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*Top-down and bottom-up incentives for improving local  
government performance: what can we learn from decentralization  
in Indonesia and the Philippines?*

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# Top-down and bottom-up incentives for improving local government performance: what can we learn from decentralization in Indonesia and the Philippines?<sup>1</sup>

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## Abstract

As urbanization, decentralization, and democratization gained prominence, there is growing interest in efforts to improve city government performance. Among developing Asian countries, the Philippines and Indonesia have been at the forefront of applying large-scale decentralization in the form of devolution. Through a comparative case study, I highlight the similarities of experience that the two countries have, including the presence of both top-down (administrative) and bottom-up (political) incentives to ensure local government performance. I also compare data on award recipients and election results, and identify a tendency for citizens to reward public officials with good performance by voting for them again in their re-election bid.

**Keywords:** performance management; incentives; local government; decentralization; Indonesia; Philippines;

## 1. Introduction

Increasing awareness of urbanization and the important role that cities play in a nation's economy (Glaeser 2011, Dobbs et al. 2011) has shifted the spotlight onto city governments and city leaders (Barber 2013). Issues related to 'managing fast growing cities' have been well documented (for example, see Devas and Rakodi 1993). Central to tackling these challenges is the capacity of city governments to plan for, finance, and manage change. In the developed and developing world alike, city governments and leaders are expected to deliver not just performance, but also innovations to deal with new problems and/or old problems of unprecedented scale.

Decentralization leads to more efficient allocation of resources, more responsive public service, and improved economic development at the local level, proponents claim

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(Tiebout 1956; Oates 1972). Local governments are considered better in identifying and serving local needs, and more easily held accountable to the public. Different configurations of offers by the local government will keep existing residents while attracting new ones, thus creating a situation where city governments compete with each other by offering the most desirable social and business environments.

The Philippines and Indonesia are notable for their adoption of direct democracy and extensive decentralization in a short period of time. This transformation started with the Philippines' 'People Power Revolution' in 1986 and Indonesia's 'Reformasi' in 1998. Along with this phenomenon came a drastic change in the way governance takes place at the local level. Mayors are increasingly taking center stage, and local democracy is gradually institutionalized, albeit with various extents and speeds.

However, the link between decentralization and improvement in the local economy or local public services is not a direct one. After more than 25 years and 15 years of decentralization in the Philippines and Indonesia, respectively, improvement in local government performance has been elusive (Lewis 2010) and economic growth at the local level remains disputable (McCulloch and Malesky 2011). But as Indonesia and the Philippines slowly tinker with their incentive systems, and implement more measures to encourage or incentivize local governments to deliver quality public services, we are seeing some optimistic changes in the way such incentive systems are placed.

This paper highlights the presence of two types of incentives to improve city government performance in the context of decentralization. The first is top-down incentives in the form of administrative measurements and rankings conducted by the central government; the second is bottom-up incentives in the form of citizens' political support (votes) for local leaders who deliver performance and quality public services.

In this paper, I also assess whether local leaders who have received multiple awards for good performance would tend to be rewarded by votes at the following election. Here I will present an alternative way of identifying incumbents, which includes persons who compete in the following election as someone who is endorsed and supported by the incumbent. This will expand the notion of incumbents typically used in other studies, which tend to look at re-electionists in the more literal sense (Capuno 2011, 2005).

The remainder of this paper will be presented as a case study comparing the Philippines and Indonesia. Section 2 will explore decentralization, top-down incentives, and bottom-up incentives for local performance in the Philippines. Next, Section 3 will contain a similar structure, but for Indonesia. Finally, Section 4 provides a conclusion and future research agenda.

## **2. Decentralization and Local Public Performance Incentives in the Philippines**

### **Decentralization**

The Philippines' "people power revolution" toppled Ferdinand Marcos' authoritarian regime in 1986 and brought forth a new era of democracy both at the national and local level. The country's new 1987 Constitution put in place reforms that limit the power of the executive while mandated Congress to enact a code that gave more autonomy for local government units (LGUs). This code was later enacted as Republic Act No. 7160, also known as the Local Government Code (LGC) of 1991.

Decentralization in the Philippines has been conducted since 1992 according to LGC 1991. It has taken the form of devolution, where LGUs are given much autonomy to decide their development priorities and implement relevant programs. The sectors which are now within the purview of the LGUs are wide-ranging: agriculture, industrial development, environmental protection, health services, social welfare, local infrastructure, land-use, and tourism. For cities, such sectors also include communications, transportation, education, and civil defense.

The transfer of authority from the national government to LGUs is supported by transfer of personnel and fiscal resources. In 1992, at the onset of decentralization, about 60% of the Department of Agriculture, Department of Health, and Department of Social Welfare and Development' staff were transferred from the national government to various local governments (Wallich, Manasan, and Sehili 2007). After decentralization (1992-2003), the average yearly expenditure of Philippines' LGUs was about 23% of the country's total public expenditure. This is a substantial increase compared to 11% before

decentralization (1985-1991). As of 2009, the proportion has risen even further to 25% (Martinez-Vazquez and Vaillancourt 2011).

