

Development disparities in Indonesia

The influence of institutions on the development of Papua and East Kalimantan

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Introduction

When it comes to development, Indonesia is a country of contradictions. For years, Indonesia has been developing uneven, creating substantial disparities between regions, with development mainly located in the Western regions (Aritenang, 2008, p.1). After years of authoritarian centralized governance by Sukarno and Suharto, a drastic reformation took place in 1999; through democratization and decentralization, extensive powers were devolved to the regional governments causing new power struggles to emerge (Aspinall & Fealy, 2003, p.1). Local governments gained new responsibilities in education, health, labour, public works, natural resource management and the environment (Aspinall & Fealy, 2003, p.4). Moreover, the reformation intended to give the resource rich provinces, such as East Kalimantan and Papua, a larger share of the profit made from natural resources (Aspinall & Fealy, 2003, p.8). However, the reformation did not come without problems, with some being: incapable local administrations, growing inequality between regions, and worsening corruption (Aspinall & Fealy, 2003, p.5). Out of the 34 provinces, Papua and East Kalimantan are both located in Indonesia's periphery, and among the biggest provinces geographically. Moreover, both provinces are very rich in natural resources and have large mining sectors. East Kalimantan is rich in oil, natural gas, timber resources, minerals, and is the largest coal-producing region of Indonesia (Tadjoeddin, 2007, p.20). Papua is abundant in oil, copper, gold, natural gas, timber, petroleum, minerals, and has one of the largest gold and copper mines in the world (Brown, 2004, p.189). However, there is a large discrepancy in the development of both provinces. The Human Development Index (HDI) measures a country's development. It measures the average achievement of three components: 1) life expectancy at birth; 2) education; and 3) Gross National Income (GNI) per capita (United Nations Development Programme, 2016). The average HDI in Indonesia is 70.18. When compared at a regional level, there are large differences. East Kalimantan has a higher than average HDI of 75.12, which makes it the third most developed province after Jakarta and Yogyakarta. Papua on the other hand, is the least developed region of Indonesia with a HDI of 59.09 (Badan Pusat Statistik [BPS], 2017). Thus, life expectancy at birth, education levels and gross national income per capita is significantly higher in East Kalimantan than in Papua. If both provinces share so many similarities in natural resources, location and size, where does this divergence come from? Therefore, the research question of this thesis is: why is East Kalimantan more developed than Papua?

A lot of theories aim to explain different outcomes of development between continents, regions, countries and provinces. One paradigm is that of institutionalism, which names institutions as an important factor in development and underdevelopment (Acemoglu & Robinson, 2012;). Acemoglu & Robinson differentiate between extractive institutions and inclusive institutions. Inclusive institutions lead to development, while extractive institutions lead to underdevelopment (2012). Inclusive institutions have a sufficient degree of centralization and pluralism, and when one of these conditions is missing, that institution is extractive (Acemoglu & Robinson, 2012, p.81). If institutions drive or block development, then Papua and East Kalimantan are an interesting regional comparison to investigate whether their institutions show differences. Can Acemoglu & Robinson's theory account for the divergence in development between East Kalimantan and Papua?

The thesis is structured as followed: chapter 1 provides the theoretical framework. Chapter 2 describes the methodology used to carry out the research. The case studies will be described in chapter 3, after which chapter 4 shall follow with a conclusion of the main findings.

1. Theoretical Framework

A lot of different theories have tried to explain variations in development (Acemoglu & Robinson, 2012; Diamond, 1997; Gallup, Sachs and Mellinger, 1999; Robbins, 1935; Weber, 2002). One of the major paradigms on development is the geography theory (Diamond, 1997; Gallup, Sachs and Mellinger, 1999). According to Gallup, Sachs and Mellinger, geographical location and climate have significant effects on income levels and economic growth (Gallup, Sachs and Mellinger, 1999). Tropical regions experience low development due to higher disease burdens and constraints on agriculture, and coastal regions have a development advantage over hinterlands, while landlocked economies have a disadvantage due to their lack of access to the sea (Gallup, Sachs & Mellinger, 1999, pp.5-6). However, this theory does not hold explanatory power considering the different levels of development in Papua and East Kalimantan despite their close proximity and similar geographical characteristics. They both have a predominantly tropical rainforest climate and coastal areas with sea climate (Climate-Data, 2012).

Another influential theory that explains development, and possible disparities, is institutionalist theory (Acemoglu & Robinson, 2012; Bessley & Persson, 2011; Easterly,

2005; La Porta, Lopez-de-silanes & Schleifer, 2008; North, 1991; Rodrik, Subramanian & Trebbi, 2004). One of the seminal contributions is made by Acemoglu and Robinson, who explain development through differences in economic and political institutions (2012). They argue that political institutions determine the political process, which in turn determines the economic institutions (Acemoglu & Robinson, 2012, p.42). Inclusive economic institutions allow and encourage participation in economic activities, and foster technological improvements and education (Acemoglu & Robinson, 2012, p.77). For this, they need to have property rights, an unbiased system of law, public services providing a level playing field, and the freedom to contract and exchange (Acemoglu & Robinson, 2012, p.75). In order to enforce this, a state needs a degree of centralization and the monopoly on the legitimate use of force (Acemoglu & Robinson, 2012, p.80). When political institutions are sufficiently centralized and pluralistic, they can be defined as inclusive (Acemoglu & Robinson, 2012, p.324). Pluralistic political institutions distribute power widely in society and subject it to constraints (Acemoglu & Robinson, 2012, p.80). Thus, inclusive political institutions have two necessary conditions: pluralism and state capacity. When one of these conditions are not met, the institutions are extractive (Acemoglu & Robinson, 2012, p.81).

