

**Contested Accountability, Decentralized Informality,  
and the Missing Middle in Indonesian Development**

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## **Contested Accountability, Decentralized Informality, and the Missing Middle in Indonesian Development**

This essay is a theoretical investigation of accountability in Indonesian development. Development is a multidimensional transformation of the human condition, defined here as increases in material prosperity, social welfare, human security, and individual capability.<sup>1</sup> The quest for development—broadly understood with the Indonesian term *pembangunan* to reflect both economic and social development—has been a central theme in Indonesian politics since independence, although development policymaking has always been an object of contestation (see e.g. Chalmers and Hadiz 1997). For most of the country’s history, development policymaking was overseen from the central government in Jakarta. Indonesia’s democratic transition introduced electoral accountability to local constituencies as a central mechanism in development policymaking, and represented a sharp break from the hierarchical New Order political economy, under which local accountability was not a central part of the development policymaking process. As part of its new focus on local accountability, Indonesia has decentralized important areas of development policymaking to district governments. However, this formal decentralization of policy authority has not dismantled the bureaucratic structure that contemporary Indonesia has inherited from its predecessor—which emphasized macroeconomic stability and national planning and coordination—and did not eliminate the informal influence of powerful elite, business groups, and other actors.

This essay argues that Indonesia’s reforms have generated three characteristic challenges for contemporary Indonesian development. The first is *contested accountability*: across several policy areas there are overlapping or disjoint policy authority claims between national and local

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<sup>1</sup> This definition is closest to the concept of “human development” (Sen 1990; Desai 1991).

governments. Even where authority relations are clear, national policymakers frequently criticize local policy outputs, and local governments are electorally accountable to their citizens but fiscally accountable to the national government. The second is *decentralized informality*: by introducing decentralization and electoral accountability without addressing non-electoral channels of political influence, the organization of informal politics has moved from a Jakarta-centered hierarchy to a multi-noded web. The third is a *missing middle*: some policy areas are ill-suited to policymaking at either the national or the local level. Instead they require policy coordination across local jurisdictions, at the provincial or island level, where regularized mechanisms for identifying and formulating development policy do not exist.

These conditions shape the challenges of local and national development policymaking in contemporary Indonesia, despite the clear focus on electoral accountability as a mechanism for enhancing policymaking at all levels of government. Some of the most consistently successful reforms of the post-New Order era have taken place in the arenas of macroeconomic and financial policy (Hill and Shiraishi 2007; Basri and Siregar 2009), two policy areas in which local concerns are least important.<sup>2</sup> Development policymaking at the district and provincial levels, by contrast, is uneven, contingent, and contested.

The connections between democracy, accountability, and related political and economic phenomena have long animated political theory and comparative politics (for one comprehensive treatment, see Przeworski et al. 1999). My aim in this essay is neither to endorse any particular theory of accountability, nor to offer a political or institutional solution to Indonesia's development challenges, nor to resolve a debate about whether recent reforms have been, on

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<sup>2</sup> No analyst of Indonesia's political economy would argue that further reforms are unnecessary, as the Bank Century case (Patunru and von Luebke 2010: 10-2) and others demonstrate.

balance, “good or bad.” I will maintain, however, that any approach to the politics of development in new democracies must be sensitive to the historical, social, and informal political legacies that accompany new institutional and legal reforms. The politics of development policy lies at the interaction of informal practices and formal rules. In the Indonesian case, the reforms ushered in by democracy and decentralization have not eliminated the country’s development challenges, but recent reforms have fundamentally altered them, with important consequences for the future of Indonesian development.

