directly by giving groups control over their own political, social and economic affairs, but that it increases ethnic conflict and secessionism indirectly by encouraging the growth of regional parties. 34 Treisman (2000a) presents a useful short summary that aims to generate testable hypotheses.
Socio-Political Explanations

A literature has examined the political institutional structures that are best at subduing nationalist and ethnic conflict. First, attention has been paid to national-level arrangements that can promote peace between different groups. This literature is well-advanced, with prominent comparativists such as Lijphart and Horowitz providing theoretical frameworks that have been used to explain country case studies. In contrast, the literature on the effects of restructuring vertical state structures (center-periphery relations, the level of autonomy at each level of geographic specification) on conflict is less developed. Nevertheless, broader work on democratization and transition points to four areas of focus.

First, decentralization may impact on conflict by allowing for new, or more significant, avenues for political representation. This includes the political inclusion of previously excluded local groups, such as ethnic and religious minorities, geographical regions, women, and the poor (e.g., Mehler 2002; Hadenius 2003). These groups’ newfound ability to articulate their previously unheard interests and grievances through direct political participation can mitigate conflict and the need to adopt more extreme methods of articulating dissent. However, the literature also notes that the opening of political space at the local level may not have the positive impacts anticipated. As Snyder (2000) observes in a number of democratization contexts, the race among local elites for political power (and its presumed social and economic benefits) can unleash “noxious nationalist” and new exclusionary, often ethnic-based, political discourses that result in new decentralized conflict. In peace-building contexts, opening political space can threaten rebel groups and potentially destabilize fragile peace agreements.

Such institutional changes are not only related to those that govern political representation and competition. Decentralization may also allow for the development of new or strengthened institutions for dividing resources between the center and periphery (World Bank 2000), and for developing locally appropriate security and conflict management policies. Theoretically, devolving power may allow for the incorporation of local knowledge (Hayek 1984) and hence lead to better policies for resource allocation. Fukuyama (1999) has argued that empowering local agents to act upon local knowledge can reduce the transaction costs of information moving up and down hierarchies. Increased inter-jurisdictional and political competition among levels of government, and between institutions at the same level, may also help create incentives for efficient delivery of services (Jin, Qian and Weingeist 1999; Wildavsky 1990). Indeed, autonomy and decentralization opens access to institutional processes and resources previously monopolized by the center, a process that can be particularly rapid in post-conflict transitions. Yet as Paris (2004) notes, this can have disastrous effects if institutions for managing the excesses of rapid

35 The two variants are noted by Sisk (1996). Lijphart (1969, 1977) has argued for ‘consociationalism’ or power sharing between elites of different identity groups. The focus here is on creating structural, ideally constitutional, rules that ensure the access of different groups to the state. This includes mechanisms such as joint control of executive power, minority vetoes and proportional access to the state and benefits that derive from it (Snyer 2000). Horowitz (1985, 1993), in contrast, emphasizes the need to create cross-cutting political structures, an argument later extended to the micro level and non-state arena by Varshney (2002).

36 Relevant work on federal solutions to conflict includes McGarry (1993); on decentralization within unitary states, the literature is even more limited.

37 Country case studies include Angola (Tventen 2003), Cameroon (Mehler 2002) and Mozambique (Braathen and Orre 2001).

38 This may include mechanisms for improving community-police and community-military relations. See, for example, Martin (2006) on Northern Ireland, Management Systems International (2005) on northern Uganda, and OSCE (2004) on Serbia and Montenegro.
“liberalization” are not in place or not able to adjust to these changes. In this way new and hence often weak institutional arrangements introduced by autonomy or decentralization can generate more confusion and conflict than they resolve. This can be between central and local governments if the new center-periphery distribution of tasks is unclear (Nordholt 2005; World Bank 2002) or if the new institutional resources are used to demand further concessions from the central government (Kymlicka 1998; Brillantes 2003), between security institutions (i.e., the police and military) as they readjust to new patron-client relations and rent-seeking opportunities, and among elites and community actors scrambling to secure a share of the new institutional resources (Bracanti 2005; Woodward 2002).

Third, autonomy/decentralization may legitimize the state through greater local participation and/or improved service delivery outcomes. This is of particular relevance in secessionist conflicts where the perceived legitimacy of the state to govern is often questioned. Decentralization often results in the considerable expansion of the state necessary for governing a wider range of social, economic and political matters. This can build state legitimacy by strengthening state-society relationships or through the expansion of client-patron relationships (Conyers 2000). Decentralization often creates opportunities for civil society, including local academia and community and religious leaders, to increase their participation in local policy-making and implementation (de Valk and Wekweke 1990). In some cases it may necessitate it if local bureaucratic capacity is lacking. However, participation in the state is not an uncontested or apolitical process, particularly given that it often involves determining the allocations of significant new resources. The decisions on how policy is developed and who participates are likely to generate new tensions and conflict.

Finally, decentralization often allows for the state to recognize and adopt local socio-cultural practices, identities, symbols and even local languages. Again, this can generate conflict over the selection of appropriate cultural artifacts and, particularly in heterogeneous societies, result in new cultural or identity chauvinism. The recent violence in East Timor is perhaps a stark reminder of how the choice of language and certain historical identities can exclude certain population groups (see Holthouse 2006).

Implications: The Contingent Nature of Peace and the Importance of Local Institutions

It is thus clear that autonomy/decentralization can have positive or negative effects. Indeed, there is very little consistent evidence to suggest that decentralization or autonomy has a positive impact on conflict. Instead, the literature suggests that decentralization’s often competing goals negate against predictable and universal outcomes and highlights the contextual factors that are likely to impact upon autonomy or decentralization’s conflict management potential.

Three points emerge. First, the success of decentralization as a strategy for ending conflict will depend on whether the arrangements address key conflict issues relating to the relationship between the center and periphery (resource allocation, political autonomy, protection of cultural symbols etc.). The analysis of the MoU, the LoGA, and the history of the Aceh conflict in the last section, showed that the current agreement can be deemed to be successful on this level.