Inclusive institutions emerge and persist through the virtuous circle: “a powerful process of positive feedback that preserves these institutions in the face of attempts at undermining them and, in fact, sets in motion forces that lead to greater inclusiveness” (Acemoglu & Robinson, 2012, p.308). The mechanism of the virtuous circle is that inclusive institutions are based on constraints on the exercise of power and widely distributed political power, enforced by the rule of law (Acemoglu & Robinson, 2012, p.308). The virtuous circle arises because of these factors, which leads to a more equal income distribution, a more level playing field and the empowerment of a broad section of the society. This in turn constraints how much power one person can usurp, and reduces incentives to go back to extractive political institutions (Acemoglu & Robinson, 2012, p.309). Thus, constraints on power, pluralism and the rule of law are important factors to ensure inclusive political and economic institutions.

According to Acemoglu and Robinson, extractive political and economic institutions are the root causes of underdevelopment (2012, p.372). They use the notion of the “vicious circle” to explain that extractive political institutions lead to extractive economic institutions, because it enriches a small elite, who therefore have the resources to keep the system

extractive and remain in power (for example through corruption or repression) (Acemoglu & Robinson, 2012, p.343). Extractive political institutions lead to extractive economic institutions (Acemoglu & Robinson, 2012, p.343). Extractive economic institutions do not create incentives to save, invest or innovate (Acemoglu & Robinson, 2012, p.372). Moreover, extractive political institutions support the extractive economic institutions, because they secure the power of the elite that benefits from the extraction (Acemoglu & Robinson, 2012, p.372). The lack of defense against power abuses by the elite in extractive systems creates a vicious circle (Acemoglu & Robinson, 2012, p.344). Because extractive institutions create unconstrained power for a few and great income inequality, the stakes of the political game increase (Acemoglu & Robinson, 2012, p.344).

Additionally, Acemoglu & Robinson acknowledge that economic growth is possible under extractive institutions (2012, p.94). However, this economic growth will not be sustainable, since it is not accompanied by technological innovation and creative destruction (Acemoglu & Robinson, 2012, p.94). For economic growth under extractive institutions, the degree of political centralization and political power is crucial, because the elite needs it to defend their assets and political power and coordinate economic activity (Acemoglu & Robinson, 2012, p.94). Economic growth in extractive institutions is fragile, because the concentration of wealth and power it generates creates a tendency of infighting over it (Acemoglu & Robinson, 2012, p.95). According to Acemoglu & Robinson, this type of growth is unsustainable: the economic prosperity will eventually undermine the foundation it is based on, unless the political institutions transform to inclusive (2012, p.95).

To comparatively test the institutionalist theory of development by Acemoglu & Robinson, the following propositions about the cases are derived:

- 1) The local economic institutions in Papua are more extractive than the economic institutions in East Kalimantan.
- 2) The local political institutions in Papua are more extractive than the political institutions in East Kalimantan.
- 3) The state has a stronger monopoly on the legitimate use of violence in East Kalimantan than in Papua

2. Methodology

In this paper, a comparative case study is used in which two Indonesian regions are compared. The comparative case study will be carried out by means of qualitative research, analyzing the economic and political institutions of East Kalimantan and Papua. Case selection is based on most similar system design (MSSD), which means that the cases are similar, but differ on the dependent variable: development. The unit of analysis are the local levels of political and economic institutions in both regions. Papua and East Kalimantan share a lot of characteristics, but score very differently in terms of HDI. Taking into account the economic factors and the regional autonomy as a consequence of decentralization in Indonesia, both provinces are relevant cases that can shed light on the importance of local political and economic institutions. Through a MSSD, determining variables can be identified. Research will be carried out through the collection and analysis of datasets and databases of governments, nongovernmental organizations and research institutes, government documents, reports from transnational and nongovernmental organizations, and academic literature.

The economic institutions are operationalised as property rights, and land grab is the indicator. The occurrence of land grab indicates that property rights are not enforced, which means that the economic institutions are extractive. According to the Eco Ruralis Association: “land grabbing can be defined as being the control (whether through ownership, lease, concession, contracts, quotas, or general power) of larger than locally-typical amounts of land by any person or entity (public or private, foreign or domestic) via any means (‘legal’ or ‘illegal’) for purposes of speculation, extraction, resource control or commodification at the expense of peasant farmers, agroecology, land stewardship, food sovereignty and human rights” (Baker-Smit & Attila, 2016, p.2). If land grab occurs, there are no property rights, or they are not enforced or implemented. When economic institutions fail to protect property rights, they are extractive: structured by the few to extract resources from the many (Acemoglu & Robinson, 2012, p.430).

