

Institute for Social Change

**Political decentralisation, accountability, and local public service performance:
evidence from decentralised Indonesia**

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Abstract

Many developing countries are experimenting with decentralisation of public service delivery to elected local governments instead of bureaucrats appointed by a central government. In attempting to understand the working of this experiment, I propose a model to study the linkages between local government accountability, local government corruption, and citizens' political participation to explain decentralisation performance. Using simple and multilevel regressions, the hypothesis is empirically tested against evidence from newly empowered local governments in Indonesia. The empirical findings broadly support the hypotheses. Improved public service, both in term of quantity and quality, requires citizens' political participation as well as accountable local governments. Both are required to allocate resources to priority areas that meet the demand of the local community.

Key words: political decentralisation, political accountability, and local public service

Introduction

In recent years, there has been considerable discussion on the merits of decentralisation. The discussion has often focused on the provision of a greater variety of public goods that may result from decentralisation. More recently, greater emphasis has been placed on political accountability issue at local governments. Recent decentralisation reforms substantially focus on political decentralisation rather than administrative and fiscal decentralisation (Crook and Manor 1998:1, Bardhan and Mookherjee 2006a:4, World Bank 2008). Political decentralisation emphasizes the working of political participation and political institutions, such as political parties and civil society, to ensure the accountability of local politicians and local officials. Proponents of political decentralisation argue that bringing citizens closer to government and allowing them to hold politicians accountable are an important foundation to enhance local public services performance. They argue that better quality of representation and greater transparency will be created when citizens are allowed to be more actively engaged in public affairs.

Although political decentralisation promises better government and deeper democracy, in practice this approach meets challenges. Under decentralisation citizens should have greater say in the policy making and programme choices of government, but evidence at many developing countries suggests that this is not often the case. In some cases, local governments may actually be more subject to capture by vested interests than national ones after decentralisation (Bardhan and Mookherjee 2000; Bardhan 2002; Bardhan and Mookherjee 2006b). Bardhan and Mookherjee (2006b:164) elucidate some of the basic trade-offs involved in the delegation of decision making to local government: decisions are made on the basis of better (local) information, but they are made by an agent whose incentives differ from those of the principal thus leading to a loss of control or an abuse of power. In decentralised government, local governments can be more vulnerable to corrupt because local power groups can easily collude beyond the control of higher level institutions. Bienen and colleagues (1990:72-73) identify that decentralisation created opportunities for local elites to capture resources and decision making at the local level in Nepal. Russia has faced a fast-moving decentralisation process since the early 1990s, when

it was transformed from a centrally planned economy into a decentralised market economy. During the process of devolution, local leaders have been empowered and local governments have been captured by initial rent holders (Blanchard and Shleifer, 2000). This has led to very high levels of corruption, which are still a significant problem facing the Russian economy and society today (Lessmann and Markwardt 2010: 631). In Bangladesh, under President Ershad's decentralisation reform, the decisions over allocation of resources continued to be made by elites of political factions that corrupted and controlled the local governments (Sarker, 2008: 1425). Instead of facilitating equity in participation, representation, influence and benefit sharing, decentralisation can lead to local government corruption. With corrupt local governments, there is a tendency for lack of accountability and inefficiency of public services.

Despite the recognised importance of local accountability system in determining decentralisation performance and an extensive descriptive literature, there have been surprisingly few empirical studies. Most of empirical research on decentralisation has dealt with the impact of intergovernmental administrative and fiscal relations on the performance of local governments. Insufficient emphasis has been paid to the varying patterns in the adjustment of local accountability systems to the new institutional environment created by decentralisation reform. There are several empirical studies which explore how local accountability systems are transformed or created and how they in turn affect local public service delivery in developing countries (see for example Bienen and colleagues 1990, Hadiz 2003, and Sarker 2008). However, most of these studies are descriptive in nature and use qualitative methodology. Few quantitative studies have been conducted to examine accountability and decentralisation reform, but they either use province or village as unit analysis (see for example Blanchard and Shleifer 2000, and Bardhan and Mookherjee 2006). In addition, most of them use a limited sample so that the results can not be generalized on the population. This study addresses those gaps by using a large sample of households and local governments. Various factors which determine the working of local accountability are examined to explain local public services performance in the new empowered local governments in Indonesia.

Following economic and political crisis in the mid 1998, political system in Indonesia changed from highly centralised government to decentralised government. The passing of the bill on regional government (22/1999) and the bill on fiscal balance between the central government and local government (25/1999) transformed the rhetoric of political decentralisation and regional autonomy into reality. These bills devolved resources and responsibilities from the central government to around four hundred local governments in Indonesia in all governments' administrative sectors, except for security and defence, foreign policy, monetary and fiscal matters, justice, and religious affairs. Significant public expenditure has been devolved to all districts amounting to around one-third of total national expenditure. In particular the bill on regional government 22/1999 prompted a major reorganisation of political accountability chains in this country. First, it eliminates the hierarchical relationship between the central, provincial, and local governments/districts. Citizens have freedom to elect their local leaders and parliaments through direct election. The major and district government officials are elected by and responsible to the locally elected assembly (*Dewan Perwakilan Rakyat Daerah*). Second, for locally assigned responsibilities, the branches of ministries in the districts are placed under the jurisdiction of local governments. Indonesia's decentralisation, therefore, neatly reflects the concept of political decentralisation.

In this article, I seek to find answers to several questions: when local governments are charged with new responsibilities and are equipped with more resources, to what extent they can enhance performance? How is the performance of local governments affected by the citizens' political participation, accountability, and local government corruption? What is the likely pathways connecting decentralisation and performance? What is the implication of political decentralisation for better government? To find answers to these questions, I use the 2002 Governance Decentralisation Survey (GDS) data collected from a stratified random sample of around ten thousand respondents nested in one hundred and seventeen districts in the country. I use the data to measure the performance of districts as perceived by citizens and seek to explain why districts perform as they do. GDS is designed to collect information both at the level of citizens and districts. This nested or

multilevel structure allows the use of multilevel analysis to capture unobserved variations between local governments.

