

THE EVOLUTION OF THE BROAD LOCAL AUTHORITY TOWARDS THE GUIDED AUTONOMY: THE CASE OF INDONESIA'S INTERGOVERNMENTAL RELATIONS

Zuliansyah Putra Zulkarnain¹

¹Faculty of Administrative Science, Universitas Indonesia, Depok, Jawa Barat, Indonesia

zuliansyah.putra@ui.ac.id¹

Abstract

This research explores the evolution of Indonesia's intergovernmental power relations, highlighting the shift from broad local authority to guided autonomy. Using a historical institutional approach, the article reveals that the critical juncture of the 1999 reform established extensive local autonomy, undermining the central authority. Asymmetric power relations and the political context triggered subsequent reforms that deterministically led to the 2014 guided autonomy. Unlike normative and functional approaches, which overlook the structures of power relations and political interactions in institutional change, this article concludes that the reciprocal relationship between political context, institutional settings, and actors' strategies determines the evolution of Indonesia's intergovernmental power relations.

Keywords: Intergovernmental power relations, local autonomy, institutional change, historical institutionalism

1 Introduction

Countries worldwide use decentralization to bring governments closer to the people and strengthen public accountability (Grindle, 2009; Ramesh, 2013). However, decentralization policy design and implementation, especially in Asia, Africa, and Latin America, do not necessarily lead to such outcomes (Lewis, 2014; Malesky & Hutchinson, 2016; McNulty & Guerra Garcia, 2019). It carries out problems such as the conflict between central and local authorities (Be-ere, 2022; Dickovick & Eaton, 2013) and the weak capacity of central and regional governments (Ghuman & Singh, 2013; Koo & Kim, 2018; Sagoe, 2020). Indonesia exemplifies that decentralization reform can develop in a complex way, not always aligning with its original goals.

Sequential Indonesia's decentralization reform from 1999 to 2014 designates the evolution of intergovernmental relations. The 1999 decentralization reform, known as the big bang, marked a rapid paradigm shift from a centralized to a decentralized government following the collapse of the predominantly centralized New Order regime (Bünte & Ufen, 2009; Crouch, 2010; King, 2004; Lane, 2014). The drastic changes transferred a broad range of autonomy to local governments at the expense of central and provincial governments (Aspinall, 2010; Aspinall & Fealy, 2003; Rasyid, 2004). The decentralized government structure led to weaknesses in central government control over regional affairs, resulting in unclear functional assignments and poor coordination in development program planning. These institutional challenges prompted the central government to initiate reforms, transitioning from broad local autonomy in 1999 to guided autonomy in 2014, which emphasized decentralized affairs under central governance.

However, Indonesia's decentralization studies pay less attention to the dynamic process and impact of decentralization reform on central-local relations. Many studies discuss

the relation between regional autonomy, strengthening local democracy, and public accountability ([Fossati, 2018](#); [Lewis, 2010](#)), others studying how political decentralization leads to local elites' competition over political and economic resources ([Buehler et al, 2021](#); [Choi, 2009, 2011](#)), some authors emphasize territorial proliferation motives post the centralized regime ([Firman, 2013](#); [Kimura, 2010](#); [Lewis, 2017](#)), while studies on the impact of local self-government to decentralization performance and regional development became a major theme ([Lele, 2023](#); [Negara & Hutchinson, 2021](#); [Purwanto & Pramusinto, 2018](#); [Talitha et al, 2020](#)).

The study of decentralization is closely linked to two main approaches: normative and rational choice. The normative approach justifies the linkage between decentralization, democracy, and good governance ([Mookherjee, 2015](#); [Nadeem, 2016](#); [Pratchett, 2004](#)). This approach often overlooks important factors in a country, such as its history, politics, and institutions, which are crucial for establishing a successful decentralization system ([Bae, 2016](#); [Erk, 2015](#); [Ramesh, 2013](#)). Meanwhile, the functionalist approach views decentralization as a way to enhance the state's development by making governance more efficient ([Azfar et al. 1999](#); [Hegele & Behnke 2017](#); [Heo, 2018](#); [Smoke, 2015](#); [Faguet & Shami, 2022](#)). Many researchers have criticized those approaches, arguing they tend to simplify the dynamic of institutional change of central and local relations ([Connell et al. 2021](#); [Eaton 2015](#); [Sudhipongpracha & Wongpredee 2016](#)). Accordingly, the evolution of Indonesia's intergovernmental relations illustrates that the reform does not solely aim to create local self-government and government effectiveness by bringing government closer to the people.

This article extends the decentralization studies by integrating the dynamic institutional change—denoting the reciprocal relation between political context, institutional form, and actors' maneuvers—and historical institutionalism in explaining the evolution of intergovernmental power relations from 1999 to 2014. Applying historical institutionalism ([Conran & Thelen, 2016](#); [Mahoney & Thelen, 2010](#)), this research argues that the 1999 big bang decentralization represented a critical juncture that set in motion a path-dependent process. The established institutional configuration—marked by asymmetric power relations between central and local government—forced feedback effect, triggering the central government to initiate subsequent reform in 2004 and 2007. Following path dependency theory, the institutional outcome of the 1999 reform constrained future choices, structuring the trajectory of decentralization reform and culminating in the 2014 decentralized structure that rejuvenated the central government's authority over the regions.