39 See also, Haggard and Kaufman (1995).
40 This is partly due to the fact that decentralization, particularly in developing countries, is a relatively recent phenomenon and thus significant research gaps remain (Shou and Haug 2005, p. 32).
Second, the extent to which decentralization or autonomy is implemented is key. Aceh’s history shows that the formal provision of autonomy does not necessarily lead to it taking effect on the ground. One reason is that such agreements usually do not spell out downstream implementation arrangements. Another is that they often leave key issues, such as the division of responsibilities between different levels, vague. In particular, there are some elements of the LoGA that are not particularly clear, such as the clauses which state that Government functions of “national character” are to be reserved for the central government, without saying how “national character” is to be defined (May 2006). The commitment of parties to the agreement to negotiate in peaceful ways such ambiguities and resulting points of contention is key.

Third, local factors in large part determine the extent and nature of such implementation. These factors include whether local mechanisms exist to ensure resources are allocated appropriately, that political autonomy leads to productive political competition rather than local capture of the state, and that local cultural practices be mainstreamed into political practice in non-exclusionary ways. Decentralization or autonomy legislation can help shape the likelihood of this occurring locally, by creating or strengthening local institutions to manage additional resources or powers, and how access to them is achieved, or by providing oversight from the national level or from outside parties. However, many areas relating to the implementation of autonomy arrangements are left to the purview of local state institutions in ways that are not directly affected by the initial legislation.

Indeed, it is these local factors that are likely to determine whether or not autonomy/decentralization as a framework for mitigating conflict will in fact have the theorized effects. Here, the competence of local policy-makers to make appropriate resource distribution choices, the capacity of line agencies to implement policies, and the existence of transparent fiduciary mechanisms to ensure money is not wasted or corrupted are key. The establishment of democratic political processes may not automatically result in legitimate actors capable of representing society and addressing its various and multifaceted grievances. Moreover, the importance of having strong local institutions to regulate and monitor political and elite competition to access power over the distribution of physical and symbolic resources is magnified when there are sudden injections of new resources that can be captured. In short, the extent to which the devolution of power will be able to address local grievances will depend in large part on the strength of the local state.

5. IMPLEMENTING AUTONOMY AND ADDRESSING THE CAUSES OF CONFLICT IN ACEH

There are three primary areas of local state strength (or weakness) that, we argue, will shape the likelihood of the success of the MoU/LoGA’s attempt to use economic and political decentralization to end the conflict in Aceh. These relate to local capacity, corruption, and the nature of local political competition. We argue that efforts need to be devoted to all three areas—

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41 Both Horowitz (1990) and Lijphart (1996) have emphasized the political structures that can lead to political gridlock or encourage rent-seeking political behavior. Bastian and Luckman (2002), for example, have highlighted the difference between “democratic political culture” and democratic political institutions. Fukuyama (2004, p. 12) outlines the different elements of state strength: “the ability to formulate and carry out policies and laws; to administrate efficiently and with a minimum of bureaucracy; to control graft, corruption, and bribery; to maintain a high level of transparency and accountability in government institutions; and, most important, to enforce laws.” While his analysis relates to states at the national level, these areas are of equal importance for sub-national governance, in particular in areas where significant powers have been devolved to the local level.
to increasing capacity, reducing corruption, and regulating political competition—if the Helsinki agreement is to lead to sustainable peace.

**Capacity**

Local institutional capacity to distribute the massive benefits of autonomy is extremely low. This is the clear conclusion of the recent Aceh Public Expenditure Analysis (APEA) conducted by the World Bank in partnership with local universities and the tsunami reconstruction and rehabilitation agency (BRR). Even without the additional funds that will flow from the MoU/LoGA and the tsunami reconstruction funds, Aceh was already the third richest province in terms of public revenue per capita, behind only Papua and East Kalimantan. In contrast, before the tsunami it was the fourth poorest province with an estimated 1.2 million, or 28.5 percent of the population, living below the government-determined poverty line of Rp. 130,000 ($14) per month. If those now vulnerable to poverty as a result of the tsunami are considered, Aceh’s poverty levels increase to over 35 percent, pushing the province into second position in the poverty stakes behind only Papua.

Further evidence of Aceh’s low capacity to manage public funds is indicated by the inability of the local government to manage the extra funds that resulted from decentralization and the 2001 Special Autonomy agreement in ways that have a positive impact on development outcomes. Local government revenues expanded from Rp. 2.2 trillion ($232 million) in 1999 to Rp. 10.4 trillion ($1.1 billion) in 2006, an almost five-fold increase. If the huge amounts of reconstruction funds that have flowed from both the Government and the international community are included, the amount has increased ten-fold since 1999 to Rp. 28.2 trillion (almost $3 billion). The World Bank estimates that from 2008 onwards, local government revenues, including the additional MoU/LoGA benefits, will stabilize at around Rp. 13 trillion ($1.4 billion).

However, these dramatic increases have not translated into concrete development outcomes, despite increased local autonomy to manage resources. Indeed, province-wide poverty levels jumped dramatically from around 15 percent of the population in 1999 to nearly 30 percent in 2004, although a large factor in this was the imposition of martial law in May 2003. The impact of increased revenues on education outcomes shows mixed results. Aceh has the second highest per capita expenditure on education in Indonesia (in 2004), a figure that has increased since decentralization. This has resulted in a modest increase in enrolment levels and brought teacher-student ratios down to well under the minimum service standards. However, the quality of education is compromised by allocating the vast amount of funds to teacher salaries at the expense of school books, infrastructure and facilities. Health expenditures and outcomes show a similar pattern. Aceh has higher expenditure per capita than average, and this has increased in absolute terms since decentralization, although the share of total regional expenditures has not changed much. The vast majority is again spent on staff salaries, yet human resource levels remain low. For example, the presence of midwives at 51 percent of village-level health clinics is well below the national average of 70 percent. This would suggest massive leakages. Further compromising service delivery is the fact that less than two percent of health expenditures are spent on health clinic operations; in Bireuen district for example, only 19 percent of health clinics

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43 Much of the data in this section is from the APEA.
44 The situation is even most stark in Aceh’s oil and gas producing areas where higher GDP per capita rates have not resulted in a corresponding improvement in the lot of the majority. In Aceh Utara district, for example, the GDP per capita is almost 2.5 times higher than the provincial average, yet the poverty rate is approximately five percent higher (35 percent) than the Aceh average, and more than twice the national average (15 percent) (World Bank 2006a).
are in fact operating. The tsunami response effort, where most funds have been either directly executed by NGOs and international agencies, or have been channeled through the newly established tsunami reconstruction and rehabilitation agency (BRR) has, in general, not helped build the capacity of local government.