The rest of the paper is structured as follows. I begin by proposing a model linking political decentralisation, accountability, and performance. Next, decentralisation change in Indonesia as the context in which study based is introduced. Then, I present hypothesis and discuss some methodological problems on measurement. After that, I present empirical results and discuss some key findings before conclusion.

Decentralisation, accountability and performance

There is a long theoretical literature on the advantages of decentralisation. The following are some of the advantages that decentralisation will make information revelation as citizen preferences are easier to perceive at the local level (Manin and Stokes 1999), improve accountability since it is easier to link the performance of local services to local political representatives (Peterson 1997), match with citizens and policy preferences as decision making move to local jurisdictions, improve fiscal management, and improve economic growth and market security (Wibbels 2000). All these benefits lead to enhance efficient and less corrupt governments (Fisman and Gatti 2002), and to increase democratisation and participation (Crook and Manor 1998).

While there is an array of theoretical reasons why decentralisation should be expected to improve local government performance, the empirical evidence has not been as supportive. The empirical results of decentralisation throughout the world have been mixed at best (see Agrawal and Ostrom 2001, Bardhan and Mookherjee 2003; and Ribot 2004). Litvack, Ahmad, and Bird (1998) present evidence from Eastern and Central Europe and suggest that public services can suffer as a result of decentralisation, at least in the short run. In a similar vein, Crook and Sverrisson (1999) have provided evidence that despite extensive strides of devolution of authority and resources to democratically elected local governments, decentralisation in Colombia, West Bengal and Brazil has achieved little in improving service delivery. Rather than improving local government

performance, some authors find that decentralisation increased potential for elite capture in Nepal and Bangladesh (Bienen and colleagues 1990, Sarker 2008), rent seeking and corruption in Russia (Triesman 2000, Blanchard and Schleifer 2000), exclusion of local minority populations, and conflict for new resources in local government in other developing countries (Prud'homme 1995; Ribot 2004).

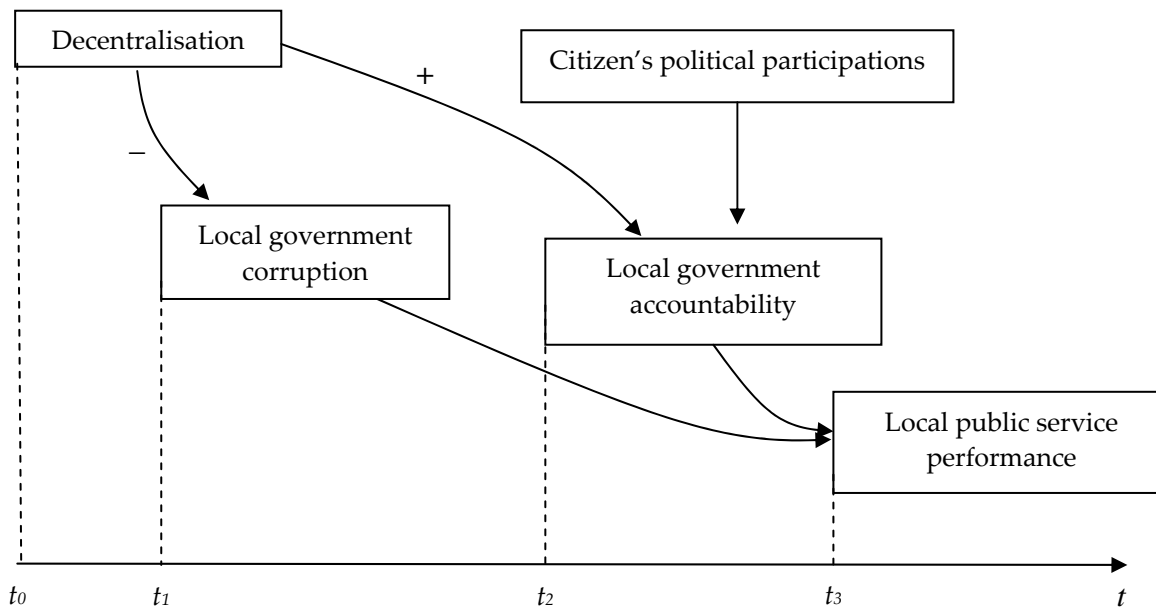
Why decentralisation in many developing countries often does not live up to the expected benefits? A number of studies suggest that the outcome of decentralisation crucially depends on the extent to which central management is replaced by democratic institutions ensuring that the community can exercise control over local government (Agrawal and Ribot 2000, Ostrom 2000, Anderson 2003, Rodden 2003). In a well functioning democratic system, citizens are able to exert pressure on local elected representatives to provide needed goods or services. However, in many cases the fundamental prerequisites democratic institutions and local accountability are missing (Crook and Manor 1998, Bardhan and Mookherjee 2000). If political accountability is incomplete, decentralization may in fact create powerful incentives for local elites to capture the local political process and divert public resources to match their own aspirations rather than those of the broader community. In this case decentralization implies a power shift from central to local elites rather than improvement of the external accountability of the public sector (Bardhan and Mookherjee 1999, 2000).

Recent studies hint that thinking about sequences of reform is important to understand the working of institutional reform such as decentralisation and local democracy in developing countries (Grindle 2004). Decentralisation reform implies change on political organization, the representation of interests, and processes for public debate and decision making. Putting decentralisation on its sequences thus can provide clues when institutional capacity and local democracy work to achieve effective decentralisation. Indeed, traditional theory of fiscal federalism, which is developed in a Western context, has been challenged in terms of their political applicability for designing and implementing decentralisation in developing countries (Bardhan 2001). Fundamental to the workings of

this normative model is a precondition that local governments already have sufficient institutional capacity which enables them to discharge their responsibility (Dillinger 1994). This model implicitly assumes well-established systems and mechanisms that enable citizens to express their preferences and local governments to respond to their demands. In many developing countries that embraced decentralisation, however, these preconditions or process are lacking or are still in the process of being established and developed. Hence, undertaking analysis on sequences of decentralisation reform would provide insight into time dimension of change and promote greater tolerance for local governments in developing countries to establish preconditions for effective decentralisation.