Despite having more resources to spend, LGUs remain limited in their authority to generate revenue. Most of the substantial taxes (i.e., personal and corporate income tax, consumption tax) are collected by the national government as part of the Philippines' internal revenue. LGUs, on the other hand, collect real property tax, property transfer tax, and amusement tax. LGUs are able to impose fees for services (i.e. yearly renewal of business permit), as well as charge for public utilities that they provide.

Part of the internal revenue collected by the national government (40%) is redistributed to LGUs according to a simple formula based on the LGU's land area and population. This is called the Internal Revenue Allotment (IRA). For the most part, LGUs have the autonomy to plan and decide what to do with their IRA. The IRA is large enough to enable LGUs to pay for staff salary and conduct very basic services, but not enough to conduct substantial development programs or services. Therefore, LGUs that lack motivation or pressure may just be able to survive providing a minimal level of service, while those that are more motivated would be encouraged to generate more revenue to complement the IRA.

Devolution as assigned by LGC 1991 follows a hierarchy where provinces are identified as first-tier LGUs, while municipalities and component cities are second-tier, and barangays are third-tier. Cities have three possible legal classes: 'component', 'independent component', or 'highly urbanized.'<sup>3</sup> 'Component' cities, together with municipalities, occupy the second-tier hierarchy under the province government. However, 'highly urbanized' and 'independent component' cities occupy the first-tier hierarchy on par with the province government. They do not report or share any of their tax revenues with the province government (neither do their citizens vote for the province government's officials). Instead, independent component cities report directly

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<sup>3</sup> *Highly Urbanized Cities* have a population of at least 200,000, and latest annual income of at least Fifty Million Pesos (1991 constant prices). *Independent Component Cities* are independent of the province as they have charters that prohibit voters from voting for provincial elective officials. *Component Cities* are those that do not meet both of the above requirements, and are thus considered a component of the province where they are geographically located.

Source: National Statistical Coordination Board, Philippine Standard Geographic Code ([http://www.nscb.gov.ph/activestats/psgc/articles/con\\_cityclass.asp](http://www.nscb.gov.ph/activestats/psgc/articles/con_cityclass.asp))

to the national government and have a coordinative relationship with the province. There is another grouping and coordination system above the province level called the region. But regions (with the exception of the Autonomous Region of Muslim Mindanao) are not LGUs; they help the national government coordinate various issues related to the LGUs.

As of 2014, there are 17 regions, 81 provinces, 144 cities, 1,490 municipalities, and 42,028 barangays in the Philippines.<sup>4</sup> Out of the 144 cities, 34 are 'highly urbanized' and five are 'independent component' cities. The Philippines do not adopt a classification of cities based on population, but following Indonesia's city-size classification, we can identify four cities with more than one million population (three of which are in the National Capital Region - NCR), and 13 cities with population between 500,000 and 1 million, 90 cities with population between 100,000 and 500,000, and 37 cities with population under 100,000. The average population of the Philippine cities is 256,411 and the median is 151,947. Most of the LGUs are medium-sized cities.

### **Top-down Administrative Incentives**

It is generally acknowledged that decentralization in the Philippines has worked to a certain extent in enabling civic involvement in local public affairs and the exploration of innovative ways in which local public services can be financed and delivered (Brillantes 2003). However, at the same time there is also a sense that much more could be achieved and improved. Local government performance remains uneven and there are at least as many or more bad practices as there are good ones. Possible explanations for variation in local government performance have been explored, and some argue that economic development level may play a role in determining the quality of public services, as much as we would also like to acknowledge that better public services are likely to trigger local development (Capuno 2005).

A performance management system is needed to ensure LGUs deliver quality public services at the local level. The Philippines already established the Local Productivity and Performance Management System (LPPMS) in the 1980s, but when decentralization started, much of the focus was on local government capacity building

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<sup>4</sup> National Statistical Coordination Board, Philippines Standard Geographic Code (<http://www.nscb.gov.ph/activestats/psgc/>); accessed December 2014

rather than performance monitoring. The LPPMS was revived in 1998 and since then it has been further developed and complemented with other systems, including the Local Government Performance Management System (LGPMS) – which helps LGUs to conduct self-assessment of how they are performing on their functions, the Citizens' Satisfaction Index, the Seal of Good Housekeeping, and Seal of Good Local Governance (Adriano and Estimada 2014; Medina-Guce 2016). Capuno (2005) provides a list of tools to measure and improve LGU performance that has been implemented in the Philippines.

The Seal of Good Local Governance (SGLG) expands the earlier Seal of Good Financial Housekeeping, where it awards the seal to LGUs that show satisfactory performance in three 'core components': good financial housekeeping, disaster preparedness, social protection and three 'essential components': business friendliness and competitiveness, peace and order, and environmental management (Medina-Guce 2016). Admittedly, the SGLG raises the bar for performance even further; while as many as 1,535 LGUs pass the Seal Good Financial Housekeeping in 2016, only 306 LGUs pass the SGLG at the same time.<sup>5</sup>