The next section of this article is a literature study of historical institutionalism and research methods. The next part is an analysis of field findings highlighting Indonesia's decentralization reform trajectory in the 1999 big bang decentralization, 2004, and 2007 that paved the way for establishing the 2014 guided autonomy. The analysis elucidates how the reciprocal relations between political context, institutional setting, and actors' strategy in shaping the evolution of intergovernmental power relations. The last part is a conclusion.

2 Literature Overview

Historical Institutionalism: Critical Juncture, Asymmetric Power Relation, and Institutional Change and Formation

The prominent historical institutionalist Hall ([Hall & Taylor, 1996](#)) defines institution as the established regulations, procedures, and customary behaviors that define the relation between individuals within the political and economic systems. An institution does not only provide rules and regulations to guide actor behavior and interaction among them but also values and norms that affect their identity, self-image, and preference ([March & Olsen, 1984](#); [Hall & Taylor, 1996](#)). The nature of the institutional setting, therefore, becomes an endogenous source of change, and in this context, change may produce unintended consequences ([Koelble & Siddle, 2014](#); [Mahoney & Thelen, 2010](#)). Thus, it challenges rational choice institutionalism, which regards preference formation as universally accepted behavior in a particular institutional context ([Hall & Taylor, 1996](#); [Hall, 1998](#); [Steinmo, 2008](#)).

In explaining institutional change and formation, historical institutionalism applies path dependency, notably a critical juncture, to address institutional evolution ([Hall & Taylor 1996](#); [Pierson, 2004](#)). It stresses that institutions reflect the asymmetry of power relations animating political interaction among actors and conflict within institutions. It constitutes the reciprocal relations between actors and institutions ([Falleti, 2010](#); [Ongaro, 2013](#)), leading to institutional formation and change ([Capoccia, 2016](#); [Streeck & Thelen, 2005](#)).

Path dependency constitutes the core idea of historical institutionalism, underlining critical junctures and development pathways. It highlights two primary arguments ([Mahoney, 2001](#); [Thelen, 1999](#)): the crucial moment of institutional formation that shapes the path of change; the created institutions continue to evolve in response to changing environmental conditions and constant political maneuvers along the reform trajectory. Investigating institutional change should focus on events facilitating change and the political environment ([Falleti, 2010](#); [Pierson, 2004](#)), bringing a contextualized understanding of a complex political situation into the institutional analysis.

Pierson (2004) describes three stages of the path-dependent process. First is the initial critical juncture that triggers the movement of institutional change toward a particular "path" or trajectory. An analysis of critical juncture has demonstrated that exogenous shocks, such as regime collapse and economic crisis, may cause institutional breakdown and give rise to the emergence of new institutions ([Capoccia, 2016](#); [Sorensen, 2015](#)). Second is the period of reproduction, denoting a positive feedback mechanism that reinforces the new institution to reproduce along the same path of reform ([Campbell, 2010](#)). And third, a moment where external forces or critical events dislodge a stable equilibrium ([Hall, 2016](#); [Ogbazghi, 2014](#)).

According to [Mahoney & Thelen \(2010\)](#), an institution is not a neutral coordination mechanism that generates equilibriums but reflects and magnifies the unequal distribution of power. Instead, it creates an asymmetry of power relations, and political arrangements and policy feedback actively facilitate and empower certain groups while disarticulating and marginalizing others ([Conran & Thelen, 2016](#); [Pierson, 2004](#)). However, actors disadvantaged by the existing institutions do not always disappear but try to adapt to the new set of rules ([Thelen 1999, 2004](#)). Adaptation is a strategy to cope

until a favorable political situation opens an opportunity to challenge or work within the prevailing institutions to achieve objectives other than initially intended ([Conran & Thelen, 2016](#)). By examining the internal dynamics of institutions, it is possible to analyze their impact on the power distribution among actors. The approach reveals institutional dynamics in change events along the path of reform ([Sheingate, 2010](#); [Béland, 2009](#); [Blyth et al, 2016](#)).

3 Research Method

This study reveals the institutional evolution of Indonesia's decentralized government structure from the 1999 broad local autonomy to the 2014 guided autonomy. Applying a case study method ([Gerring, 2006](#)), the analysis concentrates on three periods of Indonesia's decentralization reform; first, the 1999 to 2003 period of democratization and big bang decentralization reform; second, the 2004-2006 period marked the intention to harmonize multi-level government functions; and third, the 2007-2008 period emphasized re-structuring central and regional government.

Qualitative techniques included semi-structured in-depth interviews, documentary research, and internet website analysis. The interview respondents were senior government officials of the Ministry of Home Affairs (the MoHA), the Ministry of Finance (the MoF), and the Ministry of National Development and Planning (the MNDP). Also, members of parliament, particularly from Commission II of the national parliament. Here and after, this article uses the parliament referring to the Peoples' Representative Council/the National Legislative Council (Dewan Perwakilan Rakyat); and uses the national assembly referring to the National People's Assembly (Majelis Permusyawaratan Rakyat/MPR), and scholars have been interviewed. This study also conducted documentary research to address interview drawbacks since this research dates back as far as 1999. Documentary research has covered various legal documents, such as laws, government regulations, and proceedings of the Commission of II of the parliament about decentralization policies. Additional insight has been gained from the Indonesian language online newspaper archives, including *Kompas*, *Liputan 6*, *Detik*, *Hukumonline*, and local online media. Finally, the study relied on the rich academic literature in books and journals, including unpublished reports or internet publications.