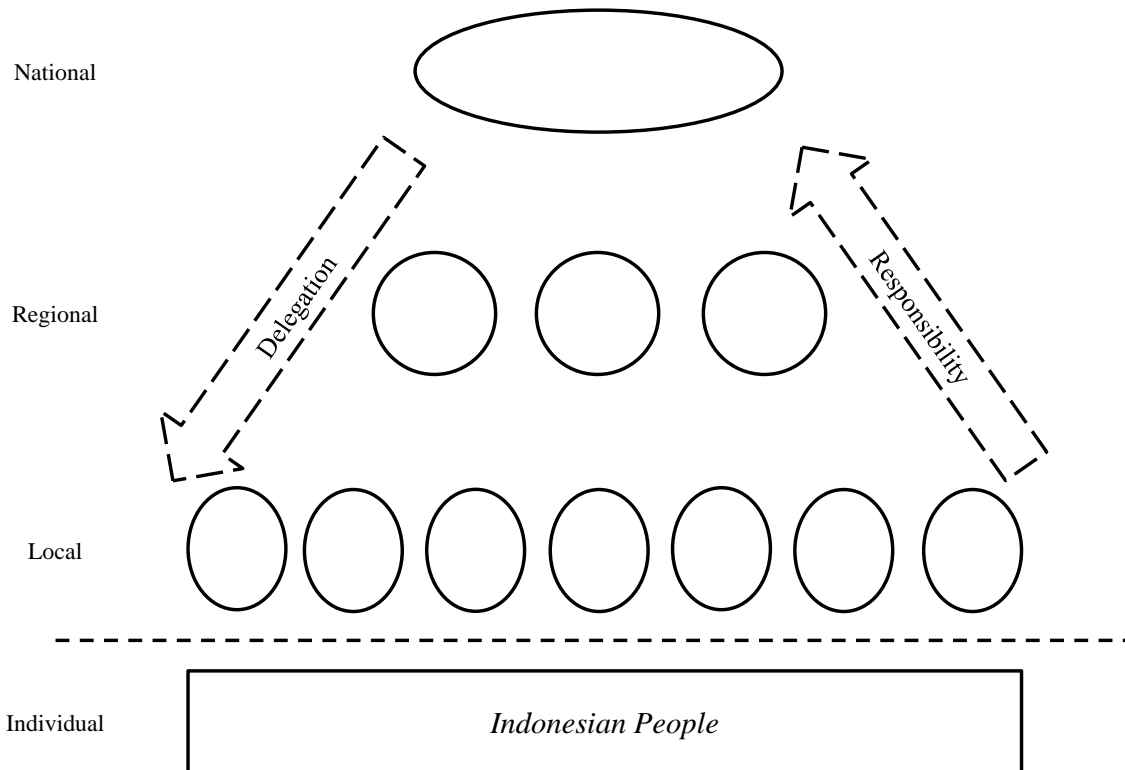
I develop this argument in two steps. I begin by recounting the changes in Indonesia’s institutional architecture from 1998 until 2006, all of which emphasize accountability as a central mechanism for incentivizing politicians to act on behalf of their citizens with the goal of improving policymaking and ultimately fostering development. In doing so, I describe three mechanisms of accountability—electoral, fiscal, and regulatory—and how they interact to shape the architecture of accountability in contemporary Indonesia. Next, I describe contested accountability, decentralized informality, and the missing middle in greater detail, linking each to the new architecture of accountability. I conclude the essay with a theoretical reflection on the fundamental challenge for development policymaking in Indonesia: the disjuncture between formal rules and informal political power.

## **Reform**

To understand the role of accountability in Indonesia’s contemporary political architecture, it is helpful to detail how this architecture has evolved over the past two decades. New Order Indonesia’s institutional framework is best understood as a hierarchy, a stylized representation of which appears in Figure 1. The apex of this hierarchy was Soeharto himself, surrounded by the military, political, bureaucratic, and economic institutions in Jakarta—

Kostrad, the MPR, national bureaucracies, and his closest business associates, respectively. More comprehensive descriptions of this structure appear in Holtzappel (2002), Macintyre (2003), and McLeod (2000), among others. Power extended from Jakarta outwards, to geographically-organized political, military, and economic entities that occupied subordinate positions in this hierarchy. Abstracting away from the specifics of the New Order regime, this represents an institutional form in which the authority to make policy ultimately resides with the executive, but can be delegated to subordinates (who, in turn, can delegate to their subordinates, and so on). Subordinates have no independent authority to make policy unless that authority has been granted to them by a superior. This asymmetry is represented by the arrow labeled “Delegation” in Figure 1, which points “down” the hierarchy.

**Figure 1: Delegation and Responsibility in the New Order**



The arrow pointing “up” the hierarchy captures “Responsibility.” Authority is delegated to a subordinate with the understanding—sometimes explicit, as in ABRI’s territorial command

structure, and sometimes implicit, as with many of the New Order's business networks—that that authority will be used in ways that are consistent with the objectives of the superior. Because the subordinate only receives authority at the discretion of his or her superiors, the incentive for compliance derives from the expectation that the superior can reclaim that authority. For example, local military commanders (*Panramil*) were delegated the authority to ensure law and order and monitor subversive activity in their area of operations. Other activities, such as maintaining a local business, were tolerable just so long as they did not conflict with the ability to perform these functions (or with a superior's own business interests). The challenges associated with delegation and responsibility can be understood in terms of a principal-agent relationship between Jakarta (the principal) and regional and local political institutions (the agents).