Thinking in sequences, I present hypothesised pathways through which decentralisation can lead to better local public service performance. In figure 1, I present a model of these pathways. It is assumed that the process of decentralisation in post-centralistic developing countries will grow from t_0 to t_3 where $t_3 > t_2 > t_1 > t_0$. Here, the duration does not matter, only the sequence does, because development on each phase depends on local government's achievement on some preconditions. For example, improving local public service performance (t_3) requires existing political accountability (t_2). How long local government takes time to achieve accountability depends on the development of effective citizens' political participation. Similarly, we also do not know how long local government takes time to reduce corruption. It may reduce along with the increasing citizens' political participation. Here, political participation is a necessary precondition to achieve improved public services.

Figure 1: hypothesised pathways through which decentralisation may lead to better local public service performance



From this model, we can divide decentralisation into two phase, say t_0 - t_2 for earlier phase and t_2 - t_3 for the next phase. The first phase take places when the central government formally transfers their power to local governments. As experiences in many developing countries show this phase focuses on securing the legitimacy of the state and on consolidating national stability (Bardhan 2002; World Bank 2002; Bardhan and Mookherjee 2006a). For instance, World Bank (2002) notes that the widespread of decentralisation in Latin America, Asia, Africa, and Eastern Europe since the 1980s is mainly to enhance the legitimacy of state due to the failure of centralised government in those countries. In Indonesia, decentralisation has occurred following reducing legitimacy and the failures of Soeharto's authoritarian government who occupied the country for more than thirty two years. Decentralisation in the country is conducted as the main political choice of central government to secure national unity and stability. Thus, the initiatives of reform mainly come from the central government rather than local governments. Meanwhile, the second phase of decentralisation is initiated when preconditions of effective decentralisation are developed. Decentralisation in this phase is established by effective citizens' political participation and local government accountability. Along with increasing local government empowerment, the main actor of decentralisation is changed from central

government to local governments. Hence, the initiatives of decentralisation grow partly from the initiatives of local citizens.

Following this model, local public services are suffered in the first phase. This is due to the extent of corruption and elite capture are unchecked by local governments. Corruption tends widely occurs in this phase due to decentralisation acts through local leaders as channels for distributing resources from central government. These actors are on the privileged position to use or misuse resources directly. Platteau (2004:227-230) suggests that the probability of resource misuse by local elite is increased when decentralisation act through local leaders. This is because decentralisation enables leaders and outside agencies to channel considerable amount of resources from communities. Experiences from several countries show the evidence of local corruption and elite capture in the early decentralisation. Blanchard and Schleifer (2002) find evidence on local elite capture on Russian decentralisation in the early 1990s. Instead improving local democracy and performance, Russian decentralisation creates empowered local leaders who capture local government power and resources. This has led to very high levels of corruption, which are still a significant problem facing the Russian economy and society today. Similarly, Sarker (2008) illustrates how decentralisation reform in Bangladesh has dominated by elite of political factions rather than open opportunity for citizen participation particularly on the decision over allocation of resources for local development. In Indonesia, Hadiz (2003) provides qualitative study on how local political context became charged with elite capture and corruption in three newly empowered local governments at North Sumatra. With corruption and elite capture, local democracy may not function appropriately, thus limiting accountability of local governments (Lieten 1996; Crook and Manor 1998; Bardhan 2002; Bardhan and Mookherjee 2006b). Local government can be susceptible to capture by special interest groups or reduce effort to improve public services without facing any risk of losing their positions. Hence, there is a tendency for the local government to over-provide the service to elites at the expense of the non elites. In that case public service delivery can worsen under decentralisation.

Decentralisation will result in better local public services in the second phase. In this phase, some pre-conditions of political accountability are established. Citizens' political participation grows along with political awareness, regular and fair election, and effective civil society organisation. Political awareness improves along with increasing literacy and socio-economic status within the communities, apart from exposure to independent media sources. Regular and fair election will ensure accountability of governments through threat and reward of re-election. It is a form of 'incomplete contract' which permits citizens to express their displeasure with corrupt and incompetent official by refusing to re-elect them (Seabright 1996). Furthermore, existing civil society organisations will not only demand good performance, they can also provide models of how improvements can be made, participate in decision making and implementation activities, and take an active role in monitoring the performance of elected and administrative officials. All of these are necessary to foster effective citizens' political participation, and thus for strengthening local government accountability. As proponents of democratic decentralisation argue, when local citizens have the opportunities to participate in political process, they become more effective at rewarding and punishing the behaviour of local officials (Tiebout 1956, Oates 1972). This condition will create forceful incentives for elected officials and civil servants to reduce opportunistic behaviour and improve public service provision, thus enhance local government performance.

The importance of citizens' participation and civil society organisation in determining better local public services performance is supported by experience of participatory budgeting at *Illave* Peru and *Porto Alegre* Brasil (Baiocchi 2003:45; Grindle 2007:1). Both cases are well known as an example how community participation and social groups within community has predominantly role in achieving success decentralisation. As identified by Baiocchi (2003) and Grindle (2007), local democracy and services are more effective in *Illave* and *Porto Alegre* because community and their social groups are more active to pressure and support, demand making, and ensuring local government accountability. In the contexts of developed countries, Putnam's analysis of Italy's local governments and the impact of civil society and social capital (Putnam, Leonardi and

Nanetti 1993). Putnam posits that the degree to which devolution of authority lead to better local government is based on the level of organization of civil society and the extent to which civil actors are able to monitor and hold local officials accountable. This bottom-up approach places agency not in politicians, but rather citizens themselves and their ability to organize and interact with the formal political structure. The role of citizens' participation and civil society is particularly important in the Indonesian context with strong corporatist traditions and powerful executives, where local politicians have historically been accountable to political parties and a small handful of elite supporters.