The study synthesizes findings from diverse sources to develop a comprehensive narrative and thematic analysis of Indonesia's decentralization reforms. Each period is examined to uncover institutional, legal, and policy changes, emphasizing key drivers, challenges, and outcomes. The integration of multiple data sources facilitates triangulation, enhancing the analysis's credibility and depth. By combining stakeholder interviews, legal and documentary analysis, and media and academic insights, this approach offers a rigorous framework for understanding the evolution of Indonesia's decentralized governance. It effectively captures the historical progression and nuanced shifts in policy and institutional structures across the studied periods.

4 Result and Discussion

The Trajectory of Indonesia's Intergovernmental Power Relations

Since the end of President Soeharto's centralized New Order regime in 1998 and the subsequent democratization ([Bünte & Ufen, 2009](#); [Choi, 2011](#); [Hadiz, 2010](#)), decentralization reform has evolved through four phases (Table 1). The first phase in

1999, marked by democratization and big bang decentralization, saw the enactment of Law No. 22/1999 on Regional Government ([Aspinall & Fealy, 2003](#); [Crouch 2010](#)). In 2004, the second phase aimed to harmonize multilevel governance, addressing authority conflicts, and introduced Law No. 32/2004, replacing the 1999 law. The third phase in 2007 restructured central and regional government roles, resulting in Government Regulation No. 38/2007 on the Division of Government Functions. The fourth phase in 2014 refined the 2007 framework, introducing Law No. 23/2014, which enhanced central government oversight of regional autonomy. These reforms gradually shifted from broad autonomy in 1999 to guided autonomy in 2014, emphasizing the central government's role in regional development, public services, and decentralized affairs.

Table 1. Institutional Evolution of Central, Provincial, and Regency/City Relations

Aspects	Law No. 22/1999	Law No. 32/2004	GR No. 38/2007	Law No. 23/2014
The decentralization reform results	Broad local autonomy and the limited autonomy of the province	Reconfiguring vertical power relations: the design of concurrent affairs and provision of mandatory and optional decentralized affairs	Restating the central government's involvement in regional affairs	Guided Autonomy: Strong central government's authority over the region.
Central Roles, Responsibilities, and Authorities	The national government retained six absolute powers and wide-impact authorities, such as development policy and regional subsidies	Exercising absolute affairs and wide-impact authorities, setting minimum service standards of concurrent affairs, and strengthening central supervision of the regions.	Enacting a list of responsibilities of each level of government and guidelines for exercising concurrent and decentralized affairs.	The central government holds the authority to intervene, control, and supervise regional governments, including revoking regional regulations that contrary to central regulation.
Roles, Responsibilities, and Authorities of the Province	Have limited autonomy, acting as the government representative,	Emphasizing the governor's role as the government representative,	Affirming the position of the governor acting as the government	Strengthen the governor's role as the government representative:

	coordinating and supporting local governments in exercising decentralized affairs.	supervising the local governments, and ensuring alignment with provincial and national policies.	representative, responsible for concurrent affairs, and supervising the locals.	the authority to revoke local regulations that are contrary to provincial and national policies.
Roles, Responsibilities, and Authorities of Local Government	It has broad autonomy in public affairs except for six absolute affairs.	Responsible for mandatory, concurrent, and optional affairs according to local characteristics.	Executing mandatory, concurrent, and optional affairs based on the central guidelines.	Carry out mandatory, concurrent, and optional affairs with supervision from the central and provincial governments.
Institutional defects and problems	Broad local autonomy had undermined central and provincial governments to involve and supervise local governments, prompting conflict between levels of government.	Unclear division of authority: causes overlap and conflict between levels of government.	Lack of central support for the governor to carry out his function as the government representative in supervising local governments and concurrent affairs implementation.	
	Power imbalance: regional councils have strong power over the executive, often leading to conflict and money politics.	Low accountability: corruption and money politics are rampant in direct regional head elections.	Low accountability: corruption and inefficiency still occur due to a lack of effective supervision of the province and local governments.	
	Weak coordination: Non-hierarchical relationships	Unintegrated development planning: lack of coordination	Dependence on the center: regions are less independent in managing their affairs because they are too dependent on the central guidelines.	

	between levels of government hinder the achievement of national development goals.	between levels of government hinders the achievement of development goals.	
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The 1999 Decentralization Law: Establishing A Broad Range of Local Autonomy

Establishing a democratic and decentralized government was central to Indonesia's democratization after the New Order regime's three-decade rule. On May 7, 1999, President Bachrudin Jusuf Habibie, Soeharto's successor, enacted the 1999 autonomy law. Decentralization reform resulted in 2 packages of regional autonomy laws: Law No. 22/1999 on Regional Government/decentralization/regional autonomy and Law. No. 25/1999 on Fiscal Decentralization ([Rasyid, 2003](#); [Suwandi, 2004](#)). This "big bang" decentralization transferred broad authority to local governments, except for six central government powers—defense-security, foreign affairs, fiscal and monetary policy, judicial, and religious affairs (Article 7 Law No. 22/1999).