The political institutions are operationalized based on pluralism, because pluralistic political institutions distribute political power broadly in society and subject it to constraints against power abuse (Acemoglu & Robinson, 2012, p.81). To analyze the level of pluralism in both regions, 3 indicators will be used: 1) women’s representation; 2) civil society; 3) corruption. If the political power rests with a broad coalition, and society is widely represented, there should be a sufficient degree of inclusiveness of women in parliament and

political positions. Most quota systems aim to ensure that women's representation is at least 20 to 30 percent in parliament or house of representatives (Tremblay, 2007, p.538). Moreover, the organization and power of civil society is an indicator of the dispersion of power in society. In inclusive institutions, civil society can organize and constrain the political institutions, but in extractive institutions civil society will be systematically repressed (Acemoglu & Robinson, 2016, p.31). Additionally, the level of corruption is used as an indicator to analyze how much constraints there are to the abuse of power. If the political elite can abuse their power to enrich themselves, they will try to keep the political and economic systems extractive (Acemoglu & Robinson, 2012, p.343). According to Transparency International: "corruption is the abuse of entrusted power for private gain" (Transparency International, "What is Corruption", 2018). In extractive institutions, corruption will be present because power is unchecked and brings financial gains; there is incentive for the elite to remain in power and the elite has the resource to achieve this through corrupt practices such as bribery (Acemoglu & Robinson, 2012, p.343).

Furthermore, inclusive institutions need a degree of state capacity and a monopoly on the legitimate use of violence to enforce law and order, provide public services and encourage and regulate economic activities; without a monopoly on violence, inclusive institutions cannot develop, and states can descend into chaos (Acemoglu & Robinson, 2012, pp.80-81). Therefore, the third indicator is the monopoly on the legitimate use of violence.

3. Comparative case study

Democratisation and decentralisation in Indonesia

This paragraph explains the power structure and different levels of government in Indonesia. There are three levels of autonomous regional government. The first level is the provincial government, which is headed by a governor and has its own regional assembly. The second level are the local governments comprised of districts/regencies and cities. They have their own local government and legislative body. Districts/regencies are headed by a regent, and cities are headed by a mayor. On the third level, the regencies and cities are divided into sub-districts (International Business Publications, 2015 ,p.90). The 1999 decentralization laws gave local governments the right to grant investment licenses and make industrial policies, but

responsibility shifts to the province when investments involve more than one district (Rasyid, 2003, p.69). When investment licenses regard oil, gas and mining resources containing high radioactive components, the national government has authority (Rasyid, 2003, p.69). Fiscal decentralization also took place. Local governments now receive a share of oil and gas revenues, and receive block grants from the General Allocation Fund (DAU). These DAU's are distributed based on population size, area size, geographical location, income levels, and natural resource potential (Rasyid, 2003, p.68). Moreover, the central government provides Special Allocation Funds to the poorest regions for the improvement of public services such as education, health, transportation and water supply (Rasyid, 2003, p.68).

The regional governments are very autonomous in Indonesia. The Regional People's Legislative Assembly's (DPRD's) have the power to initiate, amend and pass local regulations, but need approval from the local government heads (Rasyid, 2003, p.67). With the power to elect their own government heads through the DPRD's, regional communities gained sovereignty over their political affairs. While the local regents and mayors are directly elected, the members of the DPRD's are not directly elected by the people. The electorate votes for political parties, and the political parties choose the representatives for the DPRD (Colongon, 2003, p.98). Because members of the local parliaments are not directly elected by the people, they lack the incentive to be responsive to the electorate, and there is no accountability mechanism (Colongon, 2003, p.98).

Papua: a persistent vicious circle

Papua is the easternmost province in Indonesia. Currently, it has the lowest HDI of the country at 59.09 (BPS, 2017). Papua is stuck in a vicious circle, and the severely extractive political and economic institutions can be identified as causes of underdevelopment in Papua. Besides the poorest, Papua is also one of the most violent regions; there has been an independence struggle since Indonesia absorbed Papua in 1969 (Anderson, 2015, XIII). Together with the province Papua Barat, Papua was colonized by the Dutch, and had the name Netherlands New Guinea (Timmer, 2008, p.25). After Indonesia's declaration of independence in 1945, the Dutch maintained control of Netherlands New Guinea and promised them independence. However, in 1962 the territory was transferred to Indonesia under the 1962 New York Agreement (McGibbon, 2003, p.195). Since Indonesian takeover, armed resistance emerged, such as the Free Papua Organisation (OPM) (McGibbon, 2003,

p.195). The central government eventually granted Papua a Special Autonomy Law that vested power in the provincial government to manage its own affairs (Indonesia: Law No.21 of 2001, On Special Autonomy for the Papua Province, 2001). However, the majority of the Papuan community rejected the special autonomy as a substitute for independence (McGibbon, 2003, p.199).

Large-scale land grab

Papua is stuck in the mechanisms of a vicious circle. Extractive economic institutions are supported by the elites securing their power to benefit from the extraction (Acemoglu & Robinson, 2012, p.372). Papua has very extractive economic institutions and suffers from large-scale land grab by the state and private companies, and the facilitation of this by the local governments. The province of Papua has abundant natural resources with a large mining sector, agricultural sector, plantation, forestry and fishery. After independence, the state has granted concessions to companies on indigenous lands, and Papua has had conflicts over land rights (International Crisis Group [ICG], 2002, p.1). *De jure*, the 2001 Special Autonomy law gave Papua more control over and access to its economic resources, and recognizes the customary law (*adat*) and the communal ownership of land (*ulayat*) in Papua (Indonesia: Law No.21 of 2001, Special Autonomy for the Papua Province, 2001). This recognition means that investors are obliged by law to negotiate with traditional landowners over the use of the land (McGibbon, 2003, p.200). The rich natural resources are very valuable to the government, military and business elites, and a strong incentive for the central government to keep control over Papua (ICG, 2002, p.1). The management of natural resources remains contested: Papua insists that the Special Autonomy Law gave the provincial government the authority over concessions, but the central government argues that the ministries should retain the right to issue concessions (Resosudarmo & Jotzo, 2009, p.25).