Indonesian decentralisation experience

Indonesia has made remarkable progress in creating a decentralised system of government. Since the 1999, decentralisation bills (bills 22/1999 and 25/1999) were enacted and implemented in 2001. The enactment of these bills has changed Indonesia from a highly centralised state to a decentralised state. In particular the bill on regional government 22/1999 prompted a major reorganisation of political accountability chains in this country. It eliminates the hierarchical relationship between the central, provincial, and local government. In a break from the past, the local government officials are elected by and responsible to the locally elected assembly. In addition, for locally assigned responsibilities, the branches of ministries in the districts are placed under the jurisdiction of local governments.

Furthermore, the bill no 25/1999 on fiscal arrangement transferred additional fiscal sources to local governments. More than a third of national budget was transferred to local governments. The central government and donors have continuously increased the pool of resources transferred to local governments in relative and absolute term. This fiscal reform is followed by reassigning more than 2.5 millions of civil servants to districts. This makes the local governments have authority to manage human resources and capacity. In addition, a second round of democratic election took place in 2004 at both national and sub-national levels in a credible fashion. Now, all local governments have freedom to elect their local leaders and parliaments through direct election. With these changes, local governments are more independent in electing their own leaders, promoting their own

interests, developing their own institutions, initiating their own policies, managing their own financial resources, and mobilizing support from their own communities.

Like many other developing countries, Indonesian decentralisation was accompanied by hopes and worries. Local governments' performance increasingly varies depending on the extent to which they took advantage offered by decentralisation. A significant number of local governments have forged ahead with reforms and became the locus for innovative form of government and better public services. Elsewhere, however, local political contexts became charged with lack of accountability and failure to respond to local needs (Asia-Foundation 2002). There is some evidences that suggest key political accountability mechanisms are only weakly developed in some of the newly empowered local governments (Kaiser and Hofman 2003; Malley 2003; World Bank 2003a). Local corruption and suspected bribes in the annual local government account report have occurred in several local governments (World Bank, 2003a). These suggest that decentralisation in the country does not have a uniform impact on local government's capacity but rather lead to a differentiation process with regard to both performance and level of accountability across localities. Hence, the principal aim is to understand how these different outcomes are brought about and if accountability and local government performance are interconnected.

Hypothesis

Based on the foregoing discussion, I hypothesise that local public services performance in decentralised government is a function of citizens' political participation, local government accountability, and local government corruption. Corruption and local capture in the early phase of decentralisation decreases local public service performance. On the other hand, citizens' political participation and local government accountability will increase local public service performance. The degree to which decentralisation lead to improvement on local public services is based on the extent of various channels of citizens' political participation for ensuring local government accountability.

Data

This paper used several data sources to test our hypotheses. First, Governance Decentralisation Data survey wave 1 (GDS 1) which was fielded by the World Bank Indonesia in conjunction with the Centre of Public and Policy at Gadjah Mada University during 2002 one year after a radical decentralisation implemented. Previous studies used this data to examine decentralisation public services in Indonesia (Kaiser and Hofman 2003, World Bank 2003a, and Eckardt 2008). GDS 1 covered a randomised sample of 177 districts. Quantitative indicators for both local public service performance and most of the explanatory variables are derived from this source. The sampling ensured representativeness at both the national and the district level. In each of the sample districts, about 60 households were questioned using structured questionnaires covering their perceptions of various issues relevant to the analysis. In particular, the questionnaire included about perceptions of the quality of public services, perceptions of the workings of various political process, transparency, and participation. In this paper, I restrict only on respondents who already have political right to vote in Indonesian national election (age 17 years or older). In addition to these survey data, district-level fiscal and socio-economic data were merged into the dataset. The fiscal data were retrieved from the Regional Finance Information System. Fiscal data used refers to years 2001 one year after decentralisation.

Measuring performance

This study use citizens' responses to measure both performance and some of the explanatory variables mentioned above. I realize that using perception indicators raises some methodological problems. The concept of public service performance are rather elusive and therefore measuring or observing this variable posses considerable difficulties. Compared to most parts of the private sector, performance measurement in the public sector is fraught with problems (see for example Andrew and Shah 2003: 64-65; de Silva 1999: 1-3; Uphoff 2003). There is no agreed upon and readily available set of indicators to measure the performance of public institutions comparable to profit margins, market share, and productivity to measure the performance of private sector. In practice, this has

often led to the application of several parallel criteria in the assessment of performance, including various perception-based indicators. Such perception-based indicators are commonly applied in research on public service performance. Even so there is widespread agreement that they should be treated with cautions¹.

Despite these limitations, citizens' responses on performance can provide valuable information that is noteworthy for understanding local public service problems. Putnam (2003: 53-55), for instance, uses public satisfaction measure and find valuable information about the different performance between local government at Southern and Northern Italy from 1977 to 1988. Next, Deichman and Lall (2003:1) use citizen satisfaction measure to evaluate service delivery performance at two Indian cities, Bangalore and Jaipur. They find that citizen satisfaction can provide valuable information to evaluate the impact of decentralisation on service delivery in urban areas. But, they warn that responses in satisfaction survey are at least in part determined by factors that are unrelated to decentralisation performance like age, gender, education, income, and ethnicity, as well as attitudes and predispositions related to political beliefs or past experiences. By controlling various socio demography and economic characteristics, Lewis and Pattinasarany (2009:85) find a significant correlation between objective measures of education services and household satisfaction levels in Indonesian local governments. In addition, the use of citizens' response on performance is also better than simple satisfaction rating (Swindell and Kelly 2000). This is because this measure eliminates the effect of different qualities at the outset of decentralisation and focuses on changes that occurred since decentralisation. Even if this measure have limited precision, they are sufficient to derive ordinal scale variables.