The reform emphasized political decentralization alongside deconcentration and co-administration principles, granting limited autonomy to provinces and full autonomy to local governments. Deconcentration is the delegation of central authority to the governor as the central government representative in the region. Meanwhile, co-administration refers to an assignment from the central government to the regional government and villages and from the regional government to the villages (Articles 1 and 13 Law No. 22/1999; [Rasyid 2003, 2004](#)). Provinces held dual roles as autonomous regions and administrative areas. Governors, heads of provinces, exercise authority covering several local governments' interests, and the authority that is beyond the capacity of the local government within the province in its roles as a head of an autonomous region. As government representative executes delegated authority from the national government. Local governments enjoyed full autonomy, such as public health, education, trade, and investment.

The 1999 law outlined key principles: (1) The national government retained six absolute powers and wide-impact authorities, including development policy, regional subsidies, resource management, and service quality standards. (2) It empowered provincial and local councils to elect and impeach regional heads, strengthening checks and balances. (3) Local governments were not subordinate to provincial governments. (4) The national government supervised provinces, while governors oversaw local authorities within their territories.

The 2004 decentralization law: restoring central government's authority

The central government viewed the 1999 law as problematic, as its broad local autonomy weakened central authority in regional development and caused power conflicts between government levels ([Crouch, 2010](#); [Nordholt & van Klinken, 2007](#)). The 2004 decentralization reform aimed to reconfigure a decentralized unitary state, emphasizing national government involvement in regional affairs ([Djohan, 2014](#)).

The 2004 law addressed several issues. First, it introduced a vertical power distribution framework, dividing authority into six absolute central government affairs, concurrent affairs, and regional government affairs. Regional governments were required to align with central government policies for concurrent and decentralized functions. Concurrent authority was shared among central, provincial, and local governments. Decentralized authority included mandatory public services, such as education, health, and infrastructure, and optional affairs reflecting regional peculiarities.

Second, regional heads were now directly elected, as stipulated by Law No. 23/2003 on Presidential Election and Law No. 22/2003 on Structure of the National Assembly, the National Parliament, the Regional Representative Council, and the Council. Third, the law reaffirmed governors' dual roles, especially as government representatives. Fourth, it redesigned control and supervision mechanisms. The Ministry of Home Affairs (MoHA) was tasked with coordinating central ministries to oversee provincial governments. Governors, as central representatives, supervised local governments, ensuring compliance with central policies and revoking local regulations that violated national policies.

The 2014 decentralization law: the guided autonomy

Law No. 23/2014 on Regional Government seeks to enhance regional autonomy by promoting sound local governance and harmonious relations between central and regional governments. It elaborates on the division of authority across different government levels. However, these laws do not introduce entirely new objectives. To understand their context, one must consider Government Regulation No. 38/2007 on the vertical division of authority, which complements the 2004 law.

According to Eko Prasojo, a professor of administrative science at Universitas Indonesia and a key resource person in the policymaking process of Law No. 32 of 2004, the regulation addresses two key problems identified in the 2004 law (Prasojo, interview, June 18, 2011). First, the unclear distribution of vertical power allowed central ministries to implement their authority in regions and issue policies guiding decentralized affairs. This ambiguity led to disputes between government levels and undermined subnational government accountability. Second, weak coordination between government levels persisted due to the governor's ambiguous dual roles ([Calavan et al., 2009](#)). As representatives of the national government, governors struggled to effectively supervise local governments and coordinate regional development policies.

The 2007 regulation was enacted instead of a new law to align with President Susilo Bambang Yudhoyono's (2004–2009, 2009–2014) focus on political harmony. However, public concerns over regional government accountability created a political opportunity to replace the 2004 decentralization law. Law No. 23/2014 expanded on the central issues of vertical power distribution, effectively serving as an elaboration of the 2007 regulation. First, the decentralization policy ties regional autonomy success to national development objectives, justifying central government intervention in regional autonomy ([Djohan, 2014](#)).

Second, the 2014 law defines three types of authority: the central government's absolute authority, concurrent authority, and ordinary affairs. Regional concurrent

authority includes mandatory and optional decentralized affairs, with specific responsibilities clearly allocated to each government level. For concurrent affairs, the Ministry of Home Affairs (MoHA) and central ministries establish norms, standards, procedures, and criteria, including minimum service standards, to guide central and regional governments.

Third, the law strengthens supervision and control by the MoHA and the governor as the central government's regional representative. The MoHA can annul provincial regulations that conflict with national laws, while governors can revoke local regulations that contradict provincial or national laws and evaluate local governments' performance. Finally, the law allows the central government to assign regional governments to implement national priority programs through a co-administration mechanism.

Democratization and The 1999 Big Bang Decentralization: Institutional Change In The Critical Juncture Moment

The late 1990s Asian financial crisis triggered a severe economic recession in Indonesia ([Hill, 2000](#); [Robison & Hadiz, 2004](#)), leading to Soeharto's resignation. This political shift created a critical juncture, allowing pro-democratic groups and reform-minded actors within Habibie's government to push for democratic and decentralized governance. The socio-political uncertainty and competition between reformists and status quo factions resulted in a compromise: the 1999 decentralization law. This policy shaped subsequent reforms in 2004 and 2007, ultimately influencing the 2014 regional autonomy framework.