De facto, the Papua Special Autonomy Law is largely ineffective due to a failure of implementation and a lack of required implementation laws and actions (Habtom, 2013, p.2). Local governments are reluctant to recognize *adat* land, because it is designated for concessions or other investments. Thus, legally recognizing *adat* land is not in the interest of the local government, and they often facilitate land grabbing by working closely with investors and corporate actors (Dewi, 2016, p.90). The Governor of Papua issued a Decree requiring legal recognition by the local government or formal affiliation with a legally constituted community cooperative to get a permit to manage customary forests (Tokede, 2005, p.3). Therefore, communities formed Community Participation Cooperatives called

Kopermas to exercise their land rights and benefit from natural resources (Tokede, 2005, p.3). Yet, a lack of capital and knowledge about concession management forced the local communities to make deals with companies, concession holders and private investors, which resulted in the exploitation of a lot of these communities (Tokede, 2005, p.3).

Papua suffers from very large-scale land grab. A lack of property rights does not allow and encourage people to participate in economic activities (Acemoglu & Robinson, 2012, p.75). In the southern district of Merauke, the state initiated agricultural modernisation project, the Merauke Integrated Food and Energy Estate (MIFEE), is threatening local communities and human rights. The megaproject claims to use land for the cultivation of food crops to provide for Indonesia's food security, and promised social development and economic aid. However, the local government has given out permits to investors and companies for over half of the total hectare of land in the Merauke district without the consent of the local communities (Dewi, 2016, p.88-91). Moreover, these permits demonstrate that the involved companies are planning monoculture plantations for oil palm, sugar and industrial tree plantations instead of food crops (Awasmiffee, 2012, p.13). Involved companies such as Medco, Rajawali and Korindo groups have already begun logging, and millions of hectares of forests have been destructed, dispossessing thousands of people from their lands (Awasmiffee, 2012, p.14). As a result of the large-scale land grab, irreparable damage has been done. The local communities living on that land are the Malind Anim clans, who live off the land on sago, fish and wild animals (Awasmiffee, 2012, p.5). MIFEE is threatening their survival, and brought malnutrition and extreme deprivation to the Malind communities by destroying their land and livelihood (The Borneo Project, 2013; Awasmiffee, 2012, pp.5-12; Habtom, 2013, p.5).

The concentration of wealth and power due to the extractive institutions increases the stakes of the political game and leads to infighting (Acemoglu & Robinson, 2012, p.95). This mechanism is visible in another important case of land grab in Papua's mining sector, involving a private company, the central state and the military. In the southwestern district of Mimika, Freeport Indonesia, part of U.S. company Freeport McMoRan operates one of the biggest copper and gold mines in the world: the Grasberg mine (Freeport McMoRan, 2018). Freeport is very valuable to the Indonesian government, military and business elites: it is the country's biggest tax payer, brought large revenues, paid the military millions of dollars, and financed Suharto's regime since 1967 as an integral part of his patronage network (ICG, 2002, p.2; Leith, 2003, p.4). In 1967, 1991 and 1994, Freeport obtained Contracts of Work from the

central government without having to compensate landowners such as the Amungme and Komoro tribes (McKenna, 2015, p.94). By the early nineties, Indonesia had no interest in the welfare of Papuans. Freeport became the *de-facto* local government in Papua, providing development, administration and services in the area (Leith, 2003, p.4). They built schools, health clinics, infrastructure, houses, an airstrip, a port, and even a company town called Tembagapura (ICG, 2002, p.18). The developments caused in inter-tribal conflicts and increasing tension in the communities (Leith, 2003, p.8). Conflicts over land and the Indonesian takeover caused Freeport to pay the TNI millions of dollars for their security, and the area became one of the most militarized zones in the country (Leith, 2003, p.8). In 2001, erupting local tensions and international pressure forced the company to compensate the Amungme and Komoro tribes for their displacement (McKenna, 2015, p.95). Freeport's relation with the state and the military is a crucial element of the vicious circle in Papua: their extractive economic resources are enriching a small elite of the state and military, who are therefore invested in keeping the system extractive.

Narrowly distributed power and resources

Women's representation

Since women represent 50 percent of the population, women's participation in processes of growth contribute to the inclusiveness of growth (Kabeer, 2012, p.4). Gender equality is a crucial priority for development: when women are denied participation in political and decision-making processes, they also have reduced access to education, health, land, economic resources and technology, while legislatures with more female representatives are more likely to promote gender equality (UN DESA, 2015, p.66). In the Regional Representative Council of the Republic Indonesia, women's representation is 0%: all 4 Papuan representatives are male (DPD Republik Indonesia, 2018). In the House of Representatives of the Republic Indonesia, only 1 out of 9 Papuan representatives is female (DPR Republik Indonesia, 2018). In Papua's provincial parliament (DPRD), 7 of the 55 (12,73%) representatives are female (DPRD Papua, 2018). All top leadership positions are occupied by men (Provinsi Papua, 2016). Moreover, of the 58 leadership positions for regent and deputy regent in Papua, only 1 position is occupied by a woman (Provinsi Papua, 2016). Thus, in Papua, women's representation in the political process is extremely low: the political power rests with a small group of male elites.

