

What Drives Regional Proliferation in Indonesia? Assessing the Role of Institutions

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Abstract Regional proliferation (*pemekaran*) is still a major issue of debate in the Indonesian public policy forums. In this article, we investigate the factors that contribute to *pemekaran* and analyze whether the quality of institutions can explain the number of regional proliferation events in Indonesia. Based on observations for the period 2007 to 2014, we find that the levels of both administrative approvals and social capital have a positive and significant effect on the number of regional-proliferation events. We also find that fiscal transfers and income do not constitute motives for regions in Indonesia to proliferate. In addition, there is a significant and positive association between ethnic fractionalization and the occurrence of regional proliferation in Indonesia. Meanwhile, the qualitative findings in West Java and Banten show that territorial coalitions do matter and that there are political, economic, and bureaucratic rent-seeking motives behind *pemekaran*.

Keywords: • regional proliferation • institutional quality • local government • Indonesia

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[https://doi.org/10.4335/20.1.27-54\(2022\)](https://doi.org/10.4335/20.1.27-54(2022))

ISSN 1581-5374 Print/1855-363X Online © 2021 Lex localis

Available online at <http://journal.lex-localis.press>.

1 Introduction

Indonesia's decentralization project began in 1999 and has been implemented through two major policies—regional autonomy and regional arrangement. In principle, regional autonomy is closely related to the degree of intergovernmental power (Falleti, 2005). Such autonomy controls the extent to which local-government bodies are financially independent from the central government (fiscal autonomy), have the freedom to design and implement policies (administrative autonomy), and have authority to arrange local leadership succession (political autonomy). Meanwhile, regional arrangements can be viewed as a form of regional autonomy.¹ Such an arrangement contributes to the proliferation and amalgamation processes that play an important role in the creation of a new region in Indonesia. As a result, a new autonomous region has fiscal, administrative, and political autonomy.

According to Government Ordinance (PP, *Peraturan Pemerintah*) No. 78/2007 and Law No. 23/2014, proliferation (*pemekaran*) is a condition in which a province and/or a district/city is split into two or more regions. Conversely, amalgamation (*penggabungan*) is a condition in which two or more provinces and/or districts/cities are merged into one region. However, the latter event has thus far never occurred in the context of Indonesia's decentralization. This is because the costs of amalgamation are higher and its benefits are lower. Such costs involve the number of public servants — which will, under regulations stipulating the 'merging' of public-servant numbers, increase heavily in a merged region — while some politicians and local leaders in the original region and its parliament will immediately lose their jobs (Roudo & Indrawati, 2011). In the case of benefits, Roudo and Indrawati (2011) argue that a merged region will get nothing from intergovernmental fiscal transfers.

The proponents of *pemekaran* (i.e. local academics and local government officials) argue that it will bring new local governments closer to their communities, since they can better address the preferences of local communities within their jurisdictions (Decentralization Support Facility (DSF), 2007). In addition, it can enhance the democratization process within the jurisdiction through the so-called 'participatory, transparency, and accountability' approach in designing local policies. However, arguments against proliferation (i.e. by national-level academics and government officials) have been raised in relation to human-resource capacities within these new local governments (DSF, 2007). In addition, the approval of new regions involves a major political process from the lower to the upper levels of government, which has played a very significant role in the past. The DSF report also shows that fiscal and bureaucratic rent-seeking motives might lie behind the creation of Indonesia's new regions.

Based on the DSF's findings, a better understanding of the process of local-government formation is crucial to our analysis — one that takes into account the political, economic, and bureaucratic rent-seeking motives behind *pemekaran*. Thus, in this article, we will explain the factors that contributed to *pemekaran* over the period 2007 to 2014. Econometric data will be supplemented by the implementation of the qualitative method, whereby we conduct several interviews and focus-group discussions (FGDs) with various stakeholders at the national as well as provincial and local levels in West Java and Banten.

To our knowledge, Fitriani et al. (2005) and Pierskalla (2016) are the only studies that seek to investigate the determinants of regional proliferation over the periods 1998 – 2003 and 2001 – 2012 on the basis of the quantitative method, respectively. They find that geographical dispersion, fiscal incentive, ethnic diversity, political capacity, and natural-resource wealth all influence the likelihood of regional splits. While they highlight the importance of political factors in their analysis, we believe that the process of local government formation in Indonesia to some extent depends on institutional quality, in which both the degree of social capital and the level of administrative approvals play a significant role in proliferation. In addition, there are some political, economic, and bureaucratic rent-seeking motives behind proliferation.

The following section presents a brief background on *pemekaran* and on the process of local-government formation in Indonesia. This is followed by a literature review of factors that drive the creation of new local governments. We then present a new data set, methodology, and empirical estimation — all of which are closely related to the issue of new local governments in Indonesia. Before presenting the conclusions, we will obtain the econometric results based on several characteristics such as geography, institutional quality, and demography. This is followed by a qualitative analysis of territorial coalition and rent-seeking motives with respect to our case-study examples.

2 Literature overview

In principle, the demand for *pemekaran* cannot be halted since the central government has a long-term policy on regional proliferation, stated in the Grand Design of Regional Arrangement (DESARTADA, *Desain Besar Penataan Daerah*). According to this, with the aim of bringing government closer to the community, the number of provinces and districts/municipalities is to be expanded from 32 in 2010 to 40 in 2025 and from 491 in 2010 to 545 in 2025, respectively. However, several studies on the performance of recent new autonomous regions in Indonesia show that there was little improvement in terms of public services and welfare in those regions (see UNDP, 2008). Such a result gives an early indication of how both previous and current administrations have rethought the idea of *pemekaran*.

In terms of implementing Indonesia's policy of decentralization, *pemekaran* has increased the number of new local governments from 318 in 1997 to 542 in 2014 (see Table 1). During the period 1945 to 97, regional proliferation was not afforded much attention —especially under the autocratic Suharto regime (1968–98) — although the Indonesian government did implement decentralization under Law No. 5/1974. This was because central-government authority limited the capacity of regional governments to proliferate. However, serious political and social instability in 1998, coupled with the enactment of Law No. 22/1999 on Local Government and Law No. 25/1999 on the Fiscal Balance between the Central Government and the Local Governments, gave an initial boost to *pemekaran*.

Table 1: Number of New Autonomous Regions

Government Levels	Periods			
	1945–97	1998–2000	2001–06	2007–14
Province	27	4	2	1
Districts and Cities	291	45	98	74

Source: Authors' Calculation based on Ministry of Home Affairs data, 1945–2014

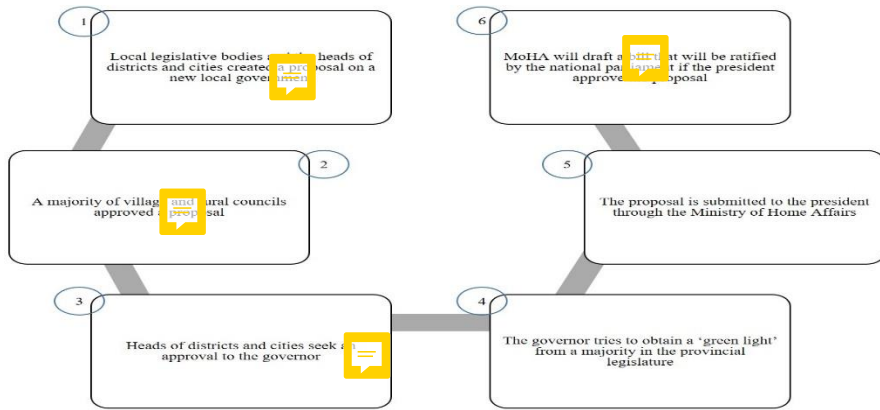
In fact, neither of the aforementioned laws was implemented properly until 2001, and the process of local-government formation followed the introduction of PP No. 129/2000. Subsequently, Law No. 22/1999 was replaced by Law No. 32/2004, while Law No. 33/2004 replaced Law No. 25/1999. However, such a process was conducted effectively in 2007 through PP No. 78/2007. The three-year lag between the enactment of Law No. 32/2004 and PP No. 78/2007 reflects a 2004–06 moratorium on the formation of new local governments, owing to fiscal constraints on the country's central government. Recently, the new Law No. 23/2014 on Local Governments imposed stricter conditions for the establishment of new regions.