Theorists like [Mahoney \(2001\)](#) and [Mahoney & Thelen \(2010\)](#) emphasize the importance of a critical juncture that triggers change. Mahoney defines a critical juncture as the selection of a specific option. The choices are significant as they establish enduring institutional or structural patterns. Thus, examining the critical juncture must analyze the pivotal political decisions that catalyze institutional change and shape the institution's destiny. In this context, exploring the changing political environment following the New Order regime collapse and the competition of policymakers in responding to the demands of democracy and decentralization is the main analysis to explain the results of the big bang reform.

Several constraints challenged President Habibie's intention to encourage democracy and decentralization. First, pro-democratic activists regarded Habibie as Soeharto's close confidant and questioned his political legitimacy ([Anwar, 2010](#); [Aspinall & Fealy, 2010](#)). Second, regional discontent over the national government intensified, shaking the foundation of Indonesia's unitary state. President Habibie's efforts to promote democracy and decentralization faced key challenges. First, pro-democratic activists, viewing him as a close ally of Soeharto, questioned his legitimacy ([Anwar, 2010](#); [Aspinall & Fealy, 2010](#)). Second, growing regional dissatisfaction with the national government threatened Indonesia's unitary state ([Republika, 1999](#)). Third, according to Bhenyamin Hoessein, a professor of local government at the University of Indonesia and a key member of the 1999 and 2004 decentralization reform teams at the Ministry of Home Affairs, national politicians and bureaucrats, who had benefited from centralization, strongly resisted decentralization (Hoessein, interview, October 17, 2010).

However, Mohamad Ryaas Rasyid (Minister of Regional Autonomy, 2000-2001) revealed that the president was confident that broad regional autonomy might be an effective policy to address the reform demand and regional resentment (Rasyid, interview, October 7, 2010). As the first move, the president planned constitutional amendments and approached the National Assembly to convene an extraordinary joint session in November 1998 ([Crouch, 2010](#); [Liddle, 1999](#)). The pivotal decision was MPR Resolution No. 15/1998 on Establishing Regional Autonomy, authorizing the president to deliver decentralization reform. Following the MPR Resolution, the president formed an expert team – known as Team 10 – led by Ryaas Rasyid, who was then serving as Director General of Government and Regional Autonomy in the MoHA, to draft the bill of regional autonomy.

The most challenging task was the contestation over the regional autonomy design. Team 10 believed that by granting devolution to the province, the national government could focus on supervising the provincial government while assisting them in controlling local government performance. In this sense, Rasyid explained that: “Indonesia was too large in geographical area and had too many local governments – most of them lacked managerial capacities to act autonomously – thus, burdening the national government to supervise, coordinate, and monitor local governments”.

Further, Hoessein explained that Habibie’s cabinet opposed the team’s recommendation because it risked turning provinces into quasi-states and undermining the unitary structure of Indonesia (Hoessein, interview, October 17, 2010). Still, the pro-democratic activists insisted that only a federal system of government could overcome the highly asymmetric power relations between the center and the regions ([Ferrazzi, 2000](#)). As the federalism debate intensified, the military faction pressed the president to emphasize autonomous rights to local government ([Smith, 2008](#)). Considering the president’s pressure, Team 10 accepted the broad range of local government autonomy and showed their rejection of the Federalist camp (Rasyid, interview, October 7, 2010).

The president and cabinet preferred granting full autonomy to local governments, reducing provincial governments to administrative roles. In response, Rasyid proposed a dual system of regional autonomy: limited autonomy for provinces and broader local autonomy. He convinced the president to adopt this design for several reasons: first, limited provincial autonomy would restrict provincial governments’ autonomous power. But it ensured elected councils’ existence, supporting democratic checks and balances. Second, the national government could maintain control over provinces as its regional representatives. And, third, the proposal aligned with Law No. 4/1999 on the National Parliament, which mandated subnational councils, and Law No. 3/1999 on National Elections. Despite cabinet doubts about Rasyid’s decentralization plan, President Habibie enacted Law No. 22/1999 to avoid political instability, as the government had less than three months before the June 1999 general election. Postponing the law was seen as a risk to political stability.

Reconfiguring Intergovernmental Power Relations: Establishment of The 2004 Decentralized Structure Of Government

President Habibie and the parliament agreed to implement the 1999 decentralization law in 2001 ([Djohan, 2014](#); [King, 2004](#)). However, shifts in the political landscape and flaws in the 1999 law led to its replacement by Law No. 32/2004. Path-dependent theory explains that after a critical juncture, self-reinforcing dynamics drive institutionalization ([Pierson, 2004](#)). Yet, these new institutions can create unequal power distributions, shaping political interactions and conflicts during institutionalization. Disadvantaged actors may exploit institutional weaknesses and await favorable conditions to push for changes that benefit them ([Thelen, 1999](#); [Mahoney & Thelen, 2010](#)).