However, the Papua Special Autonomy Law mandates affirmative action policies, and established the Papuan People's Assembly (*MRP*), comprising of 42 Papuan members from *adat* communities, women's organizations and religious institutions (McGibbon, 2003, p.200). The MRP is an important application of affirmative action: "by means of compensatory preferential treatment is expected to promote inclusion and facilitate equal opportunities for the groups which had suffered from discrimination, including ethnic minorities and women" (Sugandi, 2008, p.9). The MRP has the mandate to review and veto candidate selection for the governor position, implement regulations related to Special Autonomy, and hold the district and provincial governments accountable for policies that may violate the rights of Papuans (McGibbon, 2003, p.200). Nevertheless, the MRP does not have the authority to control the development process, preventing the MRP to exercise its mandate to protect the rights of Papuans in the development process (Sugandi, 2008, p.9). However, quotas are not enough to ensure gender equality if they are adopted in isolation (UN DESA, 015, p.67). Despite the existence of a gender quota, the political institutions in Papua are extractive. Only when power is widely dispersed in decision-making processes, the idea that everyone should be treated equally starts making sense (Acemoglu & Robinson, 2012, p.306). A lack of pluralism makes it easier for elites to accumulate power. Pluralism requires political power to be widely distributed and requires a process of empowerment to go from extractive to inclusive political institutions (Acemoglu & Robinson, 2012, p.458).

Civil society

In Papua, civil society is not as active and free as in the other regions of Indonesia. Civil society is important, because without their ability to coordinate the people's demands, opposition movements can be crushed by the elites in power (Acemoglu & Robinson, 2012, p.460). Empowerment of the population is very hard without free media being able to provide information about power abuses (Acemoglu & Robinson, 2012, p.461). Papuans are not allowed to organize freely, and are frequently arrested for participation in peaceful demonstrations (Bertelsmann Stiftung, 2018, p.9). However, in the last decade, civil society organizations started to play an increasingly significant role in Papuan politics and policy (Timmer, 2008, p.34). Civil society in Papua consists of religious organizations, *adat* organizations, NGO's, media and educational institutions (Sugandi, 2008, p.18). However, the necessary space for international journalists and agencies to report on the situation is not there. International NGO's like Cordaid, the International Committee of the Red Cross and Peace Brigades International were banned from Papua by the Indonesian government on the

grounds of allegedly supporting Papuan separatism, and in 2015 the government forced international NGO's such as Oxfam into closure by not renewing their permits (Fauzi, 2015). Indonesia claims that Papua is open to foreign media as of 2015, but most journalists are still denied access based on visa denials (Kine, 2017). Civil society is so repressed in Papua, they do not have the power to constrain the political institutions.

Corruption

There is widespread corruption in Papua, indicating that there is little accountability and constraints to power abuses. The political elites abuse their power for private gain, which is an incentive to keep the institutions extractive (Acemoglu & Robinson, 2012, p.343). The local governments in Papua are regarded as the worst administered in Indonesia; the head of the election ethics board assessed the 2014 legislative elections, and concluded that Papua cannot be held to the same standard as the other regions since the majority of Papuan election officials would have to be fired if they were to be held to the same standards (IPAC, 2017, p.14). Provincial election commissioners have routinely been cited for misconduct, and voter rolls have been found to contain fictitious names (IPAC, 2017, p.14). Moreover, voter turnout is low because brokers already determined the outcome before the polling day, and candidates win based on clan membership, having powerful political backing, having more cash to distribute than rivals, or having control over the election process (IPAC, 2017, p.14). The Special Autonomy development budget has been misallocated by the local elites and turned into a fight for money (Sumule in Alhamid, Ballard & Kanowski, 2009, p.149). Furthermore, there is no trickle-down effect of Special Autonomy to ensure access to basic rights for indigenous Papuans; they don't see benefits. Instead, the local political elites and bureaucracy (both Papuan and non-Papuan) are reaping the benefits, creating an even wider social gap between the rich elites and the poor (Sugandi, 2008, p.15). Being a government official is not perceived as serving the public, but as a way to enrich oneself: most government officials suddenly owned luxurious houses and vehicles after their appointment to local office (Sugandi, 2008, p.15). Corruption is so widespread, that auditing standards are poor on all regional government levels (IPAC, 2013, pp.8-9). In local governments with access to considerable resources, corruption can crowd out actual spending on public service delivery to such an extent that public service access gets worse (Lewis, 2017, p.1703). Many districts build new government buildings, but most of them are half empty and local officials don't show up. Despite the development funds, performance in social service delivery is extremely

low. A lot of schools and health clinics were built to grant clan members construction contracts in return for kickbacks, and are left vacant afterwards (Bachelard, 2015).

Furthermore, local elites driven by resources and status are further dividing the administrative units of the province (IPAC, 2013, p.1). The local governments in Papua are very dependent on the General Allocation Fund (DAU) contributing 70 percent of government revenues (IPAC, 2013, p.4). Because allocation of this fund is based on population and area, it rewards areas with smaller populations, creating a strong incentive for local elites to divide Papua (IPAC, 2013, p.4). Moreover, 60 percent of finances allocated to Papua under Special Autonomy are distributed to all districts (IPAC, 2013, p.5). This dividing has worsened governance, corruption and conflicts in Papua (IPAC, 2013, p.8).