Aside from the standard, compliance-related performance management system described above, the Philippines is also implementing the Performance Challenge Fund (PCF). This is a fiscal incentive for LGUs that initially pass the Seal of Good Financial Housekeeping and ultimately the SGLG, by providing a maximum of 50% 'counterpart funding' for larger scale local development projects that otherwise do not have resources to be conducted.<sup>6</sup> There are four categories of PCF-eligible projects: those that aim to improve the achievement of (1) Millennium Development Goals, (2) Local Economic Development, (3) Disaster Risk Reduction and Management, and (4) Ecological Solid Waste Management. The PCF started small in 2010 with a budget of P30 million for 30 municipalities. In Financial Year 2015, as much as P982 million was budgeted to 254 LGUs that qualify. As of May 2017, PCF has recorded a total of 2,698 encoded projects, out of which 2,585 has been completed.<sup>7</sup>

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<sup>5</sup> The lists of SGLG and SGFH awardees are available at the DILG website: <http://dilg.gov.ph/reports-and-resources/seal-of-good-local-governance/12/> (accessed June 2017)

<sup>6</sup> The PCF website is available through <http://pcf.dilg.gov.ph/> (accessed June 2017)

<sup>7</sup> PCF website

A good performance management system does not only reward compliance, but also innovations. In the developing world, the Philippines is among the first to acknowledge local public-sector innovations through awards. Started in 1993, not long after the country embarked on decentralization, the Galing Pook Awards was launched to “recognize innovation and excellence in local governance” (Brillantes 2003). It started as a joint-initiative of the Department of Interior and Local Government, with support from the Ford Foundation and other high profile national and local figures. Five judging criteria were used to determine the award winners: (a) positive results and impact, (b) promotion of people’s participation and empowerment, (c) innovativeness, and (d) efforts to ensure transferability and sustainability of the program.

Now in its 24th year, the award holds a wealth of data on innovative city governments and programs in the Philippines. Every year, the GP Awards were given to 16-20 local programs, reaching a total of 338 awardees as of 2015.<sup>8</sup> These 338 local programs were spread over multiple sectors, ranging from economics/livelihood to environmental protection to community involvement in public affairs. The awarded programs also came from various regions of the Philippines, and were conducted by barangays, cities, municipalities, and provinces alike.

Some LGUs have won more awards than others. As many as 35 out of 81 provinces (43.2%), 59 out of 144 cities (40.9%), and 99 out of 1,490 municipalities (6.6%) have won the GP award at least once. Over the years, between 1993 and 2015, only 14 cities have won the award three or more times, and only eight cities have won it at least four times: Naga City in Camarines Sur (10 times), Marikina City in the NCR (8), Quezon City in the NCR (7), Cebu City (6), San Carlos City in Negros Occidental (6), and Puerto Princessa in Palawan (5).

### **Bottom-up Political Incentives**

While national directives, requirements, and incentives to improve local performance are indeed helpful, it only addresses half of characteristics that make the concepts of federalism and decentralization as argued by Tiebout (1956) so attractive.

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<sup>8</sup> The GP Awards have been conducted every year since 1994, except in 2001, 2006, and 2011.



The other half is the role of the citizens in putting a pressure on local governments to deliver the services that they require.

Decentralization in the Philippines takes place simultaneously with democratization, where local governments leaders' autonomy from the central government is held accountable by the citizens who voted for them. Provinces, cities, municipalities, and barangays conduct local elections every three years. The mayor, vice mayor, and city councilors each hold a three-year term and can hold three consecutive terms (nine years) at the maximum. The LGC 1991 provides the legal and institutional means for the people to participate in local government affairs, i.e. through joint ventures between the LGU and NGOs, People's Organizations, and the private sector. Members of the public are also to sit in special committees or councils that govern how public services are to be delivered, such as the local school board, the local development council, etc. (Alinio 2008).

Some authors have explored deep-rooted institutional factors to explain why even a democratic system of governance in the Philippines may not get decentralization to result in better public services and more responsive local governments. The issue at hand is elite capture of local institutions due to the existence of strong patronage system (Yilmaz and Venugopal 2013; Shair-Rosenfield 2016). Political parties at the local level were arguably weak and politics tend to be dominated by personalities (Kasuya 2009), thus it is not uncommon to find political leadership at the local level dominated by strong families ("clans" or "dynasties"), and even alliance of corrupt bureaucrats, clan leaders, business interests, and criminals (Lacaba 1995, Sidel 2004). The 1987 Constitution discourages political dynasties by stating that: "The State shall guarantee equal access to opportunities for public service and prohibit political dynasties as may be defined by law"<sup>9</sup>. However, until now no law has been passed to define a 'dynasty' and the phenomenon has persisted (Querubin 2012).

Despite the pessimistic note, society is not static and the relationship between elites and citizens is constantly changing, though perhaps not as fast as regulations can change. Institutions can be tweaked and with the right form of intervention, voters can become more demanding and elites more accommodative. For example, when the

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<sup>9</sup> 1987 Constitution, Article II, Section 26

performance rating of a local government was publicly announced to the people in accessible media and language, mayors and barangay captains showed signs of being more responsive to the citizens (Capuno and Garcia 2010). In another study, it was also found that higher government spending on economic development purposes tends to help an incumbent governor win his or her re-election bid (Solon, Fabella, and Capuno 2009). These seem to indicate that democracy and voter pressure still work, even after controlling for the presence of clans.