Note further that as drawn in Figure 1, there is no connection between the Indonesian citizenry and the political hierarchy, despite the regular multiparty elections held under the New Order. It is an exaggeration to hold that individuals outside of the New Order's institutional hierarchy had *precisely zero* influence on New Order politics. However, electoral accountability was not a core feature of the New Order (Liddle 1996). This is illustrated, for example, by the corporatist ideology that presented Golkar as a sociopolitical force rather than a political party channeling popular voice to elected politicians (Reeve 1985). Whether the New Order political economy is best described as corporatist, patrimonial, or something else, its institutional structure approximated a hierarchy in which the ultimate locus of political authority resided in Jakarta, with policy implemented through delegation to subordinate units in parallel but mutually-supportive military, business, administrative, and political hierarchies.

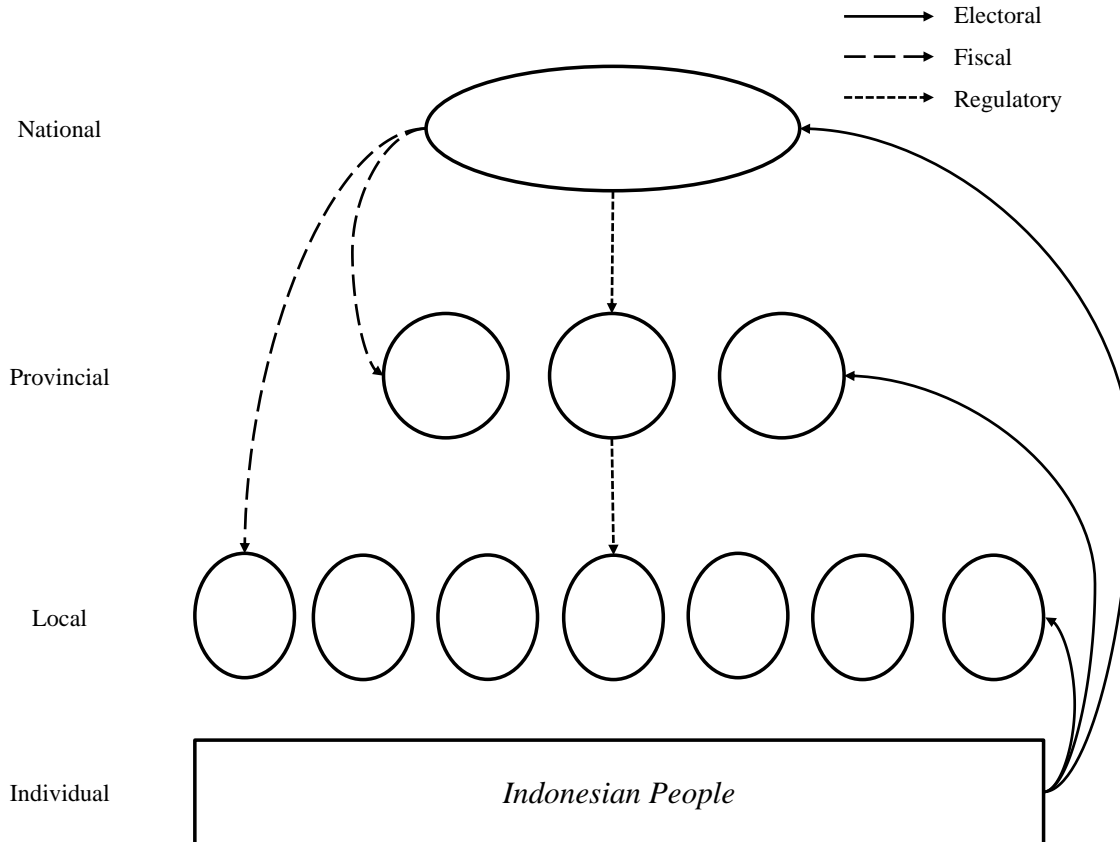
The New Order regime—even accounting for its outrageous corruption, violence, and the suppression of popular voice—was a developmental success, if only a partial one (Bhattacharya and Pangestu 1997).<sup>3</sup> Indonesians experienced dramatic increases in life expectancy and schooling, and sharp decreases in crude birth rates and child mortality. Material prosperity increased rapidly, even as spatial inequality persisted and the benefits of development accrued disproportionately to middle- and upper-class Indonesians in the later New Order’s later years (Mishra 2009: 14). The collapse of the New Order also spelled the end of the institutional framework for development that the Soeharto regime had created. More than a decade of democratic reform has fundamentally transformed Indonesia’s political landscape, and with it both the structure of Indonesian government and the logic of accountability that follows. I represent the result of these reforms in Figure 2, which illustrates three accountability mechanisms that link different levels of government to the Indonesian public and to one another: electoral, administrative, and fiscal. The focus here on accountability among the Indonesian public and different *levels* of government—vertical accountability—is deliberate, and designed to highlight the specific concerns that have accompanied Indonesian decentralization.<sup>4</sup>

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<sup>3</sup> Because I consider political agency an integral part of human capability in development (following Sen 1999), I do not consider New Order Indonesia a complete developmental success.