The low capacity of local government to manage revenues and translate this into concrete development outcomes can be attributed to a number of factors. The APEA identifies a number of areas in which local government is particularly weak, including planning and budgeting, accounting and reporting, undertaking external audits, regulation, and the management of public debts and investment. As the above discussion suggests, effective local government planning and budgeting is crucial if the resource benefits of the MoU/LoGA are to be used constructively. Indeed, this is a challenge across Indonesia where decentralization has meant local government employees are no longer only responsible for the implementation of central government policies but also for designing and implementing locally appropriate policies. This requires the ability to allocate funds equitably across districts; to identify short-, medium- and long-term development priorities and translate these into strategic plans; to understand and tackle poverty; as well as to identify and rectify sectoral and geographical gaps. These technical skills do not currently exist and are unlikely to manifest simply through responsibilities being devolved.

The conflict has also had a serious impact on the capacity of the government. Many government bureaucrats were afraid to work in rural areas due to the presence of extortion from both sides and general safety concerns. This meant that what little development spending did occur was focused in safer urban centers. Indeed, the Kecamatan Development Program, which is a World Bank-funded Government of Indonesia community development initiative, was in many places the only government presence that continued to function. It was able to operate because its funding source gave it increased oversight from outside of Aceh and because its perceived independence from the government helped ensure support from GAM and GAM sympathizers on the ground. However, the presence of conflict was often merely a smoke-screen or excuse for doing little. One commentator has noted that the conflict resulted in a “23-7” government culture: “It wasn’t always the case that local officials in Aceh deserted their posts because of threats from GAM. In some areas, they were simply derelict of their duties, so much so that they became dubbed as the 23-7 group, people who spent seven days of the month on the job and 23 days in Medan [the capital of neighboring North Sumatra province] or Jakarta” (Jones 2005, p. 240). Regardless of whether the conflict legitimately prevented development or was an excuse to neglect it, the result is a local government with little data on local, particularly rural, needs and little experience at planning, implementing and monitoring necessary development programs.

Corruption

The failure of the government to make a dent on key development indicators is not only due to technical factors. Aceh’s local government institutions have been plagued by massive corruption, both in the past and in the decentralization era. Two studies, one conducted by the Central Bank and another by Padjajaran University, concluded that as a result of decentralization and special autonomy Aceh was becoming one of the most corrupt rather than one of the richest provinces in Indonesia (Miller 2006, citing an article in Sinar Harapan newspaper). Indeed, the Central Bank study reaffirmed common perceptions that Aceh is the most corrupt province in Indonesia. The Acehnese sociologist Human Hamid, who is standing in the Gubernatorial elections this year, has identified corruption as Aceh’s most serious problem, stating that “during the 2002-2004 period, some Rp. 20 trillion ($2.3 billion) has been channeled to Aceh, but the use of the funds is not clear” (Miller 2006, p. 305). A number of cases relating to Puteh’s governorship (2000-2004) are illustrative.
Puteh’s government not only drew widespread criticism for focusing on various “vanity” projects at the expense of programs to tackle poverty and development, but reports indicate that massive corruption occurred in the procurement of these pet projects (McGibbon 2006). For example, those responsible for managing the procurement of the fast boat to ferry passengers between Banda Aceh, the provincial capital, and Sabang, a holiday island on the northern tip of Aceh, estimated that the price was marked-up by Rp. 6 billion ($632,000). Similarly, the purchase of a helicopter for government use, which ultimately brought down Puteh, was estimated to have been marked-up by as much as four times the market rate, or Rp. 12 billion ($1.3 million). Indeed, in early 2004 Governor Puteh was convicted of corruption for this and other illegal fund diversions to the tune of Rp. 45 billion ($4.7 million) (Saraswati 2004). He received a jail sentence of ten years in April 2005, which he is currently serving.

In addition to conflict providing a smoke-screen for inaction, it also provided the conditions under which corruption could flourish. This was because the standard checks and balances which operate to keep governments in-line could not function. The activities of civil society groups and the media were severely restricted during the conflict. The informal policies of both GAM and the security institutions to target non-combatants closed-down public space for critique due to safety concerns and fear of those who protested misconduct being labeled as either a separatist or collaborator. Two rectors of Banda Aceh’s main university, a number of outspoken local parliamentarians, and critical civil society leaders such as the local founder of the main legal aid NGO, were assassinated. More a product of opportunism than a direct result of conflict, collusion between the executive and legislative branches of the local government undermined the parliament’s oversight and accountability role. Most controversial was the legislature’s approval in 2003 of the provision of “free grants” of around $8,000 to each provincial parliament member in the lead up to the Governor’s accountability report (McGibbon 2006, p. 341). Indeed, such corruption and collusion among various arms of the government, including the centrally controlled judiciary (UNDP 2003), is not unique to Aceh. A growing body of literature analyzing decentralization in Indonesia suggests that for a number of factors—including weak party platforms, the lack of effective civil society groups, and the prevalence of “money politics”—the downward accountability aims of decentralization have been subverted and have resulted in “KKN” (collusion, corruption and nepotism) being decentralized rather than minimized (Malley 2003). The experiences of decentralization both within Aceh and across Indonesia do not bode well for the MoU/LoGA’s ability to counteract this trend.

A number of recent reports of corruption within BRR, the tsunami reconstruction agency, suggest that the post-tsunami and post-conflict period is not immune to corruption. In June this year, the local corruption watchdog NGO GeRAK reported irregularities in the procurement of reports and books published by BRR. The Prosecutors office has begun investigations and recent media reports indicate that the price per book may have been marked-up by as much as three or four times and cost the agency around Rp. 1 billion ($105,000) (Tempo 2006). Reports of other similar irregularities may have cost the agency around Rp. 20 billion ($2.1 million). Nor are international NGOs involved in tsunami reconstruction immune to a “culture of corruption” that now pervades both the public and private sector. Corruption scandals, including reputable