I add to the latter point by drawing from data of Galing Pook award winners for the past 10 years. Being a prestigious award, Galing Pook awardees are typically covered by local and national media in good light, and thus would raise the political profile of the leader - who would be seen as performance-driven, committed, and innovative. After identifying LGUs that won at least two Galing Pook awards over the three-year period before the next election takes place, I try to see whether the governors or mayors of these LGUs would tend to win or lose in the next election.

There are three possible scenarios for the incumbent leader in the following election: (1) they would bid for re-election, and thus the incumbent could either win or lose, and (2) they have already served three terms as the governor or mayor, and therefore cannot bid for re-election. However, leaders that are constrained by this term limit typically appoints or endorses someone whom he or she sees as his or her 'legacy' to run in said election. The data on local election results can provide an indication if someone is running as a previous mayor's 'legacy' by looking at the role that he played in the previous term (usually vice mayor/governor or congress representative) and whether he shared the same political party as the previous leader. This phenomenon of 'level-switching' among local government elites has been highlighted (Shair-Rosenfield 2016).

This simple comparison between number of Galing Pook Awards received and whether the incumbent (or his 'legacy') would win the following election is shown in Table 1. The table shows that incumbents (or his 'legacy') won the following election in 22 out of 24 LGUs that have won two or more Galing Pook awards during the three-year period prior to the election. It is clearly too early to make any conclusion due to the simplicity of this exercise and the lack of controlling mechanisms. However, this seems to

show that people do respond to good performance of their local government by rewarding the leaders with votes.

**Table 1: Association between winning Galing Pook awards  
and winning the following election**

No.	Local Government Unit	GP Awards received (2013-2015)	2016 Local election results
1	Siayan Municipality, Zamboanga del Norte	2	Incumbent won
2	Ilocos Norte Province	2	Incumbent won
3	South Cotabato Province	3	Incumbent won
4	Quezon Province	2	Incumbent won
5	Quezon City, Quezon	2	Incumbent won
6	Tarlac Province	2	Incumbent's legacy won
No.	Local Government Unit	GP Awards received (2010-2012)	2013 Local election results
1	Iloilo City	2	Incumbent won
2	Mandaluyong City	2	Incumbent won
3	Sarangani Province	2	Incumbent's legacy won
5	Tagum City	2	<b>Incumbent's legacy lost</b>
6	Misamis Oriental Province	2	<b>Incumbent's legacy lost</b>
7	Sta. Cruz Municipality, Davao del Sur	2	Incumbent won
8	Zamboanga del Norte Province	2	Incumbent's legacy won
No.	Local Government Unit	GP Awards received (2007-2009)	2010 Local election results
1	Marikina City	3	Incumbent's legacy won
2	Quezon City	3	Incumbent's legacy won
3	Sarangani Province	2	Incumbent won
4	Taguig City	2	Incumbent's legacy won
5	Albay Province	2	Incumbent won
6	Negros Oriental Province	2	Incumbent won
7	San Carlos City, Negros Occidental	3	Incumbent's legacy won
8	San Fernando City, Pampanga	3	Incumbent won
9	Cebu City	2	Incumbent's legacy won
10	Infanta Municipality, Quezon	2	Incumbent won
Number of cases where incumbent or his/her 'legacy' won: 22			
Number of cases where incumbent or his/her 'legacy' lost: 2			

Source: Author, compiled from Galing Pook reports, COMELEC, and other sources

This concludes the section on decentralization, top-down incentives, and bottom-up incentives of local government performance in the Philippines, where I argue that there has been an evolution in how decentralization is being managed, including the tinkering of relevant top-down and bottom-up incentives for the better. The Philippine case shows that progress is possible though slow. Next, we turn to Indonesia, where the experience of decentralization is about 10 years behind the Philippines.

### **3. Decentralization and Local Public Performance Incentives in Indonesia**

#### **Decentralization**

Indonesia's "people power" moment took place in 1998, ending Suharto's 32 years of authoritarian rule. The movement, called *Reformasi*, promised to bring a new era of democracy and decentralization. Within a few years after Suharto stepped down, the original 1945 Constitution was amended to curb the powers of the executive, strengthen the legislative, adopt direct elections, acknowledge human rights, and enable a larger governing role for sub-national governments.

The 1998 reform mandated decentralization through an increase in "regional autonomy" (devolution). Indonesia's "big bang" decentralization started in 1999 with the passing of two laws that devolved authority and responsibility, and distribute monetary resources from the central to regional governments.<sup>10</sup> The extent of responsibility being distributed covered almost everything except foreign affairs, defense, justice, finance, religion, and natural resources.

Upon embarking on decentralization, the central government increased transfers to regional governments (provinces, cities, and regencies). Just before decentralization started, such transfers make up 14.9% of total central government expenditure; one year

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<sup>10</sup> The first post-reform decentralization laws were Law no. 22/1999 on Regional Government and Law no. 25/1999 on Fiscal Balance between Central and Regional Governments. Prior to that, Indonesia adopted a largely centralistic law on regional government (Law no. 5/1974).

afterwards in 2001, that figure jumped to 23.7%.<sup>11</sup> The average annual proportion of transfers to regional governments was 19.6% for the period of 1990-2000, but increased to 30.9% for the period of 2000-2010. The central government also shifted many staff to local government payroll, with an increase in the percentage of local civil servants from 12.2% to 66.7% between 1999 and 2001 (World Bank 2003).