No monopoly on violence

Papua's government does not have a monopoly on the legitimate use of force. Without a monopoly on violence, inclusive institutions cannot develop because it hinders the enforcement of law and order, the provision of public services and the regulation of economic activity (Acemoglu & Robinson, 2012, p.80). Papuan separatist fighters such as the OPM, continue to use violence and fight the Indonesian state (Bertelsmann Stiftung, 2018, p.6). Additionally, the security forces are not perceived as legitimate amongst the Papuans; the state even appointed a military commander to Papua's capital, who was indicted twice for human rights violations in East Timor (Sugandi, 2008, p.21).

Moreover, there is little accountability of the military and police. The TNI continues to take harsh measures against peaceful activists and police violence involves physical abuse, harassment and intimidation (Sugandi, 2008, p.22). In 2016, thousands of Papuans were arrested for demonstrating for a new referendum on independence (Bertelsmann Stiftung, 2018, p.11). In most Indonesian provinces, local power holders and military commands cooperate. In Papua however, the military gained so much control, that some civilian administrations have become irrelevant, lost control of the force, and are in conflict with the TNI (Mietzner, 2003, p.254). In Timika, where Freeport is located, the TNI is so autonomous in business and security operations, they do not need power-sharing agreements with the local government, while Timika's government is campaigning for the TNI's removal out of the area (Mietzner, 2003, p.255).

East Kalimantan: breaking the mold

East Kalimantan is located in the east of the island Borneo. It's one of the richest regions in Indonesia, and has a higher than average HDI of 75.12 (BPS, 2017). The legal framework for decentralization in the province of East Kalimantan is the Law N.22/1999 on regional governance, Law N.25/1999 on the financial balance between central and regional governments, and Law N.25/2000 on the implementing regulation for the decentralization law (Colongon, 2003, p.92). East Kalimantan is divided in 10 districts: Pasir, Kutai Barat, Kutai Kartanegara, Kutai Timur, Berau, Penajam Paser Utara, Balikpapan, Samarinda, Bontang, and Mahakam Ulu (BPS Provinsi Kalimantan Timur, 2015).

East Kalimantan has a history of economic growth under extractive economic institutions. East Kalimantan is very profitable for its natural resources: 8.1 million hectare of forest land has been acquired by timber companies, 67 coal mining agreements have been signed and 500 mining permits issued for a total of 3.08 hectare (Chao, Kleden, Raja, Wardhana & Cinditiara, 2013, p.125). The large coal mining sector in East Kalimantan dates back to the time of Dutch colonization when it was exploited for the shipping industry, but the real coal mining boom began in the late 1980's (Funfgeld, 2016, p.149). During Suharto's centralistic authoritarian regime, East Kalimantan's resources were exploited to such a high degree, that it caused severe environmental degradation and set in motion processes of political, social and economic change (Haug, 2007, p.3). Since decentralization in 2001, the local governments gained the authority to issue licenses and profit from the revenues, and the region experienced another boom of resource exploitation (Haug, 2007, p.3). There was a significant rise in the issuance of mining permits. In the eastern municipality of Samarinda, concessions comprised 71% of the total area (Funfgeld, 2016, p.151).

In East Kalimantan, land grab occurs, and property rights are not consistently enforced. Currently, East Kalimantan has different laws and regulations on multiple levels regarding land rights of customary communities. However, due to contradicting restrictions, land rights of customary communities are still weak (Urano, 2014, p.8). The Ministry of Agrarian Affairs issued Regulation N.5/1999 to solve the problem of *Ulayat* Rights of Customary Law Communities, which gives district governments instructions how to deal with customary land right claims (Urano, 2014, p.8). Multiple regulations issued by districts in East Kalimantan recognise the land rights of customary communities, but often they are not

recognised, because Regulation N.5/1999 states that customary land rights are not recognised when land is already owned and used by a third party under permission of state authority (Urano, 2014, p.8). Moreover, most indigenous communities lack the land titles or land statement letters required for land registration (Chao et al., 2013, p.128). Thus, powerful investors can still easily obtain large areas of land through policies that incentivise land ownership for investment and business, without having to recognize customary law (*Down to Earth*, 2010, p.1).

There are three main arrangements through which land grab occurs in East Kalimantan: incentivizing the leaders of local communities, trading the land for agreed upon benefits, and through Nucleas Estate Schemes. Firstly, it is a common practice for companies and investors in East Kalimantan to acquire land by approaching the leaders of indigenous communities and incentivize them with gifts and money so that they influence their community into accepting a palm oil plantation on their lands. Companies also acquire land rights by giving money to the indigenous leaders and the village elders, who then sign off the land rights of the whole community (Marti, Tarigan & Griffiths, 2008, p.91). However, a lot of communities have yet to receive the promised compensation. Numerous local communities handed over land to the oil palm company PT REA Kaltim, holding land allocations of almost 100.000 hectares of land in East Kalimantan as of 2011 (Chao et al., 2013, p.130). A lot of these communities are still fighting the company to get the promised compensation for deals they made years ago (Chao et al., 2013, p.130). Secondly, oil palm companies and local communities make arrangements trading the land area for specified mutually agreed upon benefits for the people, such as employment. This is usually done through cooperatives (*koperasis*): legal entities established by local farmers (Urano, 2014, p.16). However, it regularly occurs that the *koperasis* do not act out of the local population's interest, causing conflicts between the local population, the cooperatives and the company (Urano, 2014, p.17). Thirdly, land arrangements are made through Nucleas Estate Schemes: schemes where 80% of the plantation (the nucleus estate) is directly managed by a private or state-owned company, and the remaining 20% is allocated to smallholders and farmers as plasma plantations of 2 or 3 hectare (Urano, 2014, p.12). However, most companies also manage the 20% areas on behalf of the farmers for thirty-five years, after which they receive the remaining portion of the profit deducted by bank loans and management fees (Urano, 2014, p.12). Since 2005, these oil palm estates have increased exponentially. The large-scale oil palm estates are controlled by approximately 330 companies, holding permits for 1.2 million hectares of allocated land (Chao et al., 2013, pp.125-126). The occurrence of land grab, and