The satisfaction data used in this study are more useful since the questions are measured before and after decentralisation. In the survey, respondents are asked "in your opinion,

¹ Perceptions are in fact often noisy proxies for the underlying concepts, e.g. they are unsystematically influenced by factors other than the ones in question. In interviews, individuals may simply have difficulty understanding and responding to certain questions, they may answers strategically, or provide responses that they deem socially acceptable. In addition, perceptions will reflect the personal characteristics and expectations of the respondent. For example, respondents' level of education or prior experience is likely to impact upon his or her assessment. It is thus important to control for some of these by including personal characteristics in the estimation.

how is the quality of (services) in the districts, comparing year 2002 and year 2000?" The services include school, local public health service, general public services, water management, and cleaning services. The study focuses on changes in three particular areas where the local government provides front end services that are directly consumed by citizens: public health services, public education services, and general public services including the issuance of permits, identity cards and various licenses. These service areas were chosen since they represent the bulk of local public expenditure. Taken together, they account for between 40 and 50 per cent of local public expenditure. These services are also crucial with regard to human development and they allow for a representative and plausible appraisal of government performance.

Based on the survey responses on perceived service performance, an index is calculated using factor analysis. Variance of factor one is 2.3 (eigenvalue = 2.3) with proportion 75 per cent. The ranges of performance index vary from -3.1 to 1.3. Table 1 presents the description of performance index and variables used to develop the index.

Table 1: descriptive of dependent variables

Variables	mean	sd	min	max
Primary school services	2.4	0.6	1	3
Community health services	2.4	0.5	1	3
General services	2.4	0.5	1	3
Local public service performance index	0	1	-3.1	1.3
N	5602	5602	5602	5602

Source: GDS 2002

Three different regression specifications: OLS regression, random effect with GLS regression, and fixed effect regression model are used to estimate the relationship between local public service performance and the explanatory variables. The multilevel models include residual at the citizen and local government level. Thus, the residual variance is partitioned into between local government's components (the variance of local government residuals) and within local government (the variance of citizen level residuals). The local government's residuals represent unobserved local government

characteristics that affect citizens' satisfaction. It is these unobserved variables which lead to correlation between citizens' satisfaction for citizens from the same local government.

Measuring accountability, corruption and citizens participation

Political accountability refers to specific conditions within the political system under which citizens have the ability to demand answer from agents within the public sector about their proposed or past behaviour, citizens' ability to discern that behaviour, and to impose sanctions upon the public sector in the event that their behaviour is believed to be unsatisfactory by the citizens (Schmitter and Karl 1991, Keahone 2002). This definition entails three essential features of accountability. First, accountability is thought of as an inherently relational term: a person or organisation has to be accountable to someone else. Second, accountability includes the obligation of actors that are accountable to provide information and explanations for their actions. Third, accountability requires the ability of those to whom these actors are accountable to apply sanctions when these actions are deemed unsatisfactory. Scott (2000) points out that questions of "who is accountable to whom and for what" are the heart of all concepts of accountability. Following those features, I use three indicators to measure accountability including (1) suspected bribes in annual local government's account; (2) information dissemination regarding local development budget; (3) the ability of local government to apply sanction on corruption. I expect the first and third indicators likely reduce local government performance, while the second indicator likely increases performance.

Local government's corruption is measured by perceive corruption of household on community health services, basic education services, and general services. In the survey respondents are asked "have you heard any corruption cases in schools, community health services, village and district where you living?" Perceive corruption has been most commonly used in previous work in the economic literature (Bardhan 1997). Previous studies use this indicator to measure decentralisation performance (see for instance Brueckner 2000, Fisman and Gati 2002, and Gong 2006). This variable is meant to capture the likelihood that local government officials will demand special payments, and the

extent to which illegal payments are expected throughout local government services. Consistent with the hypotheses, I expect that higher perceived corruption in the beginning of decentralisation is likely to reduce local public service performance.

Citizen's political participation is measured by indicators including (1) participation in local election, (2) participation in community development (i.e. village health services and village development improvement), (3) membership in social organisation (i.e. youth organisation, women groups, and religious groups), and (4) the existing village decision making. Participation in local election is viewed as a means for ensuring accountability of government. Through fair election, citizens can express their displeasure with corrupt and incompetent government by refusing to re-elect them (Seabright 1996). Hence, higher citizens' participation in local election likely improves local government performance. Previous studies indicate that participation in community development and membership in social organisation not only provide channels for exerting pressure on the public sector to provide better service, but they can also provide models of how improvement can be made. Furthermore, the existing social groups both created by government such as village decision making provide opportunities for citizens to participate in the policy process. Through these groups, citizens can take an active role in monitoring the performance of elected and administrative officials and sanctioning and rewarding them at election time. Thus, I expect that existing social groups in the community likely improve performance.

Other explanatory variables

Previous studies indicate several socio-demographic and economic variables which strongly affect responses in satisfaction surveys (Deichman and Lall 2003; Lewis and Pattinasarany 2009). These variables include age, gender, education, household expenditure, and household living in rural areas. Education and household expenditure likely have negative associations with service performance. The higher economic status and more educated people likely have higher expectations with public services quality compared with the lower economic status and less educated people. Therefore, I expect that higher economic status and education likely reduce satisfaction. On the other hand, female and

household living at rural areas is likely having lower expectation with quality of service delivery. I expect both variables have positive association with local public service performance. I also include geography in the model since this variable is an important factor which determines citizens' characteristics in Indonesia. As an archipelago state, Indonesians are separated on different islands which have different on ethnicity, culture, religion, and economic development achievement. Hence, including geography variables in the model will control the association of those variables on local government performance.