45 Interestingly, it appears that reports of corruption were leaked by disenchanted Acehnese staff working within the agency. BRR has a large proportion of Javanese staff, and there have been underlying tensions between Acehnese and non-Acehnese staff. Many non-Acehnese have felt that locals do not have sufficient capacity. In turn, there has been resentment from local staff, who have viewed hires from outside of the province as attempts by Jakarta to control the reconstruction process. The case is an example of how deficiencies in capacity can help fuel resentment between the center and periphery. From discussions with staff at BRR.
organizations such as Oxfam and Save the Children, have plagued reconstruction, particularly in the area of procurement and contracting for housing (ABC 2006). Smaller-scale corruption is also widespread. The World Bank’s newspaper monitoring of conflict in Aceh indicates that local level conflict cases involving corruption have steadily risen from close to zero between January and October (2005) to approximately 20 a month in 2006.46

Probably the strongest evidence that the MoU/LoGA will not automatically stem corruption comes from a World Bank study tracking levels of extortion carried out by security personnel on Aceh’s main highways (World Bank 2006b; Olken and Barron 2006). It is well known that the military and police were involved in various “protection” and extortion rackets during the conflict (Kingsbury and McCulloch 2006; Meitzner 2006). This included involvement in controlling both legal and illegal trade, such as fishing, coffee, drugs, logging and arms, as well as protection rackets and the seizure of land. One of the most visible and detested practices was the levying of fees on private and public vehicles traveling on the Banda Aceh-Medan east and west coast highways by the military and police, particularly the paramilitary police. In March 2005 the World Bank completed qualitative research that indicated trucks were paying an approximate total of Rp. 600,000 ($65) at 70 to 110 security posts between Banda Aceh and Medan (the capital of the neighboring province, North Sumatra). In November 2005, BRR and the World Bank began monitoring illegal road payments by having researchers travel with trucks and record all payments. This monitoring shows steep declines in illegal levies at security posts associated with the pull-out of military troops and police forces as part of the Helsinki peace agreement. For trips into Aceh, the amount paid at these posts fell from Rp. 242,500 to Rp. 50,666, over the November 2005 to April 2006 period, a positive sign of how the MoU/LoGA might affect corruption. However, illegal payments at weigh stations by overweight trucks rose, overtaking posts as the biggest source of on-road payment, so that total illegal payments have remained high. In addition, there is evidence to suggest that security personnel, particularly the now local organic police, are demanding lump sums from trucking companies in advance rather than collecting their “fees” on the road. The evidence points to a restructuring of corruption and rent-seeking in response to changing political dynamics rather than any significant reduction.

Political Competition

The local political elites who dominated Aceh’s leadership during the New Order have been characterized as “puppets” of the central government. As in much of Indonesia during this authoritarian period, their claim to legitimacy was based on their technocratic capacity to deliver development projects (or, in many cases, access to funds stolen from development projects) and their patron-client links to the center. That they had scant basis for support among the Acehnese citizenry meant they were upwardly accountable and often cared little for the local population, even though, unlike in many other Indonesian regions, the Acehnese dominated both politics and the bureaucracy (McGibbon 2006).

As noted above, the MoU/LoGA, and previous electoral laws that apply to the whole of Indonesia, introduce significant changes to the structure of political representation in order to counteract this situation. National Law 32 of 2004 establishes that, Indonesia-wide, district (Bupati) and provincial heads will be directly elected. The MoU/LoGA takes these changes a step further in Aceh, allowing for the establishment of local political parties (clause 1.2.1/article

46 This can also be seen as the result of civil society groups and communities becoming increasingly empowered to report acts of corruption, which as noted earlier went unreported due to the presence of conflict. See the Word Bank’s latest Conflict Monitoring Update, available monthly at www.conflictanddevelopment.org, for the most up-to-date figures.
257) as well as independent candidates in the first post-MoU elections (clause 1.2.2/article 256), which are to be held on December 11, 2006. As the previous literature on autonomy/decentralization suggests, theoretically these changes should allow for the election of more representative political elites with enhanced downward accountability. Will this be the case in Aceh?

To answer this question we need to consider how local elites will react to the new institutional environment. The literatures on the political elements of autonomy/decentralization as well as the decentralization experience elsewhere in Indonesia are indicative of some of the factors that may come into play. These include the role of money politics, ascriptive ethnic or religious identities and, unique to Aceh, the transition and inclusion of GAM as a civil political force.

The large increases in resources that will flow into the province and districts means that there is much more at stake than in leaner times. As noted above, whoever comes into power will manage one of the largest provincial per capita budgets in Indonesia. In other parts of Indonesia, such high stakes combined with weak party and candidate platforms and low community education has created the conditions under which money politics has thrived. This was the finding of various cases studies from North Sumatra (Hadiz 2003) to Central Java (Widodo 2003). There is already some indication that money politics will play an important role in determining this year’s election outcomes. Already there have been numerous reports that independent candidates are either “buying” their required signatures to participate or using threatening tactics (Serambi 2006). There are concerns that this practice is indicative of how votes will be obtained on election day in December.

Another unknown is the ethnic card and existing internal divisions within Aceh. Like most of Indonesia, Aceh is not ethnically homogenous. In the northern regions of the province the dominant ethnic group is the Acehnese. They make up about 80 percent of the population and tend to dominate the provincial government, with the Governor and Vice-Governor almost always being ethnically Acehnese. In the central highlands and southern districts the population is more mixed. Places like Bener Meriah, Aceh Tengah and Gayo Lues are predominately ethnically Gayo but with significant populations of both Javanese and Acehnese. Aceh Tenggara and Aceh Singkil districts have significant populations of non-Muslims whose ethnic affiliations are with those across the border in North Sumatra province. These ethno-regional identities were politicized during the conflict, to the point that certain district elites in the highlands began advocating for the break-up of Aceh into three new provinces: one for the ethnic Acehnese in the northeast who are seen as the main supporters of GAM, one for the central highlands, and one covering the west coast. During and after the MoU negotiations, delegations from these areas traveled to Jakarta to advocate for this division. On traveling to central Aceh, banners and billboards advocating for the new provinces are more prominent than those related to the peace agreement.