lack of secure property rights for the majority of the population, creates a high risk of expropriation and loss of output, which does not create incentives for the population to invest and increase productivity (Acemoglu & Robinson, 2012, p.75).

East Kalimantan experienced positive pressure in land tenure from civil society and the arrival of direct elections. NGO's play an active role through informing local villages on land contracts. For example, the Dayak Modang community had close relations with NGO's in the area, and rejected the deal for an oil palm plantation on their land (Urano, 2014, p .18). Moreover, the accountability resulting from the direct elections of local leaders have a positive effect on the recognition of customary land rights. For example, the southern district of Paser had an ongoing conflict between farmers and migrant workers. The farmers claimed customary land rights, while the migrants of the plantation company held an official land certificate. The regent of Paser refrained from taking a decision, causing the plantation's oil palms to die, ruining the potential profit for the company and the potential compensation for the farmers (Bakker, 2009). This issue caused him to lose the subsequent elections to a rival who campaigned promising to restore Paser's oil palm sector and improve the situation of the poor. Paser made a regulation recognizing customary land rights. Customary communities gained political influence through this government support, while the government gained a more positive reputation for supporting these groups (Bakker, 2009). Thus, East Kalimantan is slowly breaking the mold of the vicious circle it was stuck in since Dutch colonization. The extractive economic institutions are slowly transforming towards inclusive institutions, due to the influence of the developments in East Kalimantan's political institutions.

Increasing accountability in extractive political institutions

Women's representation

East Kalimantan's women representation is also low. In the Regional Representative Council of the Republic Indonesia, all 4 representatives are male (DPD Republik Indonesia, 2018). In the House of Representatives of the Republic Indonesia, 3 out of 8 representatives (37,50%) from East Kalimantan are female (DPR Republik Indonesia, 2018). Moreover, in the provincial parliament, 6 out women out of 55 representatives (10,91%) is female (10,91%) (DPRD Kalimantan Timur, 2018). Additionally, there are no women in the provincial top leadership positions (Provinsi Kalimantan Timur, 2018). In the local top leadership positions, 2 out of 10 regents or mayors (10%) is female, and none of the 10 vice-regents and vice-

mayors is female (Samarinda, 2018; Balikpapan, 2018; Kutai Timur, 2018; Berau, 2018; Paser, 2018, Penajam Paser Utara, 2018; Kutai Barat, 2018; Mahakam Ulu, 2018; Bontang, 2018; Kutai Kartanegara, 2018). The political power is not widely dispersed, but located in the hands of the male elite.

Civil society

There is a certain process of empowerment in motion in East Kalimantan. The province has freedom of association and assembly. Civil society is vibrant with a lot of advocacy groups, rights associations, labour unions and other organisations (Bertelsmann Stiftung, 2018, p.9). Pluralism and a process of empowerment are two important elements to transform from extractive to inclusive political institutions (Acemoglu & Robinson, 2012, p.458). In an open system that allows independent media, it is easier for groups to organize themselves, mobilize opposition and provide information about possible power abuse and threats (Acemoglu & Robinson, 2012, p.333). Since decentralization, NGO's have put pressure on the local government for their practices and management of natural resources, and were even able to influence local legislation in several areas. A grouping of NGO's called the *Alliance of Natural Resource Policy Observers (APKSA)* delayed the draft of regional autonomy regulation, and succeeded in getting full consultation with the local government, after which the local legislation of the Kutai district was redrafted by the district assembly and government in cooperation with NGO members (*Down to Earth*, 2000). Moreover, civil society has influenced the situation of abandoned mine sites. After multiple children drowned in abandoned mining pits, the *East Kalimantan Network for Mining Advocacy (JATAM)* worked to gain access to permits and environmental impact assessment documents (AMDAL), which was granted by the Supreme Court in 2016 (Toumbourou & Surya Putra, 2016). However, *JATAM* is still waiting to receive the documents, while the abandoned mining pits continue to take lives. In addition, NGO involvement together with the development of direct elections for regents and mayors, has made the political institutions more accountable to the population (Bakker, 2009). For example, the district of Paser planned to build a new boulevard, which required the removal of riverbank slums. The higher accountability through NGO activity and direct elections, made the district government realize it was more profitable to act in the interest of the population, and made a publicity stunt by paying the people living in the riverbank slums substantial amounts of money for their land (Bakker, 2009). In East Kalimantan, civil society is breaking the mold of the vicious circle by being a force against extractive political and economic institutions.