Since the period 2007–14 has been chosen as the time-frame of observation, we use PP No. 78/2007 and Law No. 23/2014 as the basis for our analysis of local-government formation in Indonesia.² Both regulations state that both territorial³ and regional capacity⁴ are viewed as a basic prerequisite for aspiring regions to proliferate. The critical difference between Law No. 23/2014 and PP No. 78/2007 lies in a three-year probation clause set by the central government for the aspiring region. If the central government — through a rigorous process of monitoring and evaluation during this period of time — feels that the aspiring region does not deserve autonomy, it will be returned to its 'parent' region.

Unlike with PP No. 129/2000, public opinion at the grass-roots level is a mandatory consideration under the current regulations. Nowadays, the decision of local legislative bodies and the heads of districts and cities on a new local government must be based on a proposal that has been approved by a majority of village and

rural councils (see Figure 1). Heads of districts and cities then propose local-government formation to the governor and attempt to obtain approval by ascertaining documents related to community aspirations as well as feasibility studies, regional maps, and the decisions of local legislative and district/city heads. If approved, the governor then consults with members of the provincial parliament in order to obtain a ‘green light’ from a majority in the provincial legislature.

Figure 1: The Process of Local Government Formation in Indonesia



Source: Authors' own contribution

If there is an endorsement by the provincial parliament, the proposal is submitted to the president through the Ministry of Home Affairs (MoHA). After an evaluation and recommendation by the Regional Autonomy Advisory Council (DPOD, *Dewan Pertimbangan Otonomi Daerah*) — which consists of representatives from the Ministry of National Development Planning (Bappenas), the Ministry of Finance (MoF), and MoHA —should the president approve the proposal, MoHA will draft a bill that will be ratified by the national parliament. In addition, such regulation also stipulates the initial financing source and the amount of funding that the new local government will receive from its parent region or regions.

In short, *pemekaran* in Indonesia is a major political process that involves multiple levels of administrative approvals from stakeholders at the village level up to those at the central level. The aspiring region, aside from these consents, must also fulfil both territorial and regional-capacity goals as a standard prerequisite for proliferation. The next section will elaborate on the factors that can drive the creation of new local governments in Indonesia. We also analyze *pemekaran* through the lens of territorial coalitions and rent-seeking motives.

We begin our argument with proliferation that can be driven by fiscal motives. Theoretically, the powers of sub-national governments to tax can influence the

effectiveness of fiscal decentralization or decentralization in general. In the absence of sub-national taxing authority, central governments should give unconditional intergovernmental fiscal transfers to ensure that sub-national governments can carry out their priorities (Manor, 1999). In the context of proliferation in Indonesia, however, it is obvious that the aspiring region wants to obtain both conditional and unconditional intergovernmental fiscal transfers since they have dominated sources of local governments' revenue for many years.

The Government of Indonesia (GoI) has launched the general allocation fund (DAU, *Dana Alokasi Umum*), specific allocation fund (DAK, *Dana Alokasi Khusus*), and revenue share (DBH, *Dana Bagi Hasil*) based on natural resources and tax revenue ~~for almost 20 years~~. Basically, DAU and DBH take the form of a lump-sum transfer while DAK is a conditional transfer. Law No. 32/2004 explicitly states that the parent region is required to allocate a portion of DAU to the new local government/s. However, the lump-sum of DAU merits a specific clause (Siddique et al., 2014). This clause was basically the result of an intervention by the national parliament in 2002, which maintained the amount of DAU received by the regions at least at the level of the previous year. Under such an arrangement, the parent and wealthier regions continuously received increasing amounts of DAU. Thus, the parent regions did not actually bear the cost of regional proliferation. In line with this argument, Fane (2003) stated that the cost-reimbursement component of DAU gives an incentive for regions to proliferate.

The 2007 Decentralization Support Facility's (DSF's) report showed that DBH has benefited new local governments by reducing the share of natural-resource transfers to non-oil-and-gas-producing local governments within the province (DSF, 2007). Accordingly, new regions might receive larger shares of the grants than the parent and neighboring local governments within the same province. Hence, to some extent, DBH might also provide a proliferation incentive. On DAK, the new local governments were given higher amounts of specific grants than the parent regions (Sidik, 2007). The financing source of new local governments is also stipulated in PP No. 78/2007. In this case, the central government must allocate DAK a minimum of Rp 5 billion (€ 303,000) for each new local government formed in the period 2007–8 (MoHA, 2008). Consequently, DAK could provide a direct incentive for the creation of new local governments.

Aside from fiscal motives, other factors can contribute to regional proliferation, as explained below. Firstly, the creation of new local governments can reduce income redistribution. In this context, Buchanan and Faith (1987) argue that one part of a region with higher-income individuals might avoid having to subsidize another part with lower-income individuals by creating a new local government. The higher subsidies would be effected with higher tax rates, which these high-income individuals would have to bear. In this regard, it is useful to note that Brink (2004) investigated a district in Sweden that split, and concluded that some of its richer

populations/communities tended to endorse proliferation to a greater degree than residents/communities from other parts of the district.

Secondly, proliferation might induce competition among local governments. A higher number of new governments, as a result of regional proliferation, presents many options with regard to the provision of local public goods and services, which would allow individuals to select a local government that gives more socio-economic benefits that match their preferences (Tiebout, 1956). This ‘voting with your feet’ argument envisages competition among local governments to reduce the costs of providing goods and services. However, geographical constraints — such as road infrastructure and land area, which are not uniform in each jurisdiction — may limit such competition (Smoke & Lewis, 1996).

Thirdly, proliferation is closely related to the size of a region and the preferences of certain communities and/or ethnic groups within it. With regard to size, when the coverage of the original jurisdiction is large, it can, despite economies of scale, hamper the local government in providing local public goods and services in an effective and efficient manner. As a result of proliferation, a newly created government with a smaller jurisdiction can reduce the problem of asymmetries in the provision of public goods and services (Oates, 1972). Meanwhile, with regard to preferences, a larger local government in an original region can be associated with a greater degree of heterogeneity of preference in its communities. Such conditions reflect a higher ‘spatial decay’ in the provision of public goods and services (Panizza, 1999; Arzaghi & Henderson, 2005). ‘Spatial decay’ exists when there are large differences between the actual provision of local public goods and services and the level and the type of goods and services demanded by certain communities within an original region. Consequently, proliferation (i.e. smaller jurisdictions) might be chosen in order to create a less fragmented population within an initial jurisdiction, where greater income redistribution can usually match the type and level demanded by certain populations. Thus, a higher level of ethnic fractionalization is also associated with greater regional proliferation.