Transfers from the central to regional government consist of three types of funds: unconditional, general-purpose grant (*Dana Alokasi Umum* or DAU), special-purpose grant (*Dana Alokasi Khusus*), and revenue sharing (*Dana Bagi Hasil*). Each regional government receives transfers directly from the central government. The amount of DAU that each regional government receives is determined by the region's land area and population. The DAU is noteworthy because it is proportionately large: it made up 64.1% of total regional government revenue in 2003, but has decreased to 46.9% in 2008 and to 42.4% in 2013.<sup>12</sup> It is also 'unconditional', meaning regional governments can use it as they see fit, with no link between the entitlement to receive that grant and performance of the region (Ahmad and Mansoor 2002, Lewis 2010).

Meanwhile, the power of regional governments to raise their own revenue remains limited. Income tax and value-added tax, and revenue from natural resources, are collected by the central government. Part of the natural resource revenue is redistributed to province and local governments according to a formula which favors the locality where the resource is found. Other than that, taxes collected by local governments include hotel and restaurant tax, entertainment tax, and advertising tax. Local governments could also collect fees from the public and businesses, but there is no requirement for businesses to register with the local government on a regular basis.

Under the new decentralization framework, Indonesia adopts a flat hierarchical structure where provinces, as well as the cities (*kota*) and regencies (*kabupaten*) therein, are all called 'autonomous regions.' Politically, each regional government is accountable to the people, but administratively, they receive money from and report to the national

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<sup>11</sup> Indonesia's national budget (APBN), 1990-2012, from *Statistik Ekonomi dan Keuangan Indonesia*, Bank Indonesia (<http://www.bi.go.id/id/statistik/seki/terkini/keuangan-pemerintah/>)

<sup>12</sup> Indonesia's sub-national budget (APBD), 1994-2014, from Directorate General of Fiscal Balance, Ministry of Finance (<http://www.djpk.kemenkeu.go.id/data-series/data-keuangan-daerah>)

government. Cities and regencies are at the forefront of regional autonomy, while provinces – previously superior in hierarchy – now hold a coordinative, but lesser, role.

The sudden gain of authority in the regions presented some challenges such as lack of coordination, increase in the number and types of predatory local taxes, and local regulations that tend to discriminate against people from other regions. Many also highlighted the rise of local ‘dynasties.’ In response to these challenges, the original 1999 decentralization laws have been gradually revised to better clarify the authority and responsibility of the province and local governments, re-strengthen the role of the province in coordinating and ensuring local government performance, and enable more democratic local elections.<sup>13</sup>

As of December 2013, there were 539 autonomous regions, consisting of 34 provinces and 505 local governments (412 rural regencies or *kabupaten*, and 93 cities or *kota*)<sup>14</sup>. Local governments are further broken down into sub-districts (*kecamatan* – 6,994 in total) and villages (urban *kelurahan* or rural *desa* – 72,944 in all). The 93 cities vary greatly in size. Following the Ministry of Public Works’ city size classification, 12 cities were considered as “metropolitan” (population larger than 1 million), 14 are “large” (population larger than 500,000 – 1 million), 58 are “medium” (population larger than 100,000 – 500,000), and nine are “small” (population up to 100,000). See Figure 1. The average population for Indonesia’s 93 autonomous cities is 482,203, while the median is 254,450.

## Top-down Incentives

Indonesia’s post-1998 political reforms mandated the development of a cleaner, more effective and more responsive government.<sup>15</sup> However, progress on this front has

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<sup>13</sup> The original 1999 decentralization laws were updated with multiple laws, including Laws no. 32/2004, 33/2004, 12/2008, and 23/2014. Other legislations, such as Laws 8/2005, 22/2014, 1/2015, 2/2015, and 8/2015 specifically stipulate issues related to regional elections and the roles of regional chief executives and vice chief executives.

<sup>14</sup> These do not include 5 cities and 1 regency in the Jakarta Special Capital Region which are “administrative” rather than “autonomous”. Data from Ministry of Home Affairs (<http://www.kemendagri.go.id/>) – *Daerah Otonom (Provinsi, Kabupaten, dan Kota) di Indonesia per Desember 2013*

<sup>15</sup> For example, Tap MPR RI No XI/MPR/1998 and Law No. 28/1999 on state management that is free of corruption, collusion, and nepotism, Tap MPR RI No. VI/MPR/2001 on national ethics, Tap MPR RI No VII/MPR/2001 on policy directions to eradicate and prevent corruption, collusion, and nepotism, and Tap

been slow. In the context of decentralization, the national government not only faces the daunting task of overseeing bureaucracy reform at the national level, but also that which is taking place in more than 500 regional (sub-national) governments.