Decentralization has unleashed similar dynamics in other provinces. One example is the carving out of Gorontalo, a predominantly Muslim and ethnically Gorontalese area, from North Sulawesi, which is (now) predominantly Christian and ethnically Minahasa. The political and economic

47 Evidence from a study of the 2004 legislative elections elsewhere in Indonesia found that money politics was rife (Barron, Nathan and Welsh 2005). However, it also found that communities were increasingly savvy with respect to the games of politicians. Candidates would give potential voters gifts such as ikat (traditional) clothes, rice, and generators. Villagers would gratefully take the gifts, yet this did not affect voting choices on election day. Said one villager in Flores, “we take what they offer, and then vote for who we want to anyway” (quoted in Barron, Diprose and Woolcock 2006).
resource incentives magnified by decentralization encouraged a rise in ethno-religious political identities that led to the split (termed pemakaran in Indonesian) of North Sulawesi into two provinces, although in the northern Sulawesi case the process of separation was peaceful. Whether increased local political competition will similarly strengthen the ethno-regional identities noted above remains to be seen. Similarly uncertain is whether such a rise could be kept peaceful, given that the MoU says that Aceh’s existing provincial boundaries, which are of central importance to a proto-nationalist Aceh identity, are to remain the same.

Much will depend on whether political elites opt for inclusive socio-cultural identities that do not exclude the minorities in the southern parts of Aceh. There is a need to ensure that political competition leads to processes and outcomes acceptable to different parties, and that all groups feel they have access to the state. Ethnic and religious minorities, particularly those in the southern areas, are likely to feel alienated if local politicians appeal to the ethnically Acehnese majority through the use of Acehnese language and cultural symbols. Similarly, and this dynamic is already becoming apparent, the conflation of conservative Islam and Acehnese identity is for some entirely legitimate while for others it is a perversion of Aceh’s more syncretic forms of Islam (e.g., Aguswandi 2006).

Finally, the impact of GAM’s participation remains largely an unknown. Initially, GAM chose not to field candidates in this year’s gubernatorial elections. Most commentators noted that this was because of three factors: one, they did not have the funds and capacity to sufficiently transform their networks and structures quickly enough into a political party machine; two, internal cohesiveness within GAM was insufficient to select candidates amenable to all internal factions; and, three, they did not want to participate while the risk that they would not win was high. However, the opportunity to run as an independent candidate in these first post-MoU elections proved too tempting to some, and has meant that various individuals from GAM’s ranks have opted to join the race, albeit without formal GAM backing. At the provincial level, this has now resulted in two “GAM candidates.” Hasbi Abdullah will team-up with Humam Hamid of the United Development Party (PPP), whereas the former senior GAM representative to the EU-led peace monitoring mission, Irwandi Yusuf, will run as an independent with the head of the student organization SIRA (Sentral Infomasi Referendum Aceh—Aceh Referendum Information Center), which has cooperated with GAM in the past. GAM’s participation is not itself a negative development. GAM’s transition to a civil political force is desirable long-term outcome.

However, there are three risks with GAM’s participation in the upcoming and future elections. First, it remains unclear on what platform GAM candidates will mobilize voters. Will it be anti-corruption, involve anti-Jakarta rhetoric, or make claims to a genuine “Acehnese” identity? More specifically, where multiple GAM candidates compete it remains to be seen how each will distinguish their message and secure the GAM-sympathetic vote. Second, the military’s...
response could be crucial. The military has been involved in elections in Aceh and elsewhere in Indonesia in the past and in the decentralization era (Mietzner 2003). Indeed, three retired military commanders will contest the gubernatorial election, two with party support and one as an independent candidate, and similar match-ups are likely in district-level elections. If nominally GAM and/or military candidates manage to secure significant popular support, or utilize GAM or military networks and command structures, a tense campaign and election is likely to occur. Third, candidates from GAM (and other parties) who do not have sufficient resources may resort to illegal means to raise campaign money. There is a major risk that extortion will increase locally, and this may lead to tensions.

**Local Factors and Sustainable Peace in Aceh**

Strengthening the state in the three areas discussed above is important for two main reasons. First, a strong, legitimate and accessible state is necessary to address community-level grievances in order to prevent future uprisings. Second, it is also necessary to prevent elites from pursuing violent strategies to win power. If elites do not feel fair means are in place to govern access to the state, they may try to mobilize communities for conflictual purposes.

Community grievances matter. Earlier in the paper we noted three dimensions of alienation or grievances commonly cited as the underlying causes of conflict in Aceh. Grievances over the extraction of natural resources and distribution of revenues, over the behavior of state security personnel, and over the state’s treatment of Aceh’s local cultural and religious practices all fuelled the rise of GAM. With the transfer of significant economic and political authority to Aceh, the primary responsibility, and indeed agency, for addressing these grievances now lies with the local government. Yet recent history suggests that the authorities of Aceh do not have the capacity to be able to effectively address such grievances. This is partly because of technical deficiencies, but it also relates to the culture of governance in Aceh. Corruption is widespread; those in positions of power often see themselves as entitled to enriching themselves from development projects and agency budgets. Systems of patronage—with benefits flowing up and down the structure—are the oil that keeps the local bureaucracy going. This buys loyalty from those who receive a slice of the pie. But it also leads to widespread perceptions of the state being illegitimate from ordinary Acehnese who see few benefits. Until the state in Aceh is viewed as being an agent of progress, the risk of rebellion reemerging will remain.

How can legitimacy be built? In part it relates to the delivery of concrete benefits to the local population, whether it is in the form of development projects (roads, schools, hospitals, etc.) or by creating the conditions by which economic growth can help generate the sustainable livelihood opportunities that escape so many Acehnese. However, just as important in building legitimacy is for the state to use mechanisms for delivering assistance that communities understand and feel that they can shape. Unless communities feel they have a stake in development activities, they will continue to see them as just the prerogative of local government with little relevance to themselves.

Involving communities in decisions over how scarce resources should be used, how needs should be prioritized, and how projects should implemented can help. An illustrative example is the Kecamatan Development Program (or KDP), a World Bank-funded Government project that has operated in Aceh since 1998. Despite the fact that not all villages in one kecamatan (sub-district) are allocated funds, there are rarely problems because all the villages understand and participate in the allocation of the kecamatan’s scarce resources (Barron, Diprose and Woolcock 2006). The program is popular as much because villagers see that it responds to their needs as because of the extra resources (normally small-scale infrastructure) it delivers. A different but equally telling
example was the introduction of syari'ah law by Jakarta in the 2001 Special Autonomy Law. While most Acehnese agreed with the content, the fact that it was implemented without a process of consultation led many to view it as an inappropriate way of addressing Aceh’s social-cultural identity grievances.