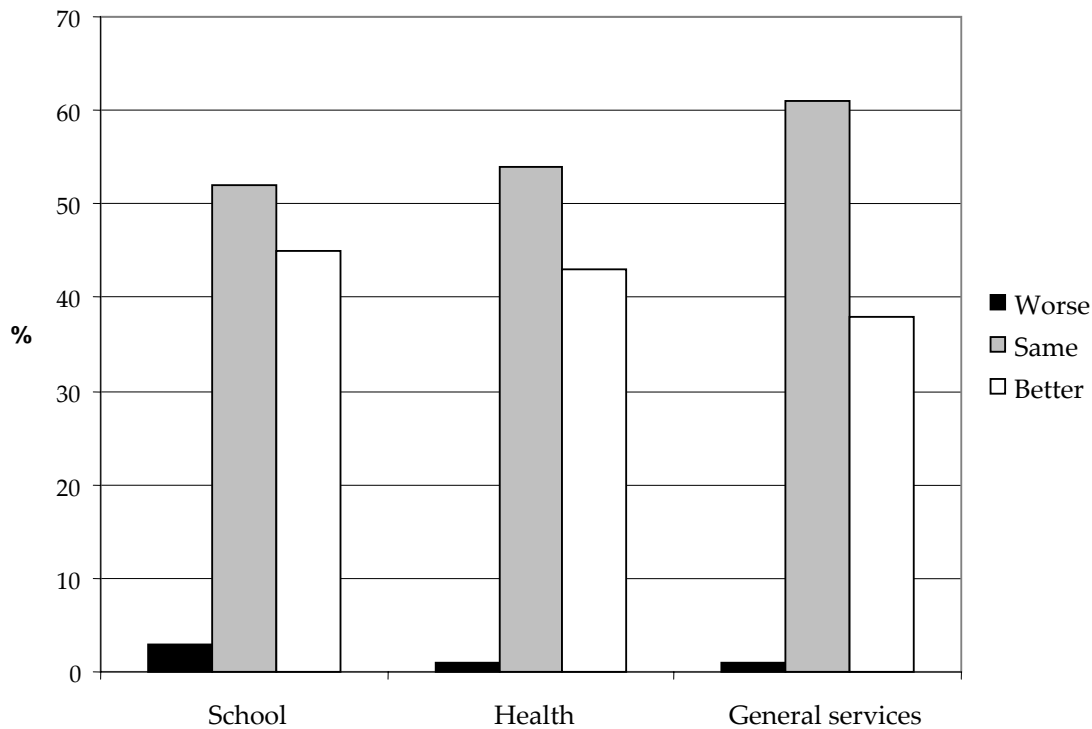
In addition, a number of variables capturing fiscal conditions are included in the analysis. Controlling for fiscal condition is important since it allows us to assess how far local government budgets matter in local service provision. On the expenditure side, the model controls for share of wage on total expenditure. Higher wage bill is expected to be associated with lower performance since higher wage bill pressure lack of budget for public services. On the revenue side, the model controls for share of general allocation grant on total revenue. In the early decentralisation, most of local governments depend on the central government grant. This is because most of local governments have lack of fiscal capacity to mobilise tax and resources. Thus, I expect higher share of general allocation grant on total revenue to be associated with higher performance.

Empirical results

Following the model proposed, I expect local public service performance will suffer in the earlier phase of decentralisation. In contrast with the expectation, services seem to have improved in the eyes of a large majority of respondents. Decentralisation apparently does not lead to a breakdown in service at the local governments, but sparked considerable improvement in reported satisfaction with services. As can be seen from figure 2, the survey results draw quite an optimistic picture of the effects of decentralisation. Two years after decentralisation, the overwhelming majority of respondents perceived public services to either have remained the same or to have improves as compared to the period before decentralisation. The highest rankings occurred in the health and education sector. As indicated by figure 2, on average more than 40 per cent of the questioned respondents

reported improvements with regards to education and health service. Only a small fraction of respondents perceived deterioration in the quality of the public services.

Figure 2: perceived changes in the quality of local public services (percentage of respondents).



Source: GDS 2002 Survey. Question HH RD7

However, we have to be careful in interpreting this result. This is because survey responses of citizens may suffer from social desirability bias. For instance, respondents may be responding in a polite manner to survey questions about satisfaction, but not in a way that necessarily represent their real views. Respondents may also have low expectations about service delivery, which when compared to actual quality of service lead to relatively high levels of satisfaction. Therefore, it is probably best to understand this result as indicative of relative and not absolute levels of performance.

Next, a brief look at the data suggests a variation with regard to respondents' characteristics, local conditions of local government accountability, citizens' participation, and performance. Table 2 presents descriptive statistic of the explanatory variables. Most respondents are male and tend to be older (range above 43 years old). Most of them are

graduated from senior higher school. Respondents tend to have lower expenditure. The per-capita monthly expenditure in the average respondents is about 540.000 rupiah (equal with US \$ 54). In term of geography, most of respondents live at Java, Bali, and Sumatra Island. Few of them live in Eastern part Indonesia and remote islands.

Table 2: descriptive statistic of explanatory variables

Variables	mean or %	sd	min	max
Age	43	12.3	17	99
Female	30 %	0.5	0	1
Education	4	1.3	1	8
	Rp.			Rp.
Household expenditure	540.000	0.3	Rp. 300.000	7.000.000
Citizen in rural areas	50 %	0.5	0	1
Citizen lives at Java and Bali	43 %	0.5	0	1
Citizen lives at Sumatra	30 %	0.5	0	1
Citizen lives at Eastern Indonesia	10 %	0.3	0	1
Citizen lives at remote Islands	5 %	0.2	0	1
Perceive corruption in community health service, schools, and local development programme	30 %	1.1	0	3
Perceive suspects bribes in local government annual account report	20 %	0.4	0	1
Presence of sanction on corruption	8 %	0.4	0	5
Receive information regarding local development budget	2	1.9	0	5
Citizen follow local election	59 %	0.5	0	1
Citizen participation on community development activities	1	1.0	0	4
Citizen membership in civic organisations	41 %	0.5	0	1
Presence of village decision making institutions	60 %	0.5	0	1
Share of general allocation grant on total revenue	54.5 %	19.3	3.0	97.0
Share of wage on total expenditure	72.9 %	16.4	72.9	93.3
N	5602	5602	5602	5602

Source: GDS 2002 Survey, Regional Fiscal Information System 2001

Corruption in local public services as perceived by respondents ranges from 0 to 3. Only few respondents report suspect corruption on the local public service during decentralisation. Likewise, only around 20 percent respondents' reports that annual local government accounts are suspects. Respondents' report presences sanction of local corruption also very low with 8 percent. With regard to transparency as measured by dissemination on local development budget, only few respondents report that they were

informed. Respondents' participation in local election is relatively high. Participation in various civic organisations also shows variation ranging from none to almost half of respondent reporting involve in various civic organisations. Overall, participation in community development activities as measured by attendance in village health post meeting or "posyandu" is low.