To expedite the achievement of a “world class government” by 2025, President Yudhoyono in 2010 issued a Presidential Regulation that outlines a “grand design” for bureaucracy reform.<sup>16</sup> According to this document, bureaucracy reform aims to achieve three major goals: 1) a clean government free of corruption, collusion, and nepotism, 2) improvements in the quality of public services, and 3) increase in performance and accountability of the public sector. At the individual level, the word “performance” only entered the civil service lexicon in 1999, when it was stated that promotions will be done through “performance evaluations”.<sup>17</sup> However, operationalization of such statement was only issued in 2011, where each government staff was to be evaluated and receive a “performance score”.<sup>18</sup>

Indonesia’s decentralization started with the hope that bringing power closer to the people will lead to better public services. But various concerns have been raised about regional governments’ performance. There are concerns about usage of regional finances, including the large proportion of local budget used for staff salaries (Jaweng 2011), and substantial amounts spent on constructing new government offices (Lewis and Oosterman 2011). Other issues include territorial splits to create new regional government entities (Firman 2009) and a general sense that public services have not improved (Blane 2010).

Regulations to enable monitoring of government performance both at the national and local levels were established in 1999, in the requirement to implement a performance accountability system and prepare annual performance accountability reports (Jurnali

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MPR RI No VI/MPR/2002 on bureaucracy reform with emphasis on transparent, accountable, clean, and responsible bureaucratic culture.

<sup>16</sup> Presidential Regulation No. 81/2010 on Grand Design of Bureaucracy Reform: 2010-2025.

<sup>17</sup> Law No. 43/1999 on Principles of Civil Service, article 20.

<sup>18</sup> Government Regulation No. 46/2011 on Civil Servants Performance Evaluation

and Siti-Nabiha 2015).<sup>19</sup> Over time, efforts have been mobilized to better regulate local governance and incentivize local public performance (Lewis and Smoke 2012). Laws on decentralization were updated and operationalized with regulations, and complementary laws on elections, legislative councils, taxation, etc. were also passed. Among such regulations were those that require minimum public service standards and evaluation of regional governments, passed in 2005 and 2008, respectively.<sup>20</sup>

It was only after the passing of these regulations that the central government started to conduct regular measurements of regional governments. Since 2009, evaluations on the public management aspects of regional government performance (*Evaluasi Kinerja Penyelenggaraan Pemerintahan Daerah - EKPPD*) have been conducted by the Ministry of Home Affairs on an annual basis, covering aspects such as compliance to law, human resource management, fiscal management, asset management, development planning, provisions for people's participation, and achievement of minimum service standards. Results of these evaluations were ranked, and the top-three provinces, as well as the top-10 cities and regencies were announced and awarded.

Along with this initiative, other ministries and national level agencies have also presented awards to regional governments for good performance in their respective sectors or fields, such as waste management (*Adipura*<sup>21</sup>), traffic management (*Wahana Tata Nugraha*), investment (BKPM Investment Award), housing (*Adiupaya Puritama*), health (public health development index), information and communications technology (*ICT-Pura*), and e-government (Indonesia e-government ranking). Many of these are presented based on good implementation of national directives.

Three awards in particular have recognized public innovation at the regional level. First, the Urban Management Innovation (*Inovasi Manajemen Perkotaan* or IMP) Awards started in 2008 and is conducted biannually to recognize innovative programs in the fields of urban planning and management. Applications are open to cities and urban areas

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<sup>19</sup> The Performance Accountability System of Government Institutions (SAKIP) and corresponding Performance Accountability Report (LAKIP) was first mentioned in the Presidential Instruction No. 7/1999. This instruction was later revised as Presidential Regulation No. 29/2014.

<sup>20</sup> Government Regulations no. 65/2005 on minimum service standards, and no. 6/2008 on evaluation of regional governments

<sup>21</sup> Adipura award for city cleanliness actually started much earlier, in 1986



within the rural regencies. Second, the Innovative Government (IG) Awards was started in 2010 and is conducted annually to acknowledge innovative programs of city and regency governments in the field of public administration, public service, community empowerment, and regional competitiveness. Nominees are decided based on preliminary identification conducted by the central government. Both of the IMP and IGA awards are conducted by the Ministry of Home Affairs and handed by the minister. Third, the Public Service Innovation Competition (*Kompetisi Inovasi Pelayanan Publik* or Sinovik) is a more recent effort to encourage public innovation that started in 2014 by the Ministry of State Apparatus and Bureaucratic Reform. The competition is open to programs conducted by national and regional level agencies. The top-99, top-33, and top-nine programs are published, and awards are given by the minister.

Combining the awards together,<sup>22</sup> we find that 124 regional governments have won the awards at least once, counting from 2006 onwards. Out of the 124 awardees, 75 are regency governments, making up 60% of the award winners, but 18% of the total regency governments. Meanwhile, 49 are city governments, covering 52% of the total cities in the country. As many as 15 local governments have won five or more awards over the years. Seven cities stand out especially because they have won more than 10 awards: Surabaya in East Java (17 awards), Surakarta or “Solo” in Central Java (12), Palembang in South Sumatra (11), Cimahi City in West Java (10), Balikpapan in East Kalimantan (9), Yogyakarta (8), and Bandung City in West Java (8).