Lastly, a region might be inclined to proliferate by an electoral competition. Politicians tend to allocate more intergovernmental fiscal transfers to a new autonomous region with a smaller jurisdiction due to a higher vote return from the small population than from the larger population (Grossman, 1994). All of these conditions will create a bargaining process around proliferation policy in the parent region, with electoral competition between incumbent politicians and politicians that favor proliferation in a decentralized system.

To sum up, several motives can cause a region to proliferate: fiscal, income redistribution, competition among local governments, the size of the region and the preference of certain communities/ethnic groups, as well as electoral competition. The accountability dimension, which is related to the political motives behind

proliferation, can aid the analysis of institutional quality in Indonesia.⁵ In the following, we argue that the process of local-government formation in the country can be explained through the forging of territorial coalitions among elites at different levels of government. In addition, rent-seeking motives may also lie behind *pemekaran*.

As part of the regional arrangement of a decentralized system, the development of *pemekaran* cannot be separated from territorial coalitions. A detailed analysis by Kimura (2010) provides some explanation as to why several new Indonesian regions split from their parent regions. In the case of Gorontalo Province, he argued that the lack of development and the poor quality of public services within its districts were the primary motives for this region to separate from North Sulawesi Province. In addition, ethno-religious homogeneity also played a major role in the creation of Gorontalo Province, whereby the Muslim Gorontaloans tried to break away from Christian-Celebes domination in North Sulawesi Province. The proposal was initiated by local elites, and was endorsed by several provincial and national elites. It was also supported politically by former President Bacharuddin Jusuf Habibie, who was considered a local Gorontaloan.

Unlike Gorontaloans, Papuans were unable to use the discourse about territoriality, ethnicity, and local decision-making space to their advantage (Kimura, 2010). In fact, the creation of West Papua Province was initiated by the country's national elites in order to halt a secessionist movement and to strengthen central-government control over natural resources. This process has been backed up politically by local and provincial elites. In contrast to both West Papua and Gorontalo, the splitting of Riau Province to form the new Riau Island Province was due to long-standing tensions between the islanders and the mainland over administrative, public-service, and natural-resource revenues. Such tensions arose because the islanders wanted more control over their budgets. The proposal was initiated by a strategic alliance between local, provincial, and national elites.

The interactions among elites occupying different administrative levels make a major contribution to Kimura's (2010) analysis. However, the reach of his analysis is constrained by the small number of provinces created in Indonesia. His research also leaves important questions unanswered — for example, why Papuans were not able to use ethnicity and territoriality to their advantage while Gorontaloans were. Similarly, Riau Island was able to link the demand for territoriality and a local decision-making space in order to gain control over local resources, while Papuans failed to do so. In addition, the exact motives behind the interests of the various elites in proliferation are unclear.

Based on the above accounts, it is clear that, in the process of regional proliferation, territorial coalitions are closely related to social capital. In this context, actors who engage in a social relationship can cooperate, may gain a benefit from, and use

group resources — either for personal or for group purposes (Hauberer, 2011). Using this analogy, groups of individuals (e.g. elites) at various administrative levels establish specific roles and work together to reach certain objectives (e.g. proliferation) that benefit themselves. However, such action must be based on strong rules that impose limited scope for individual action and require solid trust among individuals within the group, so that the problem of free-riding (i.e. non-members of the community receiving the same benefits as members) can be reduced; as a result, incentives for individual action are limited. According to this clarification, aside from collective action, proliferation needs strong membership and networks, as well as trust and commitment to rules. These prerequisites are broadly in line with Kimura's (2010) framework, in which local and national elites are most successful in creating a new region if they trust and cooperate closely, as well as make relatively narrow and concrete demands for territorial change.

Moving on from the linkage between territorial coalitions and social capital, the establishment of new regions in Indonesia is also motivated by rent-seeking. Indeed, Pratikno (2008) states that the beneficiaries of *pemekaran* are not just limited to the elites at national, provincial, and local level but also include local entrepreneurs and civil-society (i.e. non-governmental) organizations (NGOs). In this context, business people will benefit most from the development of economic activities in the new regions, while NGOs gain minor positions and projects within the new governmental structures.

Pratikno's clarification on economic rent-seeking motives can open up another dimension of institutional quality, whereby political and bureaucratic rent-seeking motives might lie behind demands for *pemekaran* (Fitriani et al., 2005). In this context, political elites will force the creation of a new jurisdiction if they believe that their prospects to win elections in the aspiring region may be better than in the original region. For example, a party and/or a local parliamentary candidate may be strong in one particular district or sub-district, and *pemekaran* will create new, smaller, jurisdictional and electoral boundaries favorable to them. In addition to the political rent-seeking dimension of *pemekaran*, bureaucratic rent-seeking motives might also come into play when new echelons or structural positions and other new managerial jobs arise in the new regions — particularly among those who are already employed as bureaucrats but lack structural or managerial positions in the parent regions.⁶

To sum up, the development of *pemekaran* cannot be separated from the institutional-quality that can be explained by territorial-coalition, economic, political, and bureaucratic rent-seeking motives. The essential part of the analysis of regional proliferation in Indonesia is that there is, to some extent, a territorial coalition that involves all stakeholders in every level of government. Such a coalition is closely related to social capital.

3 Research

In Table 2, the annual record of proliferation occurrence is obtained from Indonesia's Ministry of Home Affairs (MoHA). This data is based on an aggregate of the number of instances of *pemekaran* in districts and cities within the 32 provinces of Indonesia. We also incorporate information about the size of provinces, population levels, and GRDP (Gross Regional Domestic Product) per capita over the period 2007–14, taken from the National Socio-Economic Survey (SUSENAS, *Survei Sosial Ekonomi Nasional*) at inter-regional level in Indonesia, which is compiled by the national statistical agency (BPS, *Badan Pusat Statistik*). In addition, the country's ethnic fractionalization index can be obtained from the 2010 census. Here, we use the standard measure of fractionalization, which reflects the probability that two randomly selected individuals from a population belong to different groups.

Table 2: List of Variables on the Regional-proliferation Equation

Variable Name	Description	Variable Source
Proliferation event	The annual record of proliferation occurrence	Indonesia's Ministry of Home Affairs (MoHA)
Log (GRDPPc)	Natural logarithm of provincial GRDP per capita	The national statistical agency (BPS, <i>Badan Pusat Statistik</i>)
Log (Population)	Natural logarithm of provincial population	The BPS
Log (Area)	Natural logarithm of provincial size	The BPS
Fiscal dependency	The share of the total balancing fund over total revenue	Indonesia's Ministry of Finance (MoF)
Fiscal discretion	The sum of the general allocation fund and revenue share fund over total revenue	Indonesia's Ministry of Finance (MoF)
Ethnic fractionalization	The probability that two randomly selected individuals from a population belong to different groups	The BPS
Democracy	A composite measure of civil freedoms, political rights, and democratic institutions that totals zero (0) for regions belonging to an authoritarian regime and one hundred (100) for regions enjoying the full experience of democracy	The BPS, the United Nations Development Program (UNDP), and the Ministry of National Development Planning (Bappenas, <i>Badan Perencanaan Pembangunan Nasional</i>).