However, as the literature on autonomy/decentralization and conflict suggests, the presence of grievances does not always result in violent conflict. For example, inequality is often cited as an underlying cause of conflict, but there are degrees of inequality in all societies and violent conflict is the exception not the norm. Certainly in Indonesia there are far poorer and worse-off communities and regions than Aceh, areas that have not all broken-out in violent center-periphery or communal conflict. This suggests that the local government must not only address community grievances (in an appropriate way) but also address elite disaffection with the state and the incentives for mobilizing these grievances. Indeed, as noted earlier, a small group of GAM leaders have consistently, and highly successfully, translated local grievances into widespread alienation from Jakarta and disaffection with Indonesia. This suggests that addressing elite disaffection with the state and the incentives for mobilizing community grievances are just as important, if not more so, than the grievances themselves. Again, ensuring that there is shared acceptance of the means by which elites can access the state is as important as ensuring that the spoils of the state are distributed relatively evenly across elite groups.

What are the basic governance requirements that can address community grievances and elite disaffection? We suggest there are six key elements. First, local government must be capable of transforming Aceh’s ample revenues into effective service delivery. Second, local government must develop and implement policies that ensure Aceh’s bountiful natural resources are used in ways that improve the livelihoods of ordinary Acehnese. Both these first two elements relate to the technical capacity of the state to address community grievances; that is, to overcome poverty and current inequalities in the distribution of state resources. Third, the local government needs to deliver services transparently and through participatory mechanisms. Communities need to understand how resources are allocated and have opportunities to participate in this process. Fourth, eradicating corruption is crucial, both for ensuring that resources are distributed efficiently and for enhancing the legitimacy of local government. Fifth, the state needs to be accessible to a wide range of elites, including women, ethnic and religious minorities, and must operate under rules that prevent those in power mobilizing based on exclusionary cultural and traditional identities, and using this as a basis for providing favors once in power. Excluding certain elites is likely to lead to disaffection and generate incentives for rebellion. Finally, democratic norms and institutions are crucial for ensuring the legitimacy of elites (and the state) and for brokering compromise among competing elite groups.

In sum, getting these local factors right will have a significant impact on whether or not the MoU/LoGA can deliver long-term peace to Aceh. If not addressed, new internal conflict along ethnic, religious or other identity lines or renewed center-periphery conflict is likely. There is a risk that perceptions of injustice and inequality will merely be decentralized rather than addressed, providing the fuel for future unrest. In the final section we turn to how, as international actors, we can contribute to getting these local factors right.

6. CONCLUSIONS AND IMPLICATIONS

In concluding, it is worth briefly revisiting the arguments we have made in this paper. Over the decades, conflict in Aceh has been driven by grievances that have been framed in relation to Aceh’s place within the Indonesian state. Abundant resources have not led to hoped for advances
in development. Repression in the form of state-administered violence has played a role in creating a distinctive Acehnese identity. Local cultural and religious practices have not been accommodated within the public sphere. The focus of Jakarta on promoting a narrowly-defined conception of what it means to be a province within a ‘unitary state’ led many to feel that progress in Aceh could only be achieved through formal separation from Indonesia. On this basis, GAM was able to mobilize those who felt disenfranchised. The Indonesian government’s approach to the Aceh conflict and unrest elsewhere in the country has oscillated between the use of top-down security approaches and the devolution of economic and political power to the regions. The Helsinki negotiations showed that Jakarta has settled on the latter strategy for Aceh. Changes in the political lay of the land in Jakarta and Banda Aceh allowed for the implementation of such a strategy without significant resistance from the military or other spoilers. The Helsinki MoU, and the Law on Governing Aceh (LoGA) which followed, provide a strong framework for addressing many of the center-periphery issues. The fact that Aceh is still peaceful, over a year after the signing of the MoU, bodes well for the future of the province.

However, we have argued that while the MoU and LoGA provide a useful framework, they will not in themselves solve the multitude issues that make Aceh prone to conflict. The literature on decentralization, autonomy and conflict points to the implementation of devolution as being as important as the initial legal framework. Cross-country experience with using decentralization as a means of quelling conflict is uneven. Local contextual factors are important.

For peace to be long-lasting increased attention needs to be focused on creating or strengthening local state institutions. Institutions are needed to ensure resources are allocated appropriately, that political autonomy leads to productive political competition rather than local capture of the state, and that local cultural practices can be mainstreamed into political practice in non-exclusionary ways.

We have identified three areas in which the state in Aceh is particularly weak: local planning and implementation capacity; ability to make policy-decisions and execute them in transparent and accountable non-corrupt ways; and mechanisms to ensure that local political competition is conducted in a democratic and non-violent manner. These three local factors will largely determine the ability of the local government to address local grievances and the extent to which local elite incentives for mobilizing grievances are minimized. Achieving sustainable peace in Aceh thus depends on progress in building strong and legitimate local state institutions.

This, of course, is easier said than done. While there is a broad consensus among development scholars and policymakers that “institutions matter,” we actually know very little about how to build them. As such, it is easier to prescribe an area of focus (governance and local institution-building) than precise means for dealing with issues in this area. Nevertheless, as development thinkers and practitioners it is our responsibility to move toward actionable approaches and mechanisms.

51 This is not to say that national factors and engagement are not still important but this is not our focus here. Particular national factors to concentrate on include: ensuring a clear division of tasks between different levels of government; implementing the articles of the MoU and LoGA that require national-level follow-up (such as the truth and reconciliation commission); continuing to send strong signals of support to the Aceh peace process; not backtracking on provisions made; and ensuring that extra-provincial actors do not try to upset security in the province. With the Aceh Monitoring Mission (AMM) leaving, international agencies have a role to play in these areas. Ideas doing the rounds in Jakarta on establishing a council of Acehnese and Indonesian ‘wise men’ to help oversee implementation after AMM’s departure seem sensible to us, although we encourage the inclusion of ‘wise women,’ too.
Principles for Engagement by International Actors

We suggest, that in order to support the strengthening of local governance in Aceh, five broad principles be adopted. Coming as we do from positions within an international organization, these principles are primarily aimed at how outside actors (donors, international agencies, NGOs) can approach and contribute to the process of strengthening local government institutions.