<sup>4</sup> Horizontal accountability, or accountability between different state institutions such as the judiciary and the executive, represents a separate area of concern or topic of debate for contemporary Indonesian politics. On horizontal and vertical accountability in early post-Soeharto Indonesia, see Slater (2004). Accountability across levels of government is sometimes considered a form of horizontal accountability because it links different governmental

**Figure 2: Accountability Relations in Contemporary Indonesia**



The singular political reform of post-New Order Indonesia is direct legislative, presidential, and local elections. The managed elections of New Order Indonesia have been replaced with competitive popular referenda among candidates representing an abundance of different political parties. These elections provide the foundational mechanism of *electoral* accountability: voters have the ability to sanction politicians by voting them out of office, and in democratic Indonesia voters regularly exercise this right. Electoral accountability flows “up” from voters to politicians. As the backbone of Indonesian democracy, it is no exaggeration that

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institutions, but for the purposes of this essay will be treated as an issue of vertical accountability.



competitive elections for national and regional political office have entirely overturned the “top-down” conception of accountability that flourished under the New Order regime.<sup>5</sup>

However, electoral accountability in democratic Indonesia coexists with two other forms of accountability that flow “down” from the center to the provinces and districts. One is *fiscal* accountability: provinces and districts still receive the majority of their operating budgets as grants from the central government in Jakarta rather than as own-source revenue. The other is *regulatory* accountability: politicians and civil servants in the regions have policymaking authority only as the result of powers which have been granted to them by the national government, and constitutional provisions still provide wide latitude for national interests to supersede local and provincial interests. Moreover, while Indonesian decentralization targeted district governments as the main locus of policymaking, province-level regulations define the limits or standards to which district-level policies must conform, and national bureaucracies still retain the ability to implement regulations from Jakarta in the regions.

The structure of accountability in post-New Order Indonesia has therefore evolved away from the strict hierarchy of the New Order. Accountability flows both “up” and “down” Indonesia’s levels of government, and it is no longer possible to identify a single principal-agent relationship that underlies contemporary Indonesia’s political architecture. Instead, different accountability mechanisms place different political actors in the positions of principal and agent. Electoral accountability resides on an understanding of voters as principals and politicians as agents, while fiscal and regulatory accountability understands higher levels of government as the principals and lower levels of government as their agents.

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<sup>5</sup> This is true even with the many imperfections and challenges in local and national elections (Erb and Sulistiyanto 2009; Aspinall and Mietzner 2010).

A detailed discussion of the origins of and possible alternatives to decentralization in the Indonesian case is beyond the scope of this essay (for discussions, see Aspinall and Fealy 2003; Hadiz 2004; Hofman and Kaiser 2006; Smith 2008). I make three stipulations here, without offering any defense. First, viewed in retrospect, decentralization was both *reasonable* and *understandable* as a political response to the violent and confiscatory excesses of the hierarchical New Order regime, especially given Indonesia's profoundly diverse socioeconomic landscape and its sprawling geography. Second, multi-level governance in modern states is *unavoidable*. In some way or another, Indonesian development policymaking must align policies to the varying needs of Indonesia's regions, a challenge that was understood even under the New Order (Devas 1997). The issue that Indonesian decentralization raises is how best to organize multi-level governance to accomplish that task. And third, the implementation of Indonesian decentralization required *second-best policies* as a consequence of the economic and political legacies of the New Order and its predecessors. These include underdeveloped fiscal capacity at the local level (Silver et al. 2001), which makes own-source revenue generation problematic in precisely those jurisdictions where the accountability of local politicians to their citizens is most important; an institutionalized bureaucratic hierarchy, which preserves the New Order's model of regulatory accountability as a "top-down" or "center-out" relationship even as the broader political landscape has changed (McLeod 2008); and the continued emphasis that Indonesia is a unitary rather than federal state (Tirtosudarmo 2005), which means that local governments remain constitutionally subordinate to the national government even as development policymaking authority is transferred to local governments

Even if the focus on local accountability in Indonesia is understandable, unavoidable, and inevitably constrained by Indonesia's political history, an analysis of Indonesia's development

policy framework must grasp the challenges inherent in the current architecture. In the next section, I describe these challenges in greater detail.