Controlling for fiscal condition is important since it allows us to asses the effect of local government budget on local service provision. Decentralisation has resulted in vast differences in fiscal conditions of local governments. The variation in the importance of the general allocation grant as revenue source (from 90 percent to around 15 percent) reveals considerable difference with regard to the revenue side of local budgets. Whereas the civil servant wage bill consumes 97 per cent of the budget in the district with highest salary outlays, it only accounts for 3 per cent in the district with the lowest.

Table 3 presents regression results for a range of explanatory variables in both simple and multilevel models. First, elaboration about several individual control variables is presented. The older respondents perceive decrease in performance of local public services. Women are more satisfied with local services compared to man. Those with higher education perceive less improvement. In contrast with the expectation, households who relatively have higher expenditure tend to perceive improvement. In terms of geography, they who live at main Islands (Java-Bali, Sumatra, and Eastern Indonesia) likely perceive better performance. In contrast, respondents who live at remote Islands likely perceive less improvement on local public services. Citizens who live in rural areas perceive better local public service than they who live in urban areas.

Table 3: OLS, random-intercepts, and fixed-effects regression models for explanatory variables

	OLS			random intercepts			fixed effects		
	coeff.	se	p	coeff.	se	p	coeff.	se	p
Individual									
Female	0.084	0.030	0.010	0.087	0.030	0.000	0.099	0.030	0.000
Age	-0.004	0.001	0.000	-0.004	0.001	0.000	-0.004	0.001	0.000
Education	-0.024	0.011	0.030	-0.023	0.011	0.040	-0.022	0.011	0.050
Household expenditure	0.009	0.005	0.050	0.009	0.005	0.050	0.008	0.005	0.080
Citizen in rural areas	0.052	0.028	0.070	0.054	0.029	0.060	0.068	0.029	0.020
Citizen lives at Java-Bali	0.245	0.042	0.000	0.225	0.044	0.000	0.136	0.051	0.010
Citizen lives at Sumatra	0.218	0.042	0.000	0.211	0.044	0.000	0.194	0.045	0.000
Citizen lives at Eastern Indonesia	0.549	0.069	0.000	0.531	0.071	0.000	0.469	0.076	0.000
Citizen lives at remote Islands	-0.300	0.087	0.000	-0.301	0.090	0.000	-0.277	0.095	0.000
Perceive corruption in community health service, schools, and local development programme	-0.113	0.021	0.000	-0.114	0.021	0.000	-0.114	0.021	0.000
Perceive suspects bribes in local government annual account report	-0.185	0.033	0.000	-0.184	0.033	0.000	-0.177	0.034	0.000
Perceive presence of sanction on corruption	0.056	0.034	0.100	0.051	0.034	0.130	0.046	0.034	0.170
Receive information regarding local development budget	0.031	0.008	0.000	0.031	0.008	0.000	0.029	0.008	0.000
Citizen follows local election	0.147	0.030	0.000	0.145	0.030	0.000	0.134	0.030	0.000
Citizen participation on community development activities	0.097	0.014	0.000	0.096	0.014	0.000	0.091	0.014	0.000
Citizen membership in civic organisation	0.064	0.027	0.020	0.061	0.028	0.030	0.057	0.028	0.040
Presence of village decision making institutions	0.022	0.028	0.440	0.024	0.029	0.410	0.024	0.029	0.420
Local government									
Share of general allocation grant on total revenue	0.107	0.023	0.000	0.115	0.024	0.000	0.124	0.026	0.000
Share of wage on total expenditure	-0.141	0.027	0.000	-0.148	0.028	0.000	-0.154	0.031	0.000
Constant	-0.304	0.077	0.000	-0.292	0.078	0.000	-0.272	0.078	0.000
R ² overall	0.060			0.060			0.060		
σ^2				0.050	0.000	0.000	0.050	0.040	0.000
Hausman test (Chi-squared)				484.33		0.000			
N	5602			5602			5602		

Note: factor analysis-perception of local government performance on primary school service, community health service, and general administration.

The next block of results provide some support for the hypothesis that corruption in local public services is consistently associated with lower scores in the service performance. Similarly, perceived bribes in the local government annual accountability report is likely to decrease performance; again this result holds across various specifications of the model. The coefficient of perceived bribes is relatively high compared to other variables with 18-19 per cent. Meanwhile, perceive presence of sanction on corruption have no correlation with local public service performance. The use of perception based indicators to measure

the extent of corruption and bribes in annual accountability report, however, requires caution in the interpretation of these results.

Higher citizens' participation in local election, community development and social groups makes better service outcomes more likely. Citizens who follow local election perceive improvement on local public service since decentralisation. The coefficient of citizens follow local election is relatively high compare with other variables with 13-14 percent. Interpretation of this result however should be careful. Participation in local election generally is viewed as a mean for ensuring accountability of government. Through fair election, citizens can express their displeasure with corrupt and incompetent government by refusing to re-elect them. Higher citizens' participation in local election thus can improve local government performance through circulation of local government officials. Given perception as a measure of performance in this study, the association between both variables can also be driven by other factors. For example, citizens' perception can directly change due to they follow local election. This is because citizens who follow local election have more informed about local government development which is disseminated during campaign and local election.

Participation in community development activities (i.e. voluntary health services or "posyandu") and membership in various types of civic organisation (i.e. women association activities, child development group, youth organisation, and religious organisation) is also associated with perceived improvements in local public services. The effect remains in all regression models. In contrast, presence of village decision making institution which originally designed by government has no correlation with performance. Getting citizens involved directly in the lowest structure of government can improve local governments' capacity both in improving and in providing services. Social groups which are originally build from community seem more effective as a channel for participation compare to local institution designed by government. Social groups can effect local governments' capacity by, for example, proposing types of services which they needs as well as providing direct material benefits or helping to target material resources most efficiently within a community.