Variable Name	Description	Variable Source
Social capital	A composite index of trust and tolerance, participation in groups and networks, as well as reciprocity and collective action, which totals zero (0) when regions have no social capital at all and one hundred (100) when they have a full complement of social capital	The BPS, Bappenas, and the coordinating Ministry of Human Development
Rule of law	The number of crimes per 100,000 population	The BPS and the national police force

Source: Authors' calculation

The data on the share of intergovernmental transfer grants is obtained from the yearly Local Budget (*APBD, Anggaran Pendapatan dan Belanja Daerah*) at inter-regional level, compiled by the Ministry of Finance. A share of this kind can be categorized as a fiscal-dependency ratio, which is the share of the total balancing fund over total revenue, and a fiscal-discretion ratio, which is the sum of the general allocation fund and revenue share fund over total revenue. Ebel and Yilmaz (2002) concluded that fiscal dependency-and-discretion ratios could be a method to, respectively, capture horizontal and vertical fiscal imbalances in local government and measure the extent of the discretionary power of spending in local government.

Meanwhile, according to Grootaert and van Bastelaer (2001), measuring social relationships can be problematic, as they have many dimensions at the micro level (e.g. households, villages, and communities) and at the macro (e.g. national) level. In the former (i.e. micro level), they argue that there are three types of proxy indicators of social capital: trust and adherence to norms, membership in local associations and networks, and collective action. In the latter (i.e. macro level), they propose various proxy indicators such as level of democracy, rule of law, quality of bureaucracy, corruption, and governance. Due to inadequate and unreliable data in Indonesian inter-regional measures of institutional quality, we use crime rates, the democracy index, and social capital at the province level.

We utilize crime rates as a proxy to gauge the strength of rule of law. According to standard literature, they can be the means to measure the demands by communities for imposition of a better rule of law. However, in this study we conceptualize them as the degree of administrative formalities that the aspiring region must obtain. Hence, crime rates are one of the output dimensions used to clarify institutional quality at government level (Rothstein & Teorell, 2008). In this study, data on crime rates are taken from a joint, collaborative survey on the number of crime events at province level produced by the BPS and the national police force. Such data is available for each year from 2007 to 2014.

Another aspect of institutional quality in a democracy is the access that it allows to government power; however, this is not a sufficient criterion, in and of itself, to demonstrate institutional quality at government level (Rothstein & Teorell, 2008). In our study, the democracy index is a composite measure of civil freedoms, political rights, and democratic institutions that totals zero (0) for regions belonging to an authoritarian regime and one hundred (100) for regions enjoying the full experience of democracy. Data on democracy indices in Indonesia is provided by a collaborative survey at province level between the BPS, the United Nations Development Program (UNDP), and the Ministry of National Development Planning (Bappenas, *Badan Perencanaan Pembangunan Nasional*). Such data is available for the years 2009 to 2014.

The social-capital variable is a composite index of trust and tolerance, participation in groups and networks, as well as reciprocity and collective action, which totals zero (0) when regions have no social capital at all and one hundred (100) when they have a full complement of social capital. Social-capital data is provided by a collaborative survey at province level between the BPS, Bappenas, and the coordinating Ministry of Human Development. Such data is available for 2007, 2009, 2012, and 2014.

Table 3 provides a statistical summary of the estimation of regional proliferation in Indonesia. On average, the number of proliferation events in Indonesia is relatively low. However, the average of fiscal-dependency and fiscal-discretion ratio for each province is quite high, despite the presence of a modest level of democracy and a higher-than-average level of income per capita, population level, and physical area. The ethnic-fractionalization index is also, on average, quite high. Such conditions are attenuated by higher-than-average levels of social capital and rule of law.

Table 3: Summary of Statistics on the Regional-proliferation Equation

Variables	Obs	Mean	Std. Deviation	Min	Max
Proliferation event	256	0.29	0.86	0	8
Log (GRDPPc)	256	9.64	0.86	7.78	11.80
Log (Population)	256	15.19	1	13.44	17.64
Log (Area)	256	10.51	1.02	8.05	12.67
Fiscal dependency	256	75.24	10.1	42.65	93.72
Fiscal discretion	256	68.54	8.59	40.14	83.16
Ethnic fractionalization	256	0.65	0.26	0.04	0.95
Democracy	192	67	6.01	52.61	83.94
Social capital	125	54.61	5.43	38	63.16
Rule of law	256	18.03	10.11	1.3	55.7

Source: Authors' calculation

In estimating numbers of regional-proliferation events, we use a sequential explanatory strategy, which is characterized by the collection and analysis of quantitative data in the first phase of research, followed by the collection and analysis of qualitative data in a second phase, built on the results of the quantitative analysis (Creswell, 2013). On the quantitative method, our dependent variable of regional proliferation is treated as an event. The following benchmark model at cross-province level will be used:

$$RP_{it} = \beta_0 + \beta_1 Ins_{it} + \beta_2 X_{it} + \varepsilon_{it} \quad (1)$$

where the subscript ‘i’ denotes the province; ‘t’ denotes observation period, which is 2007–14; ‘ X_{it} ’ is a vector of control variables that are assumed to have an influence on *pemekaran*; and ‘ ε ’ is the corresponding disturbance term. The main interest throughout this article lies in the coefficient ‘ β_1 ’, which measures the impact of the institution on the event of regional proliferation.

The control variable is basically a combination of the criteria stated in PP No. 78/2007 and existing literature on the determinants of regional proliferation and decentralization in many countries — such as size of province, population level, ethnic fractionalization, GRDP per capita, and institutional quality (see Tiebout, 1956; Oates, 1972; Buchanan & Faith, 1987; Panizza, 1999; and Arzaghi & Henderson, 2005). We also include fiscal motive, reflected by fiscal discretion and fiscal dependency indicator, as an incentive for regions to proliferate (see Fane, 2003; DSF, 2007; and Sidik, 2007).

Meanwhile, our dependent variable is clearly in the form of count data that may take on any non-negative integer value, including zero (Cameron & Trivedi, 2005). Therefore, the dependent variable is discrete. The standard model of count-data regression is the Poisson regression model. However, there is evidence of overdispersion in data in which variance is greater than mean. Thus, the negative binomial model might be an alternative.

As for the qualitative methods, we acquired the fieldwork results by carrying out several semi-structured interviews and focus-group discussions (FGDs). The fieldwork period began in the last week of April 2019 and ended in mid-July 2019, i.e. 12 weeks in total. A crucial part of procuring the qualitative information was obtaining consent from the respondents; most were willing to have their names and positions cited.

The sample selection is based on several factors, as follows: First, the birth of new autonomous regions in West Java and Banten fit with the time frame of our quantitative analysis, i.e. 2007 – 2014. For example, the District of Pangandaran began to proliferate in 2012 from the District of Ciamis. Meanwhile, the City of South Tangerang decided in 2008 to separate from the District of Tangerang.

Second, new local governments in West Java and Banten have a different profile of fiscal dimension. This becomes crucial to analyze, particularly when fiscal incentive and income per capita may motivate regions to proliferate. For instance, the District of Pangandaran has a low fiscal capacity—a similar situation to that of its parent region, the District of Ciamis. Overall, West Java Province is categorized as having a low fiscal capacity. Unlike Pangandaran, South Tangerang has a very high fiscal capacity compared with its parent region, which has a moderate level of fiscal capacity. Overall, the province of Banten is categorized as having a moderate level of fiscal capacity. Last is the distance between these two regions and Jakarta as a capital city of Indonesia. Here, we want to elaborate the degree of territorial coalition in the form of consolidation among elites at district/city, province, and national levels.