## **Contested Accountability**

Policymakers have jurisdiction over policies in the sense that they are responsible for certain policies and not others. In the realm of development policy in contemporary Indonesia, accountability is contested in two important ways. Most obviously, accountability is contested when two or more agencies have jurisdiction over a single policy.<sup>6</sup> This is the case when, for example, a provincial government and a district-level government both claim jurisdiction over the implementation health policy, or more generally, when they disagree about how specifically the jurisdiction over the various components of health policy is allocated. In a different sense, accountability is contested when different mechanisms of accountability generate different incentives for policymakers. This is best illustrated by the observation that electoral accountability incentivizes a *bupati* or *walikota* to improve the outputs of development policymaking, but fiscal and regulatory accountability incentivizes him or her to adhere to regulatory standards that may be set at the provincial or national level. Neither of these challenges is unique to contemporary Indonesia, but each is characteristic of the new developmental policymaking environment.

The implementation of Indonesian decentralization has been primarily concerned with identifying the proper policy jurisdictions for various agencies and levels of government, with the goal of resolving the problem of contested accountability in the first sense. Moving most

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<sup>6</sup> Similarly, accountability can be contested when there is no single agency that has jurisdiction over a single policy, generating the problem of how policies will be made if no actor is authorized to make them.

government functions to the district level set the baseline for Indonesian policymaking in the post-New Order era, but left several key issues unresolved regarding the exact policy jurisdictions of districts versus provinces (Seymour and Turner 2002). This is partially the consequence of the different accountability mechanisms linking district governments to provincial governments and to the electorate. Governors—despite being popularly elected—are representatives of the central government in the regions, and their only authority relation over local governments is as a coordinator or auditor (Nasution 2011: 258-71). Yet the 2000 implementing legislation (PP No. 25 2000) defined a series of policy areas that fell to the province, meaning that districts were only able to implement policies to the extent that they were consistent with standards set at the province, even though district-level politicians were electorally accountable to the voters in their district.<sup>7</sup> One example of the overlap between national, provincial, and district government authorities that emerged after 2000 will suffice to illustrate the issue. In the area of agriculture, the national government has the authority to “set guidelines for the formulation of minimal technical standards for abattoirs, animal hospitals, and integrated units for animal husbandry services.” The provincial government has the authority to “set minimal technical standards for abattoirs, animal hospitals, and integrated units for animal husbandry services.” Districts, in turn, are responsible for the actual oversight of the regulated industries based on the standards outlined in the provinces following guidelines set at the national level.

Indonesian commentators have noted that Interior Ministry (Depdagri) officials rated the 1999 law implementing decentralization as having been poorly conceived and planned, which necessitated further clarifications in 2004 (see e.g. Thalhah 2010: 136-45). Even with the

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<sup>7</sup> District heads were at the time still indirectly elected through the local legislature.

clarifications and revisions of 2004, overlapping jurisdiction across policy areas remains normal. The national government reserves authority over important development policy areas such as human resources, administration, “strategic technology,” conservation, and others (UU No. 32 2004): any local policy decision could in principle be made subordinate to these national policy priorities. PP No. 38 (2007) clarifies some of the confusion that remained after 2004, but also holds that nearly every development policy is actually the joint responsibility of national, provincial, and regional governments. Additionally, most policy areas still have minimal standards set by the national government, and implementation of many development tasks can be accomplished through *instansi vertikal*, or “vertical authority,” utilizing the provincial or local branches of national bureaucracies (PP No. 38 2007). The point is that despite the broad thrust of reform that move the locus of developmental policymaking from Jakarta to the districts, the jurisdictional boundaries of policymaking as implemented—in development and other policy areas—remain contested across levels of government.

Contested accountability also emerges as a consequence of the different accountability mechanisms that are meant to shape local government behavior. Electoral accountability generates good governance on the logic that local legislatures and district heads—who today are both directly elected—will strive to deliver good development outcomes to their constituents in order to win elections. But regulatory and fiscal accountability rely on a logic of oversight to generate local government accountability, as the local government is tasked with implementing policy guidelines formed in Jakarta or the provincial capital, and majority of the funds for doing so come from Jakarta rather than from local taxes or fees. The 2004 update to Indonesia’s decentralization laws, which clarified all of the ways in which a district head could be removed from office, highlighted just this issue (UU No. 32 2004). Most importantly, district heads can be

removed by the local legislature (DPRD) for the vague problem of having failed to live up to their oath of office (*melanggar sumpah/janji jabatan*), or by the President (without local legislative approval) for corruption or other crimes. In practice, neither of these tools for removing local district heads is frequently used, but their coexistence highlights the tensions between electoral and other forms of accountability as shaping the incentives of local politicians produce local development.