• **Support the delivering of services, rather than deliver them:** Aceh, indeed Indonesia, is not lacking in resources. The amount of funds that will flow into Aceh over the next 20 years is staggering for an area in a developing country with a population of only around 3.5 million. Aceh needs assistance in translating these resources into development outcomes and services, rather than additional resources. In the long run, and given the current lack of state legitimacy, it is vital that support goes to helping build the capacity of local government agencies, rather than outside actors directly delivering such outcomes and services themselves. This is not just a challenge for international actors. The BRR also largely bypasses local government institutions in its delivery of tsunami assistance, thus severely restricting the potential of the agency and tsunami reconstruction to develop local government capacity. Outside actors must work with local government, not in parallel.

• **Adopt a long-term timeframe for engagement:** The building and strengthening of government institutions is a long-term process. Some technical lessons can be imported from elsewhere, but, in most aspects, many of the institutional “solutions” to problems are not knowable ex ante and must be forged incrementally through legitimate, inclusive and accountable processes of contested deliberation (Barron, Diprose and Woolcock 2006; Pritchett and Woolcock 2004). In order to fully engage in this process and be around to see institutional change, outside actors should fully commit to providing support until at least 2009 and probably beyond.

• **Recognize the importance of local knowledge:** In order for outside actors to properly understand and engage in a long-term process of institutional change, it is important that staff and the institutions themselves build their local knowledge of Aceh. Concretely, this can include encouraging and supporting international staff to learn the Indonesian (even Acehnese) language, ensuring local and non-local staff work together at different levels of management, allocating resources for quality sociological research and analytical work, and encourage relationships between Acehnese and non-Acehnese.

• **Recognize the limited agency of international actors and engage accordingly:** International actors operating in Aceh, indeed in any development context, have limited agency to affect local institutional change. Even in the context of post-tsunami Aceh, international funds are dwarfed by government money. As such, attempts to use such funds to press for changes in governance norms and practices may be stifled by the incentives of those in government to carry-on with the status quo. Less scrupulous elements of the government will also positively resist certain changes. This requires identifying clear strategic entry-points where outside actors can make a difference. In post-conflict Aceh, we suggest there are two general entry-points for contributing to the strengthening of local governance: (a) through direct engagement with local government; and (b) through support to the “enabling environment” (see below).
• Engage a range of actors at different levels: This can include working directly with various line agencies at the provincial and district levels, as well as with service points at the sub-district or village level. Support to the enabling environment can similarly involve partnership and engagement with a range of actors—including civil society, the media, NGOs, universities, as well as communities themselves—at the provincial, district, sub-district and village level. Of course, no single international actor is capable of directly or indirectly engaging with all elements of the state and society. However, an approach that holistically conceptualizes good governance as a symbiotic relationship between state and society at different levels will help to identify more strategic and specific entry-points.

Finally, we close with some suggestions on areas of attention and specific interventions for building institutions in Aceh as means of ensuring that conflict does not return.

Direct Engagement with Local Government

Local state capacity is lacking in Aceh. Addressing this requires direct engagement targeted at building technical capacity and the legitimacy of local government.

1. Technical capacity building. Specific challenges exist in the area of procurement, planning, cash management, accounting and reporting, internal auditing, and assets management. Training and mentoring can help improve these functions. Additional funding to support local governments in these areas will also be needed.

2. Using tsunami funding to improve technical capacity. At present the massive resources used for reconstructing Aceh are having little impact on the capacity of line agencies. This is because the reconstruction and rehabilitation agency (BRR), donors and NGOs are largely implementing their projects through parallel structures. This is understandable given existing capacity gaps, but it is also extremely problematic given that increasingly local government will be responsible for managing and implementing development resources. Closer partnerships need to be built with money channeled through local government mechanisms, perhaps with outside actors working within line agencies to supervise and identify issues as they arise.

3. Using reintegration money to enhance transparency. In many post-conflict contexts, initial funds for ‘reintegrating’ former combatants into society are delivered with little concern for transparency and accountability. Providing quick resources to deal with potential spoilers and longer-run development approaches are often seen as two separate stages of post-conflict ‘development.’ The evidence from Aceh would suggest that such an approach can be counter-productive when the (lack of) legitimacy of the state is the primary driver of conflict. Given high levels of social cohesion in villages and of elite-level buy-in to the agreement, reintegration programming should be used to help boost the legitimacy of the state as a fair and effective manager of resources.

4. Assistance to managing Special Autonomy resources. The level of resources that will be available in Aceh for developmental purposes is astounding. Assistance should focus on supporting the Government’s use of these funds to ensure that they have real impacts on the ground. Support can be given in a number of areas, in addition to those outlined above: (a) providing technical assistance to the design of project delivery mechanisms that allow for effective disbursements of funds; (b) help designing institutional arrangement for managing the resources in transparent and accountable ways; and (c)
providing advice to the government on how to stagger the use of funds, so that early windfalls are not wasted and investments are sustainable.

5. **Ensuring service delivery across Aceh.** At present, resources are concentrated in urban areas. Capacity is also weaker in rural areas, as many of the best potential civil servants and local leaders left for the cities during the conflict. Rural villages were the recruiting centers for GAM. It is extremely important that development reaches these villages and, in particular, those missed by tsunami aid.

6. **Come down hard on offenders.** The importance of example cannot be underestimated in terms of shaping norms about acceptable practice. In Aceh, the prosecution of Governor Puteh created a powerful precedent that even the most powerful are not untouchable. It also sent shock waves to many others in positions of power in Aceh. The Anti-Corruption Commission (KPK) should increase its investigatory presence in Aceh. Donor agencies can provide support through funding and joint programming.

7. **Work with reformers and reward success and innovation.** International agencies working in post-conflict development, and indeed development more generally, have long framed their involvement as non-political in nature. This is of course bunk. All development interventions are political because they create winners and losers, and value certain forms of social order and norms over others. In Aceh agencies need to use their resources to reward those who are active in promoting good governance agendas. There are limits to this, of course. Agencies should not involve themselves in legitimate democratic competition by funding or promoting candidates, or by allowing the symbolic resources they bring to be utilized by those seeking power. Yet activities such as providing well-functioning local governments or line ministries with extra financial support, paying for scholarships for reformers, and so on can be useful.