FGDs are a common method used in social research to collect general information from different perspectives (Creswell, 2013). As they emphasize perceptions among people based in the same organization, such methods can be useful in exploring general information on regional proliferation among key bureaucrats at different government levels. We also conducted FGDs with the national NGOs actively involved in regional autonomy and proliferation issues in Indonesia. All of the information mentioned earlier can form a baseline to capture more detailed and specific information when conducting semi-structured interviews. Overall, we conducted six (6) FGDs at national, provincial, and district/city levels.

The second method, semi-structured interviews, was chosen to allow new ideas to be brought up within the framework of research during the interview process. Basically, such interviews can catch and evaluate any historical information and personal opinions in a more practical manner than with unstructured interviews (Creswell, 2013). Overall, seventeen (17) interviews were conducted at three different levels: national, provincial, and district/city.

In this context, we interviewed both former and current members of the national parliament's Commission II (Regional Autonomy), who represent local people within West Java and Banten provinces (including their districts and municipalities), since they are directly involved in regional proliferation. In addition, we interviewed a current member of the local parliament to capture their involvement in the process of regional proliferation at the provincial level as well as at the parent and new district/city levels. Lastly, interviews with bureaucrats and academicians at the province level, local heads of village, and local NGOs can assist in understanding the dynamics of the process of local-government formation and in elaborating the political-economy motives behind proliferation.

4 Results

In this article, we try to investigate the factors that determine regional proliferation in Indonesia and to analyze the effects of institutional quality — measured by social capital, democracy, and crime rate — on the number of new local governments in the country. We consider the cross-sectional dependence in the errors. Such a phenomenon can arise due to spatial effects and unobserved common factors (Baltagi & Pesaran, 2007). Thus, the pooled negative binomial regression will not produce a biased and inconsistent estimator if we can control those problems.

In Table 4, we use both the province and year fixed effects. In the former case (i.e. province fixed effects), we control province-specific time-invariant characteristics in the regression, while in the latter case (i.e. year fixed effects), we incorporate time-variant unobserved characteristics that are not in line with any particular region. Based on the 2007–14 period of estimation, we have 125–256 observations that spread across each model of 32 provinces. Basically, the degree of administrative requirements, proxied by rule of law, is statistically and positively correlated with the number of regional-proliferation events in Indonesia. Such a result gives an insight that the aspiring region must fulfil a higher level of administrative formalities in order to proliferate.

Another example is the fact that social capital in the form of networking, trust, and joint action as a measure of institutional quality is positively correlated with regional-proliferation events in Indonesia. Such findings are closely related to the results of Kimura (2010) on territorial coalitions in the country that include a variety of actors situated in different levels of government. These coalitions have been the driving force behind the creation of several new provinces in Indonesia.

Meanwhile, the democracy index is negatively but insignificantly correlated with the number of proliferation events in Indonesia. Such findings differ from those of Fitriani et al. (2005) and Pierskalla (2016) — whose results show that democracy, represented by the dominant share of a national political party (e.g. GOLKAR, *Golongan Karya* — the ‘Party of Functional Groups’) in local parliamentary seats, was negatively and significantly correlated with the probability of local governments to split.⁷

We also found a negative and significant effect of the share of intergovernmental fiscal transfer, measured by the fiscal-dependency and fiscal-discretion ratios, on the number of regional-proliferation events in Indonesia. Such results are similar to the discovery of Fitriani et al. (2005) and Pierskalla (2016) that a higher share of natural-resource revenue in local budgets did not increase the likelihood that regions would split during the post-decentralization era.

GRDP per capita is also negatively and significantly correlated with the number of proliferation events in Indonesia. This means that high-growth jurisdictions will be less likely to form new local governments than relatively low-growth ones. Unlike Pierskalla's (2016) study, such findings actually support those of Fitriani et al. (2005) on the share of intergovernmental fiscal transfer in the post-decentralization era.

On the preference of homogeneity, people may prefer to live in a jurisdiction that is more homogenous in terms of ethnicity. Our findings show that ethnic fractionalization is significantly and positively correlated with regional-proliferation events in Indonesia. Again, this result is similar to the discovery by Fitriani et al. (2005) and Pierskalla (2016) that ethnic clustering across sub-districts was positively correlated with the probability that a region would split. However, such homogenization findings cannot be interpreted as the sole motive for regional proliferation in general. Collier and Hoeffler (2002) argue that the root cause of international secession movements is related to a sense of identity exploited by politicians to gain economic advantage, rather than by ethnic identity per se.

There is also no significant evidence that Indonesia's more populous regions are positively correlated with regional-proliferation events. Similarly, we find no significant evidence of the land area of a region being positively correlated with the number of proliferation events that it may experience. Overall, similar to Fitriani's et al. (2005) and Pierskalla's (2016) findings, our quantitative results can neither capture a detailed process of local-government proliferation nor elaborate on the political, economic, and bureaucratic motives behind proliferation. Thus, the qualitative method will be used to enrich the findings.

Table 4: Negative Binomial Panel Regression with Time and State Effect ⁸

Variables	(1)	(2)	(3)	(4)	(5)	(6)
Social Capital	0.22** (0.1)	0.20** (0.09)				
Democracy			-0.02 (0.06)	-0.02 (0.06)		
Rule of law					0.04*** (0.02)	0.04*** (0.01)
Fiscal dependency	-0.05* (0.03)		-0.01 (0.04)		- 0.07*** (0.02)	
Fiscal discretion		-0.05* (0.03)		-0.01 (0.04)		- 0.06*** (0.02)
Log (GRDPpc)	0.33 (0.55)	0.47 (0.53)	0.06 (0.52)	0.13 (0.46)	- 1.04*** (0.32)	-0.69** (0.29)

Variables	(1)	(2)	(3)	(4)	(5)	(6)
Log (Population)	-0.12 (0.31)	-0.01 (0.30)	0.09 (0.45)	0.13 (0.43)	0.10 (0.19)	0.22 (0.18)
Log (Area)	-0.26 (0.24)	-0.28 (0.24)	0.04 (0.32)	0.03 (0.32)	0.12 (0.16)	0.08 (0.16)
Ethnic fractionalization	4.25*** (1.54)	4.06*** (1.53)	4.76* (2.55)	4.68* (2.54)	4.06*** (0.98)	3.85*** (0.99)
Observations	125	125	192	192	256	256
Province	32	32	32	32	32	32
Province FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-50.85	-51.15	-43.74	-43.78	-112.42	-112.99
X ² (P-value)	0.00	0.00	0.12	0.00	0.00	0.00

Source: Authors' own contribution

From the quantitative analysis, it is obvious that fiscal issues cannot constitute a motive for a region to proliferate in Indonesia since high intergovernmental fiscal grants are seen to discourage proliferation events there. Our FGD with national-government stakeholders appeared to support this finding when participants stated that regional proliferation had landed the central government with a significant burden in terms of national fiscal stability. In this context, new autonomous regions usually have expenses that outweigh their revenue. They are heavily reliant on intergovernmental fiscal grants to compensate for the expenses they incur in running their administrations. Consequently, an increase in the number of local governments will result in a need for more grants to be transferred by the central government. This will potentially disrupt macroeconomic stability at the national level. Suherly, a MoF staffer, described such a condition as follows: '*Pemekaran* will bring an unavoidable fiscal consequence for central government as the current Law No. 23/2014 states that we have to allocate new budget[s] for the new region[s].'⁹

In terms of quality of spending, intergovernmental fiscal grants allocated by the central government have clearly been spent by new autonomous regions mainly on routine expenditures such as salaries and wages (Firman, 2013). In line with this argument, Alfia, a staffer from Bappenas, discussed poor-quality spending on the part of most local governments, including new autonomous regions, in the following terms:

Despite the central government control[ling] the use of block grants such as DAU and DBH in which local governments must allocate a minimum of 25 percent of DAU on infrastructure and a minimum of 50 per cent of DBH of Excise of Tobacco Products [CHT, *Cukai Hasil Tembakau*] on [the] health sector, our study showed that only 2 percent of local governments in Indonesia have spent health while 50 percent of local governments put their spending on infrastructure. Similarly, as stated in our constitution, every layer of government [...] must allocate a minimum of 20 percent on

education. However, only 9 percent of local governments in Indonesia fulfilled this requirement.¹⁰

In a worst-case scenario, several local governments have been unable to control their jurisdiction in an efficient manner. This was pointed out by Rochendi, a staffer from the MoHA, as follows: 'Instead of focus[s]ing on public services, most local governments used their budget on administrative spending. Our observation showed that one particular local government surprisingly spent 90 percent of its budget on routine expenditures.'¹¹

Several actors can play significant roles in the creation of a new local government. However, as pointed out by Grossman and Lewis (2014), in developing countries proliferation has been a political process resulting in a large number of local governments splitting into two or more units in a relatively short period of time. To expedite the birth of a new region, all government stakeholders must obtain a certain level of approvals from many stakeholders, and must take collective action. Along with this argument, our FGD with national-watchdog members indicated that such a situation did indeed exist in most cases of Indonesian local-government formation. This appeared to bolster our quantitative results, which showed that rule of law and social capital were positively and significantly correlated with proliferation events in Indonesia.

Since the process of *pemekaran* involves multiple levels of government stakeholders, the corresponding local, provincial, and national actors all seem to play a specific role in the process of district formation. In fact, Pratikno (2008) states that Indonesia's national parliament was the primary initiator, drafting 29 bills for aspiring regions in 2007 and initiating 21 proposals for new regions in 2008. In line with this argument, Budi from the Committee for Monitoring Implementation of Regional Autonomy (KPPOD, *Komite Pemantauan Pelaksanaan Otonomi Daerah*) analysed the process of *pemekaran* in Indonesia thus: 'As we can see from the newly created regions in Indonesia, local elites play a fundamental role. For example, in the formation of West Pasaman district, Gorontalo Province, and West Sulawesi Province, the proposal has been initiated by local elites that received support from provincial elites and national elites, respectively.'¹² Badiul Hadi from the Indonesia Forum for Budget Transparency (FITRA, *Forum Indonesia untuk Transparansi Anggaran*) stated:

Provincial elites can also play a significant role to initiate some *pemekaran* in Indonesia. For example, in the case of the newly created districts and municipalities in Banten Province, it was clear that the current Governor at that time (Ratu Atut Chosiyah) was the most crucial actor for proliferation and gave a huge influence to the rest of [the] elites. Such action can be viewed as an attempt to extend her political dynasty in Banten.¹³

Our fieldwork indicated that representatives of newly created regions (e.g. Pangandaran and South Tangerang) in Ciamis and Pangandaran districts in West Java Province, as well as Tangerang District and the City of South Tangerang in Banten Province, use the argument of efficiency in decentralized service provision as a primary motive for proliferation. In this context, regions that split from their parents can bring the 'new local governments closer to the people'. Such action is expected to encourage more responsive and accountable local government.

Our FGD with Pangandaran and Ciamis stakeholders concluded that *pemekaran* would increase access for the community and reduce travel costs for obtaining public services. Tohari from the Local Development Planning Unit (Bappeda, *Badan Perencanaan Pembangunan Daerah*) in the District of Ciamis agreed on the issue of regional proliferation in Pangandaran as follows: 'Before *pemekaran*, it takes [from] two [2] up to three [3] hours for people in Pangandaran to handle administrative things.'¹⁴ Similarly, Eka Yulika from Bappeda in the District of Pangandaran stated, 'Although there was no charge imposed by local government in [the] parent region [i.e. Ciamis] to handle the administration of population matters such as national identity card[s] the community in [the] aspiring region [e.g. Pangandaran] felt that the distance between Cimerak [the capital city of Pangandaran District] and Ciamis [which] reached about 150 km [was] too far.'¹⁵ In line with this argument, Nanang, a chairman of the local parliament in Ciamis District, analyzed *pemekaran* in Pangandaran as follows: 'I saw [that] the issue of *pemekaran* in Pangandaran at the time was more about the demand[s] of [the] community, instead of fiscal and ethnic [issues], in [the] aspiring region to get a better public service in general such as infrastructure, education, and health since there was a lack of public service provision by [the] local government of Ciamis.'¹⁶

Similarly, regarding the case of Pangandaran, our FGD with City of South Tangerang and Tangerang District stakeholders confirmed the finding that the demand for better public services played a crucial role in the formation of South Tangerang. Tisna, from the Government Administrative Unit in the City of South Tangerang stated, 'The distance between South Tangerang and Tangerang was about 50 km. However, at that time, we felt that there was a lack of development by the parent government of Tangerang in infrastructure, health, and [the] education sector.'¹⁷ In line with Tisna's argument, Cahyadi from Bappeda in Tangerang District agreed in the following terms: 'The decision to split up was purely [down to] the demand from the communities [in] the aspiring region who were desperate for better public services. There was no fiscal [or] ethnic fractionalization motive behind proliferation.'¹⁸

From these two sets of findings, we can see that arguments about the efficiency of public-service provision, as opposed to fiscal and ethnic issues, do matter for the creation of a new region. However, the next issue to be addressed is whether all of the communities in the aspiring regions truly wanted *pemekaran* or whether it was

mainly about the desire of particular elites to obtain the maximum benefit from proliferation. Such a question is based on two interesting findings. First, according to PP No. 78/2007 and Law No. 23/2014, grass-roots opinion on proliferation is considered to be an early prerequisite for proliferation. However, in our interview, all of the four unnamed sources from among heads of villages in Pangandaran and South Tangerang stated as follows: 'We did not know about [the] *pemekaran* process as we were never [...] involved by the parent regions stakeholders. Our people [...] here only acted as an observer in proliferation.'¹⁹ Such an argument contrasts with the FGD results in the parent and newly created regions, in which all participants argued that the decision to proliferate ~~should~~ have come from the bottom. In this scenario, all heads of villages in several sub-districts in the aspiring regions must agree to split from their parent region.