### **Decentralized Informality**

Constitutional provisions and regulatory structures describe decentralized Indonesia's formal political architecture and its official developmental policy apparatus. However, they do not capture the politics of Indonesian development policymaking, any more than the Federal Register or the U.S. Code capture the politics of U.S. economic management. The politics of Indonesian development policymaking is also shaped by actors and interests: in particular, firms, business networks, trade associations, unions, NGOs, and others. Some of these actors have developmental agendas, although most do not, and their actions together shape policy, and in turn, development outcomes. They are *informal* sources of political power in that they are not legally mandated political institutions—unions and some trade groups are registered organizations, but unlike bodies like SPSI under the New Order, they are not empowered as the peak representatives of particular interests, classes, or segments of Indonesian society. The term “decentralized informality” captures the evolving structure of economic and political power that has followed Indonesia's political decentralization.

The hierarchical architecture of the New Order regime had both formal and informal origins. On one hand, the New Order's military hierarchy was based on official military doctrine. Its economic hierarchy, on the other hand, emerged as a result of informal patronage and

exchange relationships between politicians, military figures, and various business and popular sectors. The New Order hierarchy described in Figure 1 represents the outcome of the long-term interactions of informal economic institutions with formal political, bureaucratic, and military structures. The post-1998 political and legal reforms which targeted the institutional foundations of the New Order regime were successful in their narrow and precise objective of dismantling the formal institutional structure that had undergirded the regime. However, by their very nature as *institutional* reforms, they could not eliminate (and did not attempt to eliminate) the informal channels through which interest groups, businesspeople, and other powerful economic interests shaped economic policymaking.

Instead, political, legal, and institutional reforms have restructured the ways in which these groups interact with politicians and bureaucrats. Whereas the “Soeharto Stamp” had sufficed for most economic activities and social programs prior to 1998, in contemporary Indonesia each separate jurisdiction can serve as a locus for lobbying, influence-peddling, rent seeking, and corruption. The threat of hold-up is more severe than it was under Soeharto because there is no single actor or institution with both an encompassing interest in Indonesian development and the authority to implement the policies that can achieve it. The resulting strategic problems facing all actors seeking access to the policymaking process—from firms to unions to NGOs—are more complicated and opaque than they were under the New Order (Pepinsky 2008). This kind of decentralized informality may facilitate cooperative and effective policymaking in districts where governance, civil society, and political-business relations are conducive to development, but it means that in other regions without such propitious socioeconomic fundamentals, developmental stagnation or even decay is possible through elite

capture, corruption, over-regulation, or simple inattention (Hofman et al. 2009; Ray 2009; Pepinsky and Wihardja 2011).

The implications of decentralized informality for development policymaking in contemporary Indonesia are two-fold. First, because the center no longer “oversees” or intervenes decisively to shape local development policymaking, there is greater scope for local capture. The failure or refusal of district governments to adopt pro-development policies is now a political problem for Jakarta (recalling the discussion of contested accountability in the previous section). Second, the informal networks that shaped New Order development have evolved in response to decentralization.<sup>8</sup> While it is possible to analyze elite networks in Jakarta in isolation, any empirical claim about how these elites shape Indonesian development outcomes must address their relationships to elites, power brokers, and business networks at the local level. Such a comprehensive multi-level analysis remains missing from the literature on Indonesian development policy in the era of decentralization.

## **The Missing Middle**

The New Order was a centralized and hierarchical regime; contemporary Indonesia is decentralized, with multiple accountability mechanisms linking voters to governments and levels of government to one another. As implemented, decentralization has made district governments (“level 2” governments, *kabupaten* and *kota*) the primary actors in policymaking for local government, with the national government in a secondary, more supervisory role for most policies aside from national defense, macroeconomic policy, and other constitutionally-mandated policy areas. Between the central government and district governments like provincial and other

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<sup>8</sup> Formal institutions have evolved as well. Mietzner (2003) illustrates this process with reference to the military’s political power in the regions.