Next, transparency, as measured by dissemination on local development budget, is likely to improve local public service performance. Engaging citizens to monitor local development activities encourages local bureaucrats to respond to communities demands. In the lowest structure of government, citizens can better oversee the way local agencies use public fund and deliver services in daily life. Here, information dissemination can be understood as channels for improving citizens' political awareness. By providing information about how government spent their money, they will have opportunity to monitor and to evaluate local government activities. Whether or not we can attribute this effort as a causal chain, between participation and transparency to more accountable local governments and therefore improved services, can be contested. The results may also be driven by other factors. For instance, participation might by itself change respondents' perceptions of services, simply by providing more information about changes and improvements in service delivery.

Some of the measures for difference in fiscal conditions are related to variation in the service. The share of the general allocation grant in total revenue improves performance. General allocation grant from the central government is the main revenue for most districts, particularly for less developed districts. These are deemed to lack of capacity in mobilising resources in the early phase of decentralisation. Hence, grant allocated from the central government is important to support the operation of local public sectors. Respondents in districts with less wage costs are more likely to report less improvement on performance. Higher share of wage on local expenditure may create budgetary pressure that restrains the local government from investing in the service improvement. Or conversely, lower wage bills are related to more fiscal flexibility since the government has more resources at its disposal to allocate to sectors of particular importance. Moreover, higher wage bills are presumably associated with lower physical infrastructure and part of the effect can be attributed to the fact that changes in infrastructures can be more visible to respondents than other characteristics of service quality and thus driving perceptions.

Discussion

While interpretation of the results should be viewed in light of certain data limitations, there are a number of important findings. Previous studies recognize that decentralisation not only can improve local government performance, but also can lead to inefficiency on local public services and corruption (Bienen and colleagues 1990; Blanchard and Shleifer 2000; Sarker 2008). Reflecting from decentralisation experiences in Nepal, Russia, and Bangladesh, this study confirms that the potential of corruption and capture is serious when local government accountability is weak. This study finds both perceived corruption and suspected bribes in local government's account report are important determinants in explaining poorly performing local services. The index of local services performance decreases along with perception of corruption and bribes in local public services.

Traditional fiscal federalism literatures elaborate that local election is the most obvious political institution for guaranteeing accountability at local government (Oates 1972). Confirming this argument, this study finds that local election is strongly associated with local public services performance. Through fair local election and broader dissemination on local development budgets, citizens will engage to monitor and to evaluate local development activities and service delivery. This will encourage local bureaucrats to respond to citizens' demand, and therefore service delivery improvement is achieved.

The other important result emerges from this study is that the effect of citizens' participation in community development and memberships in social groups. This study finds citizens' participation in community development activities particularly volunteering in village health posts improves performance. Likewise, membership in social groups which is designed by community such as youth organisation, women association, and religious group has an important role in improving performance. In Indonesian contexts, the positive association of community participation on local service provision is also reported by Miller et al. (2006:1094-1096) on their study about social capital and health. They identify that community which have higher participation and denser social groups likely have better health. The link between citizens' participation, social groups, and local services performance can be explained through several

mechanisms. As citizens have opportunities to participate, they become more effective at rewarding and punishing the behaviour of local officials. As a consequence, local officials have incentives to be responsive to local needs and concerns. Meanwhile, social groups not only can exert pressure on local government to provide better services, but also can provide models of what kind of services and how improvement can be made according to local concerns. For example, earlier studies find that community health post or *posyandu* in Indonesia have an important role in providing preventive health care, immunization, vitamin supplements, and health information, below the cost of comparable services in the private sector.

In terms of the relation between various control variables and local public services performance, this study finds both contrast and similar evidences with previous studies. This study indicates that local public service performance of most local governments still much depend on transfer of grant from central government. In the early decentralisation, most of local governments have lack of fiscal capacity to mobilize own resources, so that grant from central government is the main source for running local public services. As identified on this study, there is a relatively strong correlation between shares of general allocation grant on total expenditure on performance. Local governments which have higher share of general allocation grant on total expenditure likely have better local service provision compare with they who have smaller share. This finding contrast with previous study by Eckardt (2008) which identifies no significant effect between shares of general allocation grant in total revenues on local public services performance. The reason of this different result perhaps because in his study Eckardt did not take into account random intercepts and fixed effects between local governments in his analysis.

This study also confirms that geography has strongly correlated with local government performance. This study finds that citizens in remote Islands likely perceive less performance than they who live in main islands, particularly Java and Bali, and Sumatra. As an archipelago country, geography has major challenges for local governments to deliver service delivery (Lewis and Pattinasarany 2008). As a result, most of citizens in

remotes islands have lack access of services both in terms of quantity and quality. Here, negative correlation between remote islands and public services performance may reflect the lack of local public services performance at these areas.

Conclusion

The general hypothesis tested in this study is that the performance of local public services is to significant extent determined by the existing citizens' participation, local government accountability, and local government's corruption. The results are broadly consistent with the predictions of the hypothesis. Higher local government accountability, less corruption, and higher citizen's political participation are all associated with higher performance perceptions. These effects remain statistically robust across all regression specifications. While we should be cautions in interpreting the results as causality in the strict sense, they still provide an interesting pattern that should be addressed in further empirical analysis.

Poorly performing local public services are often deeply rooted in their political and social contexts. Local governments often fail to provide better public service when political accountability is absent due to weak checks and balances, lack of transparency, and weak electoral incentives. If political accountability is incomplete, decentralisation will create powerful incentives for political and bureaucrat agent to capture local political process and misallocate public resources. Conversely, better performing local public services are consistently with higher citizens' political participation and active social groups within community which strengthened local government to be responsive and deliver service more efficient. Higher accountability will increase the political costs of inefficient and inadequate public decisions and public service performance is likely to improve. This requires a politically active community that able to broaly participate directly and indirectly in examining accountability.

Future research on explaining local government performance with public services will do well to concentrate some of its efforts on improving the information base related to local government environments. The collection of data on additional aspects of local corruption

will be important in order to appraise the potential pitfalls of decentralisation. More broadly, additional work on specifying and collecting data on objective indicators of local public service performance, as contrasted with perceptions, while quite difficult, will be most helpful in enhancing the robustness of these types of analyses.

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