This part argues that the 1999 democratization and decentralization reform had resulted in an amendment of Article 18 the constitution and the direct presidential election system impacted the 1999 decentralized government structure. The amendment allowed President Abdurrahman Wahid (November 1999-July 2001), Habibie's successor, to reconcile the 1999 regional autonomy implementation. However, the objection of local government associations to the reform, competition within the cabinet, and the impeachment of President Wahid halted the plan to rectify intergovernmental relations. President Megawati Soekarnoputri (July 2001-October 2004), the then Wahid's deputy, sustained the reform. Considering strong opposition from local government associations and lackluster support from the parliament, the president derailed the reform initiative. Nevertheless, Laws No. 22/2003 on parliamentary structure and No. 23/2003 on direct presidential elections allowed the president to advance the reforms, culminating in the enactment of the 2004 decentralization law on October 15, 2004. The president and the national parliament also enacted the sister law of regional government, Law No. 33/2004 on Fiscal Decentralization.

In August 2000, the national assembly passed the second amendment to the 1945 Constitution. The amendments to Article 18 re-emphasize the unitary state form in which a decentralized government structure is built (Hoessein, interview, October 17, 2010). Subsequently, the national assembly enacted MPR Edict No. IV/2000 on Policy Recommendation for Improving Regional Autonomy. The edict stressed that intergovernmental relations should not jeopardize Indonesia's unitary state's foundation and weaken the national government's authority to intervene in regional autonomy. In this sense, Agun Gunanjar Sudarsa (Former Chairman of Working Committee on Law No. 32/2004 on Regional Government, Committee II of the People's Representative Council of the Republic of Indonesia) explained that: "Indonesia is not a federal state; we adopt a unitary state, the affairs in the region must not differ from one region to another...Law No. 22/1999 of Regional Government provides unlimited autonomy, which results in the uncontrolled government administration" (Sudarsa, interview, October 25, 2011). The crucial issues that prompted the MPR decree enactment were social unrest at the local level and the defects of the 1999 decentralized structure. Rising ethnic, religious, and regional identity politics led to conflicts across various regions, with severe clashes in Poso, Lombok-Mataram, and the Moluccas between 1999 and 2004, posing a significant threat to national political stability ([Nordholt, 2012](#); [Nordholt & van Klinken, 2007](#); [Sangaji, 2007](#)). Minister of Home Affairs, Let Gen (Ret) Soerjadi

Soedirdja, observed that the 1999 law limited the national government's ability to take preemptive actions to address these conflicts effectively (Rasyid, interview, October 7, 2010).

Kesulitan pemerintah pusat untuk merespon berbagai permasalahan dan konflik di tingkat lokal tidak terlepas dari the 1999 decentralized government structure yang melemahkan otoritas pemerintah pusat. First, the law granted extensive authority to local government at the expense of both national and provincial governments, as explained by I Made Suwandi, a senior official at the Ministry of Home Affairs and a key figure in the 2007 redesign of power distribution within Indonesia's multilevel government (Suwandi, interview, October 25, 2010). Second, unclear power distribution among government levels, especially between provincial and local governments, fueled conflicts over authority, such as disputes over investment permits ([Alm et al. 2001](#); [Bell, 2003](#)).

Third, the non-hierarchical structure of Indonesia's multi-layered government system weakened vertical coordination in national development and planning, thereby hindering the achievement of development goals. As noted by Prasetijono Widjojo, former Deputy of Government Development Financing at the Ministry of National Development and Planning, this fragmentation posed serious challenges to aligning central and regional priorities (Widjojo, interview, October 7, 2010). Fourth, the 1999 law created an imbalance of power between regional councils and regional executives, such as governors, mayors, and regents. A common manifestation of this imbalance was the rejection of accountability reports from regional heads by local councils, often driven by corrupt practices, including bribery (Suwandi, interview, October 25, 2010).

The MPR edict paved the way for the Wahid government not only for providing the implementing policy of the 1999 law but also for amending the law if necessary. In order to redress central and local conflict, the Wahid Government prioritized providing the implementing policy and enacted Presidential Decree No. 52/2000, assigning the coordinating team to accomplish the mission. Rasyid, who became Wahid's Minister of Regional Autonomy (the MoRA), chaired the team and immediately formulated the implementing policy ([Rasyid, 2004](#)).

The disagreement between the MoRa and the MoHA over the implementing policy design triggered the resistance of the MoF and the MNDP. After a debate among the members of the coordination team, eventually, in May 2000, President Wahid eventually issued the implementing policy, namely Government Regulation No. 25/2000, on the Authority of the National Government and the Province as an Autonomous Region (Suwandi, interview, 25 October, 2010). Nevertheless, central ministries conceived it as limiting their authority to deliver services in the region since the local authority's consent is required. Meanwhile, the local government association suspected that the regulation allowed central ministries to exert their authority instead of devolving it to the region ([Rasyid 2003, 2004](#)).

The government regulation failed to resolve the intense debate over its implementation and ongoing communal conflicts across regions. In response, the MoHA persuaded the president to prioritize political stability and state territorial integrity in managing intergovernmental relations (Rasyid, interview, October 7, 2010) Similarly, the

parliament issued a Parliamentary Letter mandating the central government to empower the central government to intervene in regional affairs following the MPR Edict of 2000 ([Djohan, 2014](#)). Leveraging this mandate, the MoHA secured the president's approval to amend the 1999 law. To facilitate this, President Wahid merged the two conflicting ministries – the MoHA and the MoRA – into the Ministry of Home Affairs and Regional Autonomy (MoHA-RA), chaired by Minister Soedirdja (Rasyid, interview, October 7, 2010)

Nevertheless, President Wahid's impeachment temporarily terminated the amendment. Megawati, his successor, continued the process and proposed the term "revision" instead of an amendment since it would be viewed as an action to the re-centralizing authority ([liputan6.com, 2002](#)). At the end of 2001, the MoHA proposed a decentralization bill to the president. It highlighted the national government's power to revoke the devolved authority due to sub-national governments' poor performance and empowered the governor's role as the government representative to avoid the hostility between the president and local government associations.