### **Bottom-up Incentives**

Similar to the case of the Philippines, decentralization in Indonesia is implemented hand-in-hand with democratization. The second amendment of the Indonesian constitution provides that heads of province, city and regency are to be “democratically” elected. Until 2004, governors, mayors, and regents were appointed by their respective legislative councils. But since 2005 onwards, regional leaders have been directly elected

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<sup>22</sup> This is a count that combines data on winners of 10 awards between 2006 and 2015: (1) urban management innovation, (2) innovative government award, (3) public innovation competition, (4) solid waste management, (5) traffic and transportation, (6) investment, (7) housing, (8) public health, (9) ICT, and (10) e-government.

by citizens.<sup>23</sup> A law on rural villages (*desa*) was passed in 2014, extending some autonomy to villages within regencies, entailing direct election of village heads and councilors, direct transfer of funds, and autonomy to utilize such funds.

Candidates for chief executive (city mayor, regency regent, provincial governor) typically run in the local election with support from one or more political parties, although independent candidacy is also possible. The chief executive is elected together with the vice chief executive as a 'pair' and serve a five-year term. Afterwards, they could serve only one more term (maximum of 10 years). Many of these pairings take place due to political considerations, with political parties forming coalitions and matching one popular candidate with another to win the election. Such coalitions are often disintegrated after the pair assumes power; five years down the line, many chief executives would run for their second term against their current vice chief executives.

The regional legislative agencies (*Dewan Perwakilan Rakyat Daerah* or DPRD) pass regional regulations (*Peraturan Daerah* or *Perda*), approve the regional budget, and watches over the executive. For cities and regencies, the DPRD has between 20 and 50 councilors elected in their legislative districts. Out of 93 Indonesian cities, the average number of councilors is 33.65 and the median is 30. Regional councilors serve a five-year term, and can be re-elected with no term limits. The political composition of Indonesia's legislative councils, be it at national or regional level, is rarely dominated by one or two political parties alone.

Before the implementation of direct local elections, democracy and decentralization in Indonesia were largely explored in a negative light. For example, local autonomy has resulted in the proliferation of 'little kings' (Firman 2009), local elections are flush with money politics (Mietzner 2013; Choi 2004), and decision-making is dominated by elites and their interest (Hadiz 2004). Interestingly, a number of surveys found high level of satisfaction among households regarding quality of public services (Lewis and Pattinasarany 2009). This may indicate lack of awareness among the citizens

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<sup>23</sup> Direct election of regional leaders started in 2005 as per Law 32/2004. However, Law 22/2014 returned the authority to elect regional leaders back to the regional councils. Due to widespread rejection, the government vetoed the law in a count of two days.

leading to lack of demand for better public performance, or it may indicate actual improvement – though perhaps slow.

There are no formal mechanisms where civil society groups or business interests would have a say in the legislation of the region. Each councilor exercises political accountability to his or her constituents by actively seeking, receiving, and following up on their inputs and aspirations. However, it is quite rare to find regional councils conducting meetings which are open to the public and media. It was only recently (starting 2014) that the former governor of Jakarta, Basuki T. Purnama, ordered his departments to record meetings they conduct with the provincial council and upload them on social media. The general public has an opportunity to voice out their aspirations in a process of participatory planning and budgeting (*musyawarah perencanaan pembangunan* or “musrenbang”), where plans and proposed budgets from lower-tier governments (villages, sub-districts) are aggregated and trimmed at the city or regency level. There is, however, disparity in how active the local government seeks participation from their citizens, or how active the citizens participate in these meetings.

Regardless of the people’s ‘readiness’ to participate in democracy, direct local elections (*Pilkada*) is claimed to act as trigger for more responsive regional governments. For example, in Indonesian cities and regencies, there was more accurate targeting of low-income households for a public health program on the year when direct elections take place (Fossati 2016). Additionally, local governments that will go through a direct election tend to spend more on public works projects (Skoufias et al. 2011), which bring visible and tangible benefits for the people. Mayors who know they are ‘successful’ also capitalize on this situation by make sure that such ‘success’ is publicized (Bunnell, Padawangi, and Thompson 2017), and aim to contest on a higher political level as governor, or even president, as in the case of Mr. Joko Widodo, former mayor of Surakarta, Central Java.

Like the exercise I did earlier for the Philippines local governments, I also seek for patterns where good public performance – as indicated by awards received by incumbent mayors might be rewarded by the people through votes. The data is based on winners of 10 types of awards mentioned in the previous section, over a period of 10 years (2006-2015). Again, winning awards is considered as indication of the incumbent’s

performance, commitment, and innovativeness that is acknowledged by the national government and, publicized through national and local media outlets.

This simple comparison between number of awards received and whether the incumbent (or his 'legacy', if the incumbent has already reached his term limits) would win the following election is shown in Table 2. Unlike in the Philippine cases (Table 1), I do not cluster the Indonesian cities and regencies by year of election because in Indonesia, regional governments conduct elections at different years. The table shows that incumbents won the election in 25 out of 33 regional governments that have won awards during the five-year period prior to that election. Again, it is too early to make any conclusion due to the simplicity of this exercise and the lack of controlling mechanisms, but there may be an indication where winning awards may be associated with being re-elected.