“level 1” governments, whose developmental role in contemporary Indonesia remains unclear and contested, as noted previously.<sup>9</sup> The “missing middle” refers to the development policy challenges that require coordination across district governments, but for which no institutionalized governance structure exists.

Indonesia’s physical geography makes the middle level of governance in Indonesia—the space between national and district governance—a particularly important policymaking area. District boundaries generally do not coincide with Indonesia’s geography, and only some provincial boundaries do (Bali is one example). Planning and development tasks that span multiple districts within a province, or which cross provincial boundaries on the same island or group of islands, are ill-suited for a governance structure where districts are the central actors in local development policymaking.

Riverine management and road development help to illustrate these middle-level issues. Riverine systems are complex ecological environments that span coastal, inland, and upland communities that are united in their common use of a river’s resources. This symbiosis is well-understood in the folk geographies of the Malay world, where concepts of *(h)ulu* (upstream, or source) and *(h)ilir* (downstream, or estuary) serve as markers of social location as well as physical or geographic space. Upstream activities affect the livelihoods of downstream

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<sup>9</sup> Policymaking authority also varies across level 1 governments: the Jakarta regional government and the provinces with special autonomy have policymaking functions reserved to them that other provincial governments do not enjoy.

communities, and vice versa,<sup>10</sup> so comprehensive development planning for communities that rely on riverine ecosystems requires an institutional framework that allows downstream and upstream communities to coordinate with one another for the management of their shared resources. Contemporary Indonesia's decentralized political architecture makes such coordination difficult: the Batanghari River in Sumatra, for instance, spans two provinces and more than a dozen districts from its source in the highlands of West Sumatra to its mouth near Muara Sabak, Jambi. Riverine management is just one of many possible environmental challenges with developmental consequences that span district and provincial boundaries, and there is no general framework for identifying and coordinating the appropriate responses to them.

Transportation and infrastructure present similar development challenges. The island of Java is one of the most densely settled places in the world, and it has been the political and economic core of the Indonesian archipelago for over four hundred years. Yet its transportation infrastructure remains inadequate. Despite the widespread use of surface roads by vehicular traffic, and the rapid growth of private automobile ownership and intercity shipping, there is no single highway that crosses the island.<sup>11</sup> The planned Trans-Java Toll Road remains mired in

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<sup>10</sup> Upstream communities may pollute streams and rivers near their sources, to the detriment of water users downstream. Overfishing or pollution in coastal regions can affect migratory fish, such as freshwater eels, that are an important food source for upstream communities.

<sup>11</sup> Driving directions from Cilegon in Banten to Banyuwangi in East Java involve taking a ferry from Tanjung Priok in Jakarta to Tanjung Perak in Surabaya; see <http://blogs.cornell.edu/indolaysia/2012/10/23/transportation-infrastructure-and-indonesian-development/>.

legal battles and land acquisition challenges (see e.g. Dinisari 2012), and is managed by multiple contractors spanning dozens of distinct road segments.

These and other development challenges that cross jurisdictional boundaries are well-known to national politicians, and interestingly, the Yudhoyono administration's recent articulation of its new, transformative development policy framework—the Masterplan for the Acceleration and Expansion of Indonesian Economic Development 2011-2025, or MP3EI (Republic of Indonesia 2011)—is organized around six geographic “corridors.” None corresponds to any existing district or provincial boundary. Implementation, not surprisingly, has been halting, with delays in the realization of particular projects attributed to obstructionism from local governments and “complexity in coordination with other state officials” (Tampubolon et al. 2012). Importantly, MP3EI follows the precise top-down planning model that characterized New Order development policy, but without the New Order's ability to enforce project implementation at the local level or any systematic mechanism for identifying just what middle-level development needs are.

Middle-level development therefore remains missing from the policymaking apparatus in contemporary Indonesia, often below the radar of national policymakers and beyond the jurisdiction of the newly-empowered district governments. If national policymaking coordination is necessary for addressing middle level development challenges because local governments are incapable of formulating and implementing policies at this level, then this naturally undermines the logic of electoral accountability at the local level as maximizing Indonesia's developmental potential. It should also be worrying for the regions in greatest need of development: if Jakarta's coordination and oversight manage development issues that span districts in East Nusa Tenggara Province, for example, then it is unlikely that electoral accountability of any kind could force

national politicians to focus their attention there. The regions that are most in need are too small and too peripheral to energize national politicians.

