



**MENTERI DALAM NEGERI  
REPUBLIK INDONESIA**

**Statement of the Government of Indonesia  
On Decentralization**

**The Pre - Consultative Group on Indonesia Meeting  
Jakarta, 19 January 2005**

Presented by  
Minister of Home Affairs

Excellencies, Ambassadors, honorable participants, ladies and gentlemen.

I would like to take this opportunity to introduce myself as a member of the new cabinet, and to give you a brief update on the ongoing developments regarding decentralization policies and implementation.

As all of you are certainly aware of, the new decentralization laws, Law 32/2004 on Local Governance and Law 33/2004 on the Fiscal Balance between Central and Local Governments, which replace Law 22/1999 and Law 25/1999, have become effective in October 2004. The two new laws seek to clarify Indonesia's decentralization policy and to provide more detailed rules for its implementation. This was a necessary step to avoid misinterpretations and potential conflicts due to some unclear regulations in the previous laws. While attempting to clarify the distribution of responsibilities between levels of government, the new laws do not attempt to recentralize government authority. Let me take this opportunity to reassure you that we will continue the decentralization policy in the spirit of the laws 22/1999 and 25/1999, giving regions far reaching authority in handling their own affairs and provide them the necessary funds for this purpose.

While we believe that the new laws form a major step forward to enhancing regional autonomy and good local governance, we realize that they still have some shortcomings. As I have indicated at several occasions before, we will therefore review the laws in stages over the coming years. However, we will start implementing the stipulations of the

new laws as soon as the necessary implementing regulations are in place. At the same time, we will explain the content of the laws as clear as possible to all levels of government and to the public, either through socialization campaigns in the regions or through media.

At present, we are preparing the implementing regulations of both laws. Law 32/2004 will need among others 7 laws and 43 Government Regulations. Some regulations will be ready within the first semester of this year, especially the Government Regulation on the Election of Heads of Regions. The first elections of regents, mayors and governors based on the new law will be held in June 2004. This will be a historic event for Indonesia, being the first direct elections of regional heads. As part of our 100 day work program, we are giving particularly high priority to finalizing draft government regulations on Supervision and Guidance, Standing Orders for Regional Parliaments, and Guidelines for Regional Government Organization.

Other important implementing regulations will be finalized very soon, among others government regulations on the assignment of government functions across levels of government, including the definition of local government obligatory functions and minimum service standards. An important issue to be dealt with in due course is the harmonization of all sectoral laws with the decentralization policy. This will require substantial technical expertise, which we hope can partly be provided by the donors.

Related to the law 33/2004, the Ministry of Finance is preparing at least 7 government regulations for the implementation of this law which are in line with the State Finance law and the State Audit law. These regulations will among others deal with fiscal balance, budget deficit, local government borrowing and bonds, financing deconcentration and assistance tasks as well as regional financial information system. They will support the implementation of decentralization and strengthen regional autonomy. Through some modifications, the formula for the general grant allocation (DAU) has been made more equalizing, which will help to reduce the income disparities between the regions. At the same time, the mechanisms for the specific grant allocations have been improved.

Let me take this opportunity to also emphasize that short after taking office, the government has fulfilled its promise to the people in the province of Papua and has on 23 December 2004 issued the long awaited government regulation on the Papua Peoples' Consultative Assembly (Majelis Rakyat Papua, MRP), as an important implementing regulation of the Law on Special Autonomy for Papua.

The decentralization policy introduced in 2001 and adjusted through the laws 32/2004 and 33/2004 has brought about tremendous challenges for regional governments and parliaments to cope with their increased responsibilities. The government is therefore putting great emphasis on capacity building in the regions. As an instrument to better focus and coordinate the respective efforts, the Minister of Home Affairs together with the State Minister for National Planning/Head of Bappenas have issued the National Framework for Capacity Building to Support Decentralization in November 2002. We will in due course review and adjust the Framework, to make it an even more useful document of reference for our own capacity building efforts and for support initiatives by the donors. At the same time, we would like to encourage donors to continue and if possible to even increase their capacity building support for the regions. This support should, however, be well coordinated in order to be as effective as possible and to yield optimal results. The Director General for Regional Autonomy of my ministry will later address this issue in more detail.

Many of the donors as well as entrepreneurs and potential investors have complained about local government taxes and levies as well as other local government regulations that have become obstacles to local economic development. The effective supervision of regional regulations is therefore an important point on the agenda of both the Ministry of Home Affairs and Ministry of Finance. The total number of regional regulations received by the Minister of Home Affairs until December 2004 is 4421, of which 361 were cancelled because they did not comply with higher level regulations or violated the public interest. To reduce the risk of such inappropriate regional regulations being enacted, in line with the new law 32/2004, regional regulations on the local budget (APBD), on taxes and levies as well as on spatial planning will have to be approved by the central government before becoming effective.

In order to be able to continuously assess the progress of implementing decentralization and regional autonomy, and to identify emerging problems at an early stage, we have started to set up a comprehensive monitoring and evaluation system drawing on the inputs from many sources, both government and non government institutions. Building up the system, including the information and data base, and making it fully operational requires still considerable efforts. We would appreciate the donors support for this purpose. In this context, I would also like to mention that the Government is working towards revitalizing the Advisory Body for Regional Autonomy Policy as mandated by Law 32/2004.

Last but not least, we see the need for many local governments to use their discretion in planning local development and allocating local budgets to strengthen their efforts towards poverty reduction in their regions. One of the strategic programs of the Ministry of Home Affairs within the first 100 days of the new government is therefore to review regional poverty reduction programs. Based on the results, the Ministry of Home Affairs will continue to facilitate local governments in preparing local Poverty Eradication Strategies (SPKD) within the broader framework of the national PRSP strategy. This will include the integration of the Millenium Development Goals and Minimum Service Standards into local government programs for poverty alleviation. So far, 13 provinces and 93 districts have prepared local poverty eradication strategies.

More detailed explanations on progress achieved in the implementation of decentralization and regional autonomy are provided in the appendix of this statement.

Before coming to the end of my brief statement, I would like to use this opportunity to appeal to the donor community in the light of the tragedy that happened in Aceh and North Sumatra, to provide urgently needed support for the rehabilitation of the damaged area, both for infrastructure and supporting programs, especially related to health, education, and water supply and sanitation.

Finally, on behalf of the government, I would like to express our thanks to the donor community for their strong support and their readiness to continue providing assistance that will significantly contribute to the success of the decentralization program in Indonesia. I would like to take this opportunity to assure the donors that the Government of Indonesia will undertake the necessary initiatives to improve donor coordination in the field of decentralization and local governance, in order to make our joint efforts more effective and beneficial for the people in the regions. We are looking forward to the continuation of the fruitful cooperation.

Jakarta, 19 January 2005