Local authorities were skeptical about the reform initiative, leading to local objections ([Hukumonline.com, 2002](#)). The national assembly chairman warned the president that conducting the amendment would endanger central and regional relations. Such unfavorable political circumstances pressed the president to withdraw the decentralization bill from the parliament, thus, halting the legislative discussion of the current.

The enactment of Law No. 23/2003, which introduced a direct presidential election mechanism, kept the amendment process open. Parliament's Committee II proposed extending the direct election mechanism to regional head positions, believing it would strengthen local democracy and align with the constitution (Sudarsa, October 25, 2011). The committee prioritized designing the direct election process and defining power-sharing arrangements between regional chief executives and councilors, delegating the multilayered power distribution framework to the MoHA (Hoessein, interview, October 17, 2010). In October 2004, the Indonesian government enacted the new decentralization law, Law No. 32/2004.

A modest change for revamping the 2004 decentralized structure of government: paving the way for the guided autonomy

The 2004 decentralization law had not yet rectified the unclear vertical power distribution. The MoHA recognizes that the law emphasizes the mechanism of direct elections and pays little attention to the power distribution between levels of government, with only 23 of the 240 articles regulating it. Maintaining the political stability approach, the reform took place in two stages, resulting in the 2007 government regulation and the 2014 decentralization law. [Streeck & Thelen \(2005\)](#) and [Sheingate \(2010\)](#) highlight that institutions are often sites of conflict as actors seek to exploit them for their own advantage. This can involve interpreting institutions to align with their goals or circumventing rules that oppose their interests. Those feeling disadvantaged do not disappear but adapt to the new rules as a coping strategy, waiting for a chance to challenge the status quo or work within the system to pursue different objectives.

This section argues that the 2004 reform failed to restore the central government's authority over regional autonomy, prompting President Yudhoyono to prioritize revitalizing regional autonomy. However, his political stability approach led the government to avoid tensions with the parliament and local government associations opposing the reform. Instead of amending the 2004 law, the government conducted a modest reform resulting in Government Regulation No. 38/2007. This regulation strengthened the central government's authority to intervene in regional autonomy and laid the groundwork for future amendments to the 2004 law to increase central control. However, the reform backfired by designating governors as central government appointees, intensifying its control over local governments. This maneuver sparked opposition from the public and parliament, delaying the enactment of the new law. President Joko Widodo, Yudhoyono's successor, ultimately ratified the law after restoring the governor's political position.

The main objective of the 2004 decentralization law was to restore the national government's authority over the region. The MoHA considered that the law had not yet rectified the unclear vertical power distribution led to undermining national government authority. The opportunity for change opened when President Yudhoyono showed attention to the poor performance accountability of the elected regional head and conflicts in local elections ([Liddle, 2005](#)), triggered by the direct election of Regent Kutai Kertanegara ([detiknews, 2004](#)). The president stated his mission to revitalize the decentralization policy in the National Medium-Term Development Plan of 2005-2009. Following the president's intention, the MoHA prepared a design of vertical power distribution refining the ambiguity of intergovernmental affairs and overcoming poor public accountability and corruption.

However, the president's political harmony strategy affected the MoHA's reform strategy. Such political strategy stressed political stabilization and the coalitional cabinet accommodating various political forces ([Liddle & Mujani, 2005, 2006](#)). Therefore, the MoHA conducted a modest reform to limit the change so as not to lead to amendments to the 2004 law, avoiding pros-cons in the parliament and dampening regional heads' resistance.ⁱ The MoHA dealt with challenges; first, the demands of pro-democracy groups to change the direct regional head election scheme contained in Law No. 32 of 2004 due to devastated money politics and political fragmentation ([USAID Democratic Reform Support Program, 2009](#)). Second, overcoming the sharp differences in preferences between the MoHA, the MoF, and MNDP, regarding the impact of the vertical power distribution on fiscal decentralization and the national development and planning system.

The demand forced the MoHA to halt the formulation of vertical power distribution design and focus on the 2004 law revisions, improving the electoral system in 2005 and 2008 ([USAID Democratic Reform Support Program 2009; Tomsa, 2015](#)). As the revision accomplish, the MoHA continued to design the vertical power distribution and persuasively approached the MoF and the MNDP (Hoessein, interview, October 17, 2010). The MoHA emphasized that the design will provide guidance for each level of government to exercise their authority as mandated by the 2004 law, thus, overcoming the conflict among them (Article 14 of Law No. 32/2004). Therefore, fiscal decentralization and the national development and planning system should adjust to the vertical power distribution design.