Second, based on PP No. 78/2007 and Law No. 23/2014, a feasibility study on basic territorial and regional-capacity aspects is another prerequisite for a region to proliferate. However, Sadu Wasistiono, an academician from the Institute of Local Government (IPDN, *Institut Pemerintahan Dalam Negeri*), argued that most *pemekaran* attempts in West Java and Banten were considered unsuitable:

Based on documents of feasibility study [ies] on several aspiring regions in West Java and Banten, I concluded that they only met basic territorial aspects. Regional capacity aspects were largely be [sic] ignored and thus, [the] *pemekaran* that occurred seemed to be forced by certain elites. As a consequence, the newly-created region was and still [remained] over-reliant[t] on the assistance of the central government in terms of administrative and financial [matters].²⁰

In contrast, Indra Suhendar, an academician from Tirtayasa University, considered that the newly created region of South Tangerang already met basic territorial (e.g. the minimum number of sub-districts required) and regional-capacity aspects (e.g. fiscal capacity) to proliferate. Yet a political process in the creation of South Tangerang is viewed as a consequence that cannot be avoided. As he pointed out,

As long as the aspiring regions met basic territorial and regional capacity aspects to proliferate, the political dynamic factors (e.g. territorial coalition and rent-seeking) that took place in the formation of the new region were viewed as the supporting factors. However, I saw that the latter factor, rent-seeking, [would] contribute to a significant deterioration in the future development of South Tangerang.²¹

From the above insights, it is clear that some respondents believed that the efficiency argument is used to conceal political motives. In addition, the territorial coalition *à la* Kimura (2010) and rent-seeking practices might occur during the formation of a new region due to the political support and approval that the aspiring

region must obtain. Possibly with this in mind, both PP No. 78/2007 and Law No. 23/2014 state that aspiring regions must fulfil their administrative requirements. These include obtaining the support of the village head, and mutual agreement between heads of districts/cities in the parent regions and the local parliament in their (breakaway) region before submitting an approval document to provincial stakeholders (e.g. governors and provincial parliaments) and national stakeholders (e.g. central government and the national parliament), who must all conduct a thorough process regarding the aspiring region.

In the formation of Pangandaran District, there was strong collective action at every level of government in order to successfully ‘birth’ this entity. The proposal had been initiated by local elites in Ciamis, who lamented the lack of development in the southern part of Ciamis District despite its contributing a larger than usual percentage of Ciamis’s local owned source revenue (known as *Pendapatan Asli Daerah*, or PAD) through its tourism sector.²² One of these elite members is now serving the community in the new region as Vice Head of the District in Pangandaran. Coupled with a former Vice Head of Districts in Ciamis, who later become a Head of District in Pangandaran, all are now involved in running the local government at Pangandaran. The breakaway proposal was backed financially by several local-parliament members in Ciamis and several local businessmen. Some of these now hold the role of local-parliament member in Pangandaran or have simply received the benefit of development projects there.²³ Even local bureaucrats played a major role—as confirmed by Saepuddin, who now occupies a prominent position as Local Secretary in Ciamis District:

After we controlled the process of proliferation at Ciamis, we continued to manage the evaluation process from province level to central government level. [We even] used our own money to escort and lobby [for the] *pemekaran* process in Jakarta. So every layer of government has successfully been played out up to 2010 when we had a stagnancy situation at [the] central level. However, we found a breakthrough through the influence of [the] Head of National Parliament at Commission II [i.e. Agun Gunanjar] who came from Pangandaran.²⁴

At that time, the crucial role played by Agun was decisive in influencing the central-government decision to impose a moratorium on *pemekaran*. In this context, while several aspiring regions in Indonesia were unable to proliferate during the period 2009–13, the country’s House of Representatives ratified Law No. 21/2012 on the Regional Formation of Pangandaran. Agun’s important role was later downplayed in the following terms: ‘We always acted professionally in handling [the] *pemekaran* issue. I saw [that] a proliferation in Ciamis was a necessity. There was no personal benefit and motivation behind it, other than the welfare of Pangandaran.’²⁵ While he claims that there was no political rent-seeking intention, some observers claimed to see such a motive when he was re-elected as member of the House of Representatives in 2014. Overall, the process of forming a new local

government in Pangandaran took about five years, from September 2007 to November 2012.

Meanwhile, in the creation of the City of South Tangerang — a case similar to that of Pangandaran — a robust cooperation took place. Alamsyah from the community-reform movement GERAM (*Gerakan Reformasi Masyarakat*) and Fikri from the youth movement GARDA (*Gerakan Pemuda*) both claim that several local elites in the parent regions and provincial elites in Banten Province played a significant role in the formation of the new city.²⁶ These local elites included current and previous members of local parliaments, and local politicians who had not previously been elected in the parent region of Tangerang District; they were all elected as members of the new local parliament in South Tangerang. Meanwhile, the provincial elites included relatives of the former Governor of Banten Province, Ratu Atut Chosiyah ('RAC'); the current Head of South Tangerang District is RAC's sister-in-law. The influence of RAC's political dynasty in Banten Province, including all its districts and cities, was and remains obvious.

Such influence creates a patron–client relationship among stakeholders in the development of a region (see Hamid, 2015). In the context of proliferation, several local bureaucrats in the parent region also joined together in an action to create South Tangerang. These bureaucrats are considered loyalists of RAC and her dynasty.²⁷ For example, a former head of the Local Development and Planning Unit in Tangerang District is now Vice Head of the District in South Tangerang. We personally interviewed Abdul Rojak, one of the initiators of South Tangerang City, who now serves as a head of the Local Government Unit on Religious Affairs at the City of South Tangerang. He remarked as follows: '*Pemekaran* in South Tangerang was not just about the filling of the empty position[s] and [the accusations of a] bureaucratic rent-seeking motive was a complete non-sense [sic]. It solely focused on the community [in] the aspiring region who we care so much [about].'²⁸ An unnamed source from Banten Province claimed, 'The domination of RAC and her dynasty in the decision-making process in [the] Banten area that includes all districts and cities on administrative matters (e.g. staff recruitment and promotion) were and still [are] present until now. Those who had a connection and affiliated with them would gain a benefit.'²⁹

The creation of South Tangerang City also attracted many businesses, which saw great potential and benefit in splitting Tangerang District.³⁰ The largest of these companies was, and still is, a national developer that heads the most ambitious urban-planning scheme in Indonesia, located in Serpong (one of the sub-districts of the City of South Tangerang). This company generates significant revenue for the Government of South Tangerang. To expedite the *pemekaran* process at the central level, Ismet Iskandar, at the time Head of the Tangerang District, conducted various political lobbies of Commission II and the central government.³¹ The creation of South Tangerang was his political trademark; it enhanced his popularity among

communities and earned him re-election for a second period of government. Along with Iskandar, Zarkasih Noer, a former minister during President Abdurrahman Wahid's administration, was directly involved with central-government stakeholders. On the subject of this involvement, he states,

As a South Tangerang citizen, I felt that at that time the development of our area was [...] relatively slow compared to Tangerang. In addition, the distance between Ciputat [the capital city of South Tangerang] and Tigaraksa [the capital city of Tangerang] was too far to handle administrative matters. Those were the reasons why I politically support[ed] and contend[ed] for the birth of South Tangerang.³²

While he claimed that he received no benefit from the proliferation, he lamented the slow pace of the current administration in handling public-service problems post-*pemekaran*: 'Now, I can easily manage our administration. However, before and after *pemekaran*, there was no difference at all in terms of access [to] infrastructure, health, and education.'³³ Overall, the proliferation process in South Tangerang took about four (4) years, from October 2004 to November 2008.

In summing up, territorial coalition *à la* Kimura (2010) and social capital *à la* Grootaert and van Bastelaer (2001), rather than fiscal or ethnic issues, played a significant role in the creation of the new regions documented in our case studies. These processes can occur if each actor has specific roles and trust within the coalition, thus keeping the benefits of *pemekaran* within the 'inner circle' of such groups.

5 Conclusions

Regional proliferation is still a major issue of debate in the Indonesian public policy forums. Current President Joko Widodo has even acknowledged his aspiration to limit regional proliferation by affirming his plan to use 'budget politics'.³⁴ Such a plan, giving rewards and punishment to a particular region in terms of intergovernmental fiscal transfers, can constitute a tool to assess the performance of local government, specifically related to institutional-quality indicators. These indicators form one of the prerequisites of every region aspiring to proliferate.