## **Theoretical Implications**

The three development challenges outlined in this essay each raise questions about the political foundations for Indonesian development, broadly understood. At the same time that McKinsey and other global analysts report on emerging Indonesia's potential for economic growth (Oberman et al. 2012), delivering material prosperity, social welfare, human security, and individual capability at the local level remains a critical task. Decentralization is an institutional reform designed to allow local governments to adopt policies that can foster local development (Simandjuntak 2003), but the new political architecture of contemporary Indonesia creates new challenges for development policymaking even as local governments have these new tools at their disposal.

From a theoretical perspective, the challenges of Indonesian development are all manifestations of an underlying dynamic in the post-Soeharto era: the mismatch between rapid and discrete changes in formal institutions coupled with the slow pace of change in the informal, non-institutional sources of political power. Tajima (forthcoming 2012) has recently argued that during Indonesia's democratic transition, local violence was more likely to erupt in areas where formal institutions were disrupted by the transition. By contrast, order was preserved in areas where these formal institutions had never existed, so that informal institutions had emerged that did not depend on the New Order to maintain them. My argument in this essay shares some of Tajima's insights about the importance of cataloguing the interplay between formal and informal institutions, but it differs in that I focus on the commonalities across regions in their new formal capacities. Democratization and decentralization were common shocks to governance across

Indonesia, so the differential outcomes across districts must depend on something else. I have argued here and elsewhere (Pepinsky 2008; Pepinsky and Wihardja 2011) that varying outcomes are the consequences of informal networks, social histories, economic and resource, endowments, and other “fundamental” characteristics of local governments.<sup>12</sup>

Three implications follow. First, so long as informal sources of political power continue to exist in Indonesia, then the effects of formal institutional reform cannot be inferred from the details of the reforms themselves. Second, institutional reform creates new development challenges at the same that it creates new opportunities for enhancing development policymaking. The missing middle only emerges as a problem for Indonesian development because institutional reforms have targeted district governments as the locus of policymaking, and it is only a “problem” to the extent to which informal governance networks are incapable of addressing particular challenges in particular contexts. Third, the political economy of development in Indonesia is no longer a single phenomenon. Indonesian development is the outcome of multiple local development struggles, the combination of which produces “Indonesian development.” It has, of course, always been true that development is local, and that summary national development statistics are simply aggregations of individual and local outcomes. But now more than before, the policymaking environment for local development depends critically on the effort, resources, and choices of politicians in the districts, empowered

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<sup>12</sup> Several recent studies have focused on variation in the implementation of direct local elections across Indonesia. In this sense, there was a short window during which decentralization was differentially implemented across districts: for several years, *bupati* and *walikota* were elected directly in some districts, indirectly in others. While this may have shaped short-term behavior of local politicians, it is unlikely to generate lasting developmental consequences.

by their citizens to act on their behalf—but always in the context of the top-down mechanisms of fiscal and regulatory accountability that were inherited from the New Order.

The argument in this essay sheds a new perspective on the recent work on accountability and representation in Indonesia. Analysts of Indonesia's political economy in the post-Soeharto era fall broadly into two camps (see Fukuoka forthcoming for a recent review). One camp is optimistic: democratization and decentralization mean that ordinary Indonesians have unprecedented ability to hold elected politicians accountable for their actions in office. Slowly but surely, accountability should enhance the prospects for development because that is what voters want. The other is pessimistic: greedy, venal, and corrupt political and economic elites continue to place their own private interests before those of the Indonesian public. The economic and political oligarchy that thrived under the New Order has reconstituted itself in the reform era, and now thrives amidst competitive elections in a decentralized polity. One would not expect the members of that oligarchy to be any more interested in delivering development to the Indonesian people than they were under Soeharto.

It may be tempting to interpret my argument in this essay as prioritizing informal networks over formal institutions as an analytical framework for Indonesian development, and therefore to conclude that this essay sides with the pessimists, but that is too superficial a reading. The reality is both perspectives contain valuable insights: Aburizal Bakrie is an oligarch, and he also spends a lot of money and effort trying to win votes. But neither is precise enough to generate sharp predictions about the effect of recent reforms on Indonesia's development prospects. The mechanism of electoral accountability is real, and it is effective in identifying and restraining politicians and in shaping developmental priorities. But this mechanism is imperfect, and it is contested. More importantly, electoral accountability interacts

with regulatory and fiscal accountability, meaning that the accountability framework for Indonesian development cannot be reduced to either the popular vote or to a venal oligarchy whose tentacles are wrapped around the parties and the bureaucracy. We simply do not know enough about the relationship between local policymaking and national politics even to describe the interaction between institutional innovations, the national oligarchy, and informal political power in the regions, let alone the net consequences of recent reforms for Indonesian development as a whole.

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