Still, the MoF and the MNDP showed their objection. The MoF stressed that fiscal decentralization is part of the national budget system and, thus, has to abide by the state budget and taxation regulations.ⁱⁱ Meanwhile, the MNDP underlined that improving the multilevel development planning system is the main objective of regional autonomy revitalization (Widjojo, interview, Ocotber 7, 2010). Amidst the dispute between the three ministries, President Yudhoyono highlighted the low regional government accountability and a dispute between levels of government over decentralized affairs implementation. The accountability problem emerged along with the rampant corruption cases entangling regional heads and senior officials. Supreme Audit Board (the SAB) published that unclear vertical power distribution and weak multilevel planning and budgeting systems have resulted in low fiscal accountability (Antaranews 2007).

The SAB's evaluation and the president's priorities bolstered the MoHA's intention ([Yudhoyono, 2008](#)).

To address public concerns over recentralization, the policy instead sought to empower governors as representatives of the central government while preserving the principle of local autonomy. As explained by Torontuan Keban Yeremias, professor of public administration at Universitas Gadjah Mada and former executive director of the Association of Indonesia Provincial Government, this approach aimed to reconcile national oversight with regional self-governance (Keban, interview, October 7, 2010). Furthermore, the MoHA accommodated central ministries' intention to provide the rules of engagement for maintaining their concurrent affairs at the regions. Such strategy resulted in Government Regulation No. 38 of 2007 that reinvigorated central ministries' authority to intervene in regional affairs and guide regional governments in executing decentralized authorities. In asserting the rationale of the regulation, Suwandi argued that: "When the president's authority (the central government-red) is decentralized while still bearing final responsibility, the president has the power to establish the rules by which governance operates. Consequently, the regions must adhere to the central government's regulations as they exercise their authority". In 2011 Yudhoyono government initiated the decentralization reform to replace the 2004 law aiming at reinvigorating the central government authority over the regions within the decentralized unitary state. The reform focused on upscaling the 2007 vertical power distribution, asserting the central government's authority to be involved in regional development, increasing the governor's roles as the government representative by strengthening a multilevel supervision system for assessing the performance of regional autonomy, and most importantly, the indirect election for regional heads or election by the regional council ([Djohan, 2014](#)).

The Yudhoyono government believes that the indirect election is a crucial factor in creating stable central and regional government relations and preserving the decentralized unitary state ([KPPOD, 2014](#)) However, this electoral model received strong opposition from local government associations and triggered political deadlock in the parliament following the transition period from the Yudhoyono to the Joko Widodo Government elected in October 2014. Jokowi's coalition in parliament secured the direct election in line with the demands of the public and local government associations ([Kompas.com, 2014](#)).

President Yudhoyono commissioned the MoHA to prepare two versions of the regional head electoral bill: the model of indirect and direct election. Public pressure forced the government to establish a regional head direct election mechanism ([Kompas.com, 2014](#)). As the reform emphasized the issue of the regional head election, it did not interfere with the design of power-sharing between levels of government. The Widodo government then enacted the 2014 decentralization law replacing the 2004 law.

5 Conclusions

This article reveals that the trajectory of Indonesia's decentralized government structure development exhibits sequences of events with deterministic attributes. Thus, to understand the establishment of the 2014 guided autonomy, it is essential to trace its roots to the critical juncture of democratization and decentralization in 1999, which set the trajectory for subsequent institutional change.

Using a historical institutionalism framework, the study highlights that the 1999 "big bang" decentralization marked a pivotal moment, granting extensive local autonomy at the expense of national and provincial authority. This critical juncture created a new institutional framework that, in turn, became a catalyst for further change, as asymmetric power relations within the framework spurred competition among actors seeking to control it. Path dependency theory underscores how the institutional outcomes of the 1999 reforms shaped later decentralization reforms in 2004 and 2007, ultimately influencing the decentralized structure adopted in 2014.

The evolution of Indonesia's intergovernmental relations reveals that decentralization reforms are not merely intended to establish local self-government or improve governmental effectiveness by bringing governance closer to the people, as commonly argued by normative and functional approaches. In contrast, this article concludes that the trajectory of institutional change is driven by the interplay of political contexts, institutional structures, and actors' strategies, emphasizing the role of power dynamics and political interactions often overlooked by normative and functional perspectives.

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Appendix 1. List of Interview Participants

Date	Interview Participants	Affiliation
October 7, 2010	Ryas Rasyid	Minister of Regional Autonomy, 2000-2001
October 7, 2010	Torontua Yeremias Keban	Professor of public administration at Universitas Gadjah Mada and former executive director of the Association of Indonesia Provincial Government
October 7, 2010	Presetijono Widjojo	Former Deputy of Government Development Financing at the Ministry of National Development and Planning
October 17, 2010	Bhenyamin Hoessein	A professor of local government at the University of Indonesia and a key member of the 1999 and 2004 decentralization reform teams at the Ministry of Home Affairs
October 25, 2010	I Made Suwandi	A senior official at the Ministry of Home Affairs and a key figure in the 2007 redesign of power distribution within Indonesia's multilevel government
June 18, 2011	Eko Prasojo	A professor of administrative science at Universitas Indonesia and a key resource person in the policymaking process of Law No. 32 of 2004
October 25, 2011	Agun Gunanjar Sudarsa	Former Chairman of Working Committee on Law No. 32/2004 on Regional Government, Committee II of the People's Representative Council of the Republic of Indonesia