**Support to the “Enabling Environment”**

Unless there exists demand for good governance there is little incentive for state institutions and political elites to supply it. Thus getting governance right in Aceh will involve working from a number of angles to help create an enabling environment in which institutions can develop in positive ways. This involves working with a ride range of actors including the communities who participate and demand services from local government, the media that monitors and disseminates information on the government, civil society groups that offer constructive criticism and help to ensure accountability, as well as political parties and politicians who represent society and translate its interests into broad policy directions.

8. **Showcasing effective programs.** At present, distrust of the state (in Jakarta and Banda Aceh) is extremely high in Aceh. One way of building state legitimacy is to show-case effective programs that reach the local level. Even where these are operated in partnership with outside agencies (such as the Government of Indonesia/World Bank Kecamatan Development Program), it is extremely important that communities view them as government programs. In some cases, this requires restraint from international agencies, who will be tempted to brand successful projects as their own. Generally, it is important that donors keep a low profile.

9. **Improve planning processes by increasing participation.** Developing mechanisms for bringing communities and non-government actors into development planning at the provincial, district and community levels is vital. It is important, because they can bring
new sources of knowledge on needs and priorities from those who are to be beneficiaries of government programming. It is also important because participatory planning can improve the accountability of government and also its legitimacy (and the legitimacy of decisions made) in the eyes of communities.

10. *Use research as a monitoring and accountability tool.* Tracking corruption over time can be an effective tool for holding leaders, bureaucrats and businesspeople accountable. Data can be used by activists, the media and opposition parties and politicians to pressure those committing corruption. Conducting such research is, of course, difficult, because corruption is usually hidden. However, examples do exist, such as the work tracking illegal payments made by truckers (World Bank 2006b; Olken and Barron 2006). This work should be expanded into other areas, such as illegal natural resource extraction, procurement of contracts, etc. Researchers must rise to the challenge of designing innovative and local context-appropriate methodologies for these purposes. Findings should be widely disseminated, and written up in popularly-accessible forms.

11. *Have politicians sign-up to good governance pledges.* The discourse of democracy and anti-corruption is prominent in Aceh. In an election year, most candidates appear to be standing on good governance and justice platforms. The difficulty of course is ensuring rhetoric is followed by substantive practices. Promises are easily forgotten after election day. However, civil society and opposition politicians can use candidates’ language to hold them to account. Having all candidates for gubernatorial and mayoral positions make public good governance pledges can be a mechanism for accountability down the line.

12. *Establish multi-stakeholder dialogues at the local level.* In central Aceh, multi-stakeholder forums, including GAM, anti-separatists and local civilian leaders, have been held. These need to take place regularly and can be attached to development activities that promote cooperation.

13. *Provide political and leadership training opportunities for GAM.* If GAM are going to transform from an armed movement to a peaceful political party, support will be necessary to smooth this transition. This requires both technical training as well as the teaching of ‘adaptive’ skills such as problem solving and how to represent communities. The likes of Transparency International have provided some anti-corruption materials in an effort to influence their future policy directions. A number of international organizations, such as NDI and IRI, are already present in Aceh and are well placed to support such a task.

14. *Support active discussion in various media (newspapers, radio, television) in Aceh to build demand for inclusive government.* This may include training of journalists, training of local communities in how to utilize media (e.g., community radio), supporting the media in sponsoring debates on political and cultural affairs, and supporting the distribution of newspapers to remote areas.

15. *Support social and cultural activities that celebrate the diversity of Aceh.* In addition to funding housing, infrastructure, etc. donors have been putting large amounts into social and cultural activities. Our analysis suggests that such activities ought to be encouraged but must be focused on creating spaces for discussions on how the Acehnese define themselves, rather than on merely strengthening traditional institutions.
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<th>No.</th>
<th>Title</th>
<th>Authors</th>
<th>Date</th>
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<tbody>
<tr>
<td>25</td>
<td>Counting Conflicts: Using Newspaper Reports to Understand Violence in Indonesia</td>
<td>Patrick Barron, Joanne Sharpe</td>
<td>May 2005</td>
</tr>
<tr>
<td>26</td>
<td>Young Men and the Construction of Masculinity in Sub-Saharan Africa: Implications for HIV/AIDS, Conflict and Violence</td>
<td>Gary Barker, Christine Ricardo</td>
<td>June 2005</td>
</tr>
<tr>
<td>27</td>
<td>Conflict-Sensitive Development Assistance: The Case of Burundi</td>
<td>Juana Brachet, Howard Wolpe</td>
<td>June 2005</td>
</tr>
<tr>
<td>28</td>
<td>Survey of the German Language Literature on Conflict</td>
<td>Barbara Müller</td>
<td>October 2005</td>
</tr>
<tr>
<td>30</td>
<td>Strategic Environmental Assessments: Capacity Building in Conflict-Affected Countries</td>
<td>Rob Verheem et al.</td>
<td>December 2005</td>
</tr>
<tr>
<td>31</td>
<td>Consolidating Indonesia’s Democracy: Conflict, Institutions and the “Local” in the 2004 Legislative Elections</td>
<td>Patrick Barron, Melina Nathan, Bridget Welsh</td>
<td>December 2005</td>
</tr>
<tr>
<td>32</td>
<td>Fearing Africa’s Young Men: The Case of Rwanda</td>
<td>Marc Sommers</td>
<td>January 2006</td>
</tr>
<tr>
<td>33</td>
<td>Mainstreaming Gender in Conflict Analysis: Issues and Recommendations</td>
<td>Sanam Naraghi Anderlini</td>
<td>February 2006</td>
</tr>
<tr>
<td>34</td>
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<td>Aly Rahim, Peter Holland</td>
<td>April 2006</td>
</tr>
<tr>
<td>35</td>
<td>The Impact of Armed Conflict on Male Youth in Mindanao, Philippines</td>
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<td>July 2006</td>
</tr>
<tr>
<td>36</td>
<td>Civil Society, Civic Engagement, and Peacebuilding</td>
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<td>October 2006</td>
</tr>
<tr>
<td>37</td>
<td>Rule of Law Reform in Post-Conflict Countries: Operational Initiatives and Lessons Learnt</td>
<td>Kirsti Samuels</td>
<td>October 2006</td>
</tr>
<tr>
<td>39</td>
<td>Decentralizing Inequality? Center-Periphery Relations, Local Governance, and Conflict in Aceh</td>
<td>Patrick Barron, Samuel Clark</td>
<td>December 2006</td>
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