In this article, we have outlined several factors that contributed to *pemekaran*, and analyzed whether institutional quality could have played an important role in the number of regional-proliferation events in Indonesia. We estimated a model using a panel of regions, with annual observation from 2007 to 2014 in 32 provinces. Our proxy of institutional quality — social capital and rule of law — showed that both variables were significantly and positively correlated with the number of regional-proliferation events in Indonesia. In addition, such events were significantly and negatively affected by GRDP per capita and the share of intergovernmental fiscal

transfer (measured by fiscal-dependency and fiscal-discretion ratios). In other words, neither fiscal transfer nor income has been a motive for regions in Indonesia to proliferate. We also found that there was a significant and positive association between ethnic fractionalization and the number of regional-proliferation events in Indonesia.

Meanwhile, our qualitative findings in West Java and Banten confirmed the quantitative conclusions that fiscal issues did not provide a significant motive for districts or cities to proliferate. In contrast to the quantitative findings, our case studies could not prove ethnic fractionalization as an incentive to proliferate. Instead, both territorial coalition *à la* Kimura (2010) and social capital *à la* Grootaert and van Bastelaer (2001) did exist in the *pemekaran* process. Moreover, administrative requirements, as stated in both PP No. 78/2007 and Law No. 23/2014, were found to play a significant role in proliferation. Also, there were political, economic, and bureaucratic rent-seeking motives behind proliferation. For bureaucrats, proliferation created new opportunities in terms of structural creation of jobs and echelons in the newly created regions — while politicians took advantage of new regions as arenas in which to maximize their electoral vote and to target new political positions. Business people also used *pemekaran* as a means for commercial expansion and for taking on physical-development projects in the new regions. As for elites, it presented a golden opportunity for them to stage a political comeback and to exercise power that had previously begun to fade.

Based on these results, our study is the first to provide a comprehensive evaluation of the formation of local government in Indonesia. In addition, by treating the occurrence of regional proliferation as an event, policymakers and relevant stakeholders will be able to appreciate how the pattern of the country's local-government structure has evolved. However, since our study focuses on the process of local-government formation, the examination of the economic, political, and bureaucratic consequences behind approval of that process is beyond its scope. In addition, future study will be needed to disentangle the issues of institutional-quality performance in parent regions and in regions that split, and to analyze the effect of such performance on local economic development.

Another potential indicator of the preference of homogeneity, such as ethnicity, has a positive effect on local-government formation, but it does not produce a clear effect on our case studies. Why ethnicity produces a significant effect on a new autonomous region quantitatively, as opposed to the qualitative results, deserves further attention. Also, the need to incorporate other dimensions of homogeneity, like religious diversity and horizontal inequality, will enrich the future analysis. Furthermore, our empirical findings cannot explain both the degree of the preference for ethnic homogeneity, which can generate a bottom-up pressure for a region to proliferate, and the role of local elites ~~on fragmenting local ethnic to~~

produce an institutional confidence for proliferation. Thus, future study should disentangle these two mechanisms.

Acknowledgements:

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors. A larger version of this article has been presented by the first author at the 2019 Australian Political Studies Association (APSA) conference on 24 September 2019 at Flinders University, Adelaide, Australia. The authors would like to thank Adrianus Hendrawan, Meredith L. Weiss, and Toby Carroll for their useful comments on that occasion.

Notes:

¹ See explanation in PP No. 78/2007 and Law No. 23/2014.

² According to Law No. 23/2014 on Local Government, which amended Law No. 32/2004, Indonesia has five tiers of government structure, as follows: central, province, districts and municipalities, sub-districts and sub-municipalities, and villages. *Pemekaran* can take place at province as well as district and municipality levels according to PP No. 78/2007.

³ Minimum size, minimum population, minimum border length, minimum coverage of regions (e.g. districts/cities for a province and sub-districts/sub-municipalities for a district/city), and minimum area age limit for proliferation.

⁴ Regional-capacity aspects include geography, demography, security, socio-politics, norms and traditions, economics, fiscal capacity, and the ability of aspiring regions to administer government.

⁵ According to Rothstein and Teorell (2008), institutional quality can be defined as the impartiality of institutions that implement government policies, which can be measured in terms of the access to political power and how political power is exercised. In this study, we are looking at the institutional process of local-government formation in Indonesia.

⁶ For more literatures on rent-seeking in Indonesia, see Berenschot (2018).

⁷ The difference in results between Fitriani et al. (2005) and our study lies in the time frame of observation: in the former, the GOLKAR party was considered a ruling party at local, provincial, and national level during a period of political order dating before 1999, and the central government at that time had restricted the capacity of local governments to proliferate.

⁸ Number of parentheses are robust standard error. Asterisks denote: *** = significant at 1%; ** = significant at 5% level; * = significant at 10 % level.

⁹ FGD with national-government stakeholders in Jakarta, 3 June 2019.

¹⁰ FGD with national-government stakeholders in Jakarta, 3 June 2019.

¹¹ FGD with national-government stakeholders in Jakarta, 3 June 2019.

¹² FGD with national-watchdog members in Jakarta, 28 May 2019.

¹³ FGD with national-watchdog members in Jakarta, 28 May 2019.

¹⁴ FGD with bureaucrats in Ciamis, 7 May 2019.

¹⁵ FGD with bureaucrats in Pangandaran, 29 April 2019.

¹⁶ Interview with Nanang in Ciamis, 8 May 2019.

¹⁷ FGD with bureaucrats in South Tangerang, 11 June 2019.

¹⁸ FGD with bureaucrats in Tangerang, 13 June 2019.

¹⁹ Interview with heads of villages in Pangandaran and South Tangerang — 30 April 2019 and 15 June 2019, respectively. For the sake of confidentiality, they do not wish to disclose their names, fearing that their opinions will affect the allocation of village funding.

²⁰ Interview with Sadu Wasistiono in Bandung, 10 May 2019.

²¹ Interview with Indra Suhendar in Banten, 14 June 2019.

²² Interview with Kusnanto, a senior-ranking official from the Administrative Government Unit in West Java Province, 16 May 2019.

²³ Interview with Eka from BPM (*Bina Pandu Mandiri* – the Independent Scout Building) and Nandang from GMBI (*Gerakan Masyarakat Bawah Indonesia* – the Indonesian Lower Society Movement) in Ciamis and Pangandaran — 29 April 2019 and 8 May 2019, respectively.

²⁴ Interview with Saepuddin in Ciamis, 8 May 2019.

²⁵ Interview with Agun Gunanjar in Jakarta, 13 July 2019.

- ²⁶ Interview with Alamsyah and Fikri in Tangerang and South Tangerang — 11 June 2019 and 13 June 2019, respectively.
- ²⁷ Interview with Alamsyah in Tangerang, 11 June 2019.
- ²⁸ Interview with Abdul Rojak in South Tangerang, 18 June 2019.
- ²⁹ Interview with a senior staffer of the local secretary of Banten Province in Banten, 14 June 2019.
- ³⁰ Interview with Fikri in South Tangerang, 13 June 2019.
- ³¹ Interview with Alamsyah in Tangerang, 11 June 2019.
- ³² Interview with Zarkasih Noer in Yogyakarta, 4 July 2019.
- ³³ Interview with Zarkasih Noer in Yogyakarta, 4 July 2019.
- ³⁴ <https://nasional.kompas.com/read/2014/06/09/2216165/Atasi.Daerah.Bandel.Jokowi.Punya.Jurus.Politik.Anggaran> (Date of Access: 6 April, 2019).

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