**Table 2: Association between winning awards  
and winning the following election**

No.	Local Government Unit	Awards received in 5-years before election	Election Year	Election Results
1	Yogyakarta City, Yogyakarta	6	2017	Incumbent won
2	Pekanbaru City, Riau	3	2017	Incumbent won
3	Payakumbuh City, West Sumatra	3	2017	Incumbent won
4	Surabaya City, East Java	17	2015	Incumbent won
5	Surakarta City, Central Java	9	2015	Incumbent's legacy won
6	Balikpapan City, East Kalimantan	7	2015	Incumbent won
7	Semarang City, Central Java	5	2015	Incumbent won
8	Sragen Regency, Central Java	4	2015	<b>Incumbent lost</b>
9	Bitung City, North Sulawesi	4	2015	Incumbent's legacy won
10	Denpasar City, Bali	4	2015	Incumbent won
11	Malang Regency, East Java	4	2015	Incumbent won
12	Pekalongan City, Central Java	3	2015	Incumbent's legacy won
13	Bantul Regency, Central Java	3	2015	<b>Incumbent lost</b>
14	Badung Regency, Bali	3	2015	<b>Incumbent's legacy lost</b>
15	Bandung Regency, West Java	3	2015	Incumbent won
16	Sleman Regency, Yogyakarta	3	2015	Incumbent won
17	Sidoarjo Regency, East Java	2	2015	Incumbent won
18	Agam Regency, West Sumatra	1	2015	Incumbent won
19	Palembang City, South Sumatra	8	2013	Incumbent's legacy won

20	Malang City, East Java	6	2013	<b>Incumbent's legacy lost</b>
21	Bandung City, West Java	5	2013	<b>Incumbent's legacy lost</b>
22	Probolinggo City, East Java	4	2013	Incumbent's legacy won
23	Cirebon City, West Java	4	2013	<b>Incumbent lost</b>
24	Makassar City, South Sulawesi	4	2013	Incumbent's legacy won
25	Pare Pare City, South Sulawesi	3	2013	<b>incumbent lost</b>
26	Purwakarta Regency, West Java	3	2013	Incumbent won
27	Padang City, West Sumatra	2	2013	Incumbent's legacy won
28	Madiun City, East Java	2	2013	Incumbent won
29	Tangerang City, Banten	2	2013	Incumbent's legacy won
30	Tulungagung Regency, East Java	2	2013	<b>Incumbent's legacy lost</b>
31	Cimahi City, West Java	6	2012	Incumbent's legacy won
32	Banda Aceh City, Aceh	4	2012	Incumbent won
33	Gianyar Regency, Bali	1	2012	Incumbent won
Number of cases where incumbent or his/her 'legacy' won:25				
Number of cases where incumbent or his/her 'legacy' lost: 8				

Source: Author, compiled from various ministry websites, reports, and mass media

#### 4. Conclusion

Indonesia and the Philippines have shown very similar experiences in terms of ending authoritarian regimes and adopting large-scale decentralization and democratization in short time period. The Philippines leads this process by about 10 years, but as both countries experiment with systems and incentives to ensure local government performance, various lessons could be drawn, compared, and contrasted.

This paper has explored two types of incentives for local performance: one is top-down and directed by the central government through administrative requirements, the other is bottom-up and based on the political demands of the citizen. Publication of a local government's performance measurement, ranking, or awards is argued to be a good link between the top-down and bottom-up incentives. The performance ranking is conducted based on central government standards, but once it is announced to the public, and shared and re-shared in mainstream and social media, it affects citizens' perception of their incumbent leader.

There are evidences where good performance of local governments is rewarded politically, and where local leaders capitalize on the fact that their 'success' is well-

publicized. In this paper, we have discussed cases where having direct elections tend to result in better targeting of beneficiaries in Indonesian cities and regencies (Fossati 2016), and publicizing a local government's performance rating in appropriate ways leads to local leaders being more responsive to citizens' needs in the Philippines (Capuno and Garcia 2010). Meanwhile, incumbent leaders who spend more for development purposes have increased chances of winning their re-election bid (Solon, Fabella, and Capuno 2009) and several other leader also capitalize on their perceived success at the local level to contest for higher political positions (Bunnell, Padawangi, and Thompson 2017).

In this paper, I add to this literature by showing early indications that winning prestigious awards may lead to better chances of being re-elected. My contribution was that I expanded beyond incumbents who were going through a re-election process (re-electionists), and included those candidates who were supported by the incumbent as his or her 'legacy' – especially in cases where the incumbent is not competing in the election (mostly due to term limit, but in a few cases also due to the incumbent trying to get elected for higher positions). The data for this analysis is not readily available as one has to review the list of candidates from an election and try to establish whether there is a connection between the incumbent and any of the other candidates.

The presence of top-down and bottom-up incentives gives mayors and city governments more pressure to improve public performance deliver better services. However, this only works if the central government and citizens are strong. Top-down incentives do not work very well without a capable, and committed central government, and the benefits of bottom-up incentives are similarly dependent on the presence of organized, informed, and meritocratic societies. To enable greater benefits of decentralization, improving in the capacity of local governments is not enough. A strengthening of the civil society as well as capacity building for the central government is just as important as they keep local governments in check.

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