Corruption

East Kalimantan experiences corruption, but also growing accountability. Corruption is one of the tools for the elite to keep themselves in power, and keep the institutions extractive (Acemoglu & Robinson, 2012, p.343). A lack of defence against power abuse generates the vicious circle, making sure it persists (Acemoglu & Robinson, 2012, p.344). However, constraints on how much power one person can accumulate, reduce the incentives for the elite to keep the political institutions extractive (Acemoglu & Robinson, 2012, p.309). The province is becoming more urbanised and welfare is improving, which increases the demand for accountability and effectiveness (Giap, Nurina & Mulya, 2015, p.369). However, there are many cases of corruption related to natural resources and investments. After decentralization, local politics reproduced the patronage networks that had existed during the Suharto era. For example, the former regent of the Kutai Kartanegara district dispensed favours through infrastructure projects and business licenses to keep ties with the bureaucracy and law enforcement. Funds for local development projects were embezzled, which involved an extensive number of officials from various institutions part of his patronage network (Evaquarta, 2010). Eventually they were held accountable, and 8 high positioned senior government officials have been arrested for corruption between 2004 and 2010, including the former regent, the deputy-regent, and the chairman and vice-chairman of the local assembly (*Down to Earth*, 2010, p.3). Furthermore, there was a lot of mining-related money politics. Particularly during local elections, candidates received financial support from mining companies who in turn received concessions after the elections (Funfgeld, 2016, p.151). A former governor of East Kalimantan was sentenced to 4 years in prison for issuing permits to open 1 million hectare of land for palm oil plantations for the Surya Dumai Group. He waived the company's obligation to provide a bank guarantee, which caused the state a loss of 346.8 billion Rupiah (Dermawan, Petkova, Sinaga, Muhajir & Indriatmoko, 2011, p.10). Thus, East Kalimantan experiences growing constraints on power, thereby lowering the amount of wealth and power a person can usurp, which can reduce the incentives to keep the political institutions extractive.

A fragile monopoly on the legitimate use of force

East Kalimantan has a monopoly on the legitimate use of force. A monopoly on violence is important to enforce the conditions of inclusive institutions, such as law and order, economic regulations and public services (Acemoglu & Robinson, 2012, p.80). However,

East Kalimantan government's monopoly is under threat. The practices of private companies involved in coal mining have challenged the government's monopoly on the use of force. Private companies bribe the local police to gain their support and repress anti-mining protests (Funfgeld, 2016, p.157). Indonesia National Human Rights Commission reports consistent abuse by the security forces acting out of commercial interests (Jacobson, 2014, p.50). Security forces have often inhibited demonstrations through threats of violence, but this often turned into physical violence (Funfgeld, 2016, p.152). Besides from bribing police officers, companies are increasingly employing paramilitary groups to protect their mining operations, but these groups threaten the local communities and exercise violence against them (Funfgeld, 2016, p.157). These paramilitary groups are formally registered as civil society organizations and use visual similarities to the national military to legitimate their existence and actions (Funfgeld, 2016, p.157). For East Kalimantan's development, it is important that the monopoly on force is retained. A loss of this monopoly can stop the developments towards inclusivity, and result in chaos (Acemoglu & Robinson, 2012, p.81).

4. Conclusion

Concluding, Acemoglu & Robinson's institutionalist theory of development holds explanatory power to account for the diverging trajectories of development in East Kalimantan and Papua. The process of decentralisation and democratisation gave the regions a lot of autonomy, and created differences between their institutions. The case studies demonstrate a significant difference in their economic and political institutions, and the monopoly on violence.

Proposition 1 holds true: the local economic institutions in Papua are more extractive than the economic institutions in East Kalimantan. The economic institutions in Papua are severely extractive: the province suffers from land grab on a very large-scale by private and state-actors such as Freeport McMoran and the state-initiated MIFEE project. East Kalimantan's economic institutions are extractive, but civil society and direct elections are pressuring towards more inclusivity. Land grab by private companies still occurs, and laws and regulations are contradictory and often not enforced. However, civil society and elections generate more accountability in the political institutions and economic activities.

Proposition 2 holds true: the political institutions in Papua are more extractive than the political institutions in East Kalimantan. Papua's political institutions are extremely extractive. Even though, *de jure*, Papua has affirmative action policies, *de facto*, this is not implemented. The political institutions are not pluralistic. Women are barely represented in politics and decision-making processes, civil society is frequently repressed and denied access, and corruption is so widespread and severe that Papua cannot even be held to the same ethical standards as Indonesia's other regions, and it crowds out public service delivery. The concentration of political power is so narrow, and the accountability so low, that the elite has the resources and power to keep the economic institutions extractives and remain in power. In East Kalimantan, the political institutions are less extractive than in Papua, because there is a higher degree of accountability and the political power is less concentrated. Women's representation is also low in East Kalimantan, but civil society differs significantly. Being free and able to organize, civil society is an important pressure in the province's transformation towards more inclusivity by influencing the political process, constraining power abuses by the elite and increasing accountability. Moreover, the direct elections also improve accountability. Corruption was a widespread problem, but increasing accountability and constraints are decreasing corruption. Because the amount of power and resources that the elite can usurp is declining, and there are constraints to power abuse, the incentives to keep the East Kalimantan's institutions extractive are declining.

Proposition 3 holds true: the state has a stronger monopoly on the legitimate use of violence in East Kalimantan than in Papua. Papua does not have a monopoly on the use of force. Separatist fighters such as the OPM are using violence in their goal for independence. Local governments have lost control over the military because they are so powerful in Papua, and they are not seen as legitimate by the population because of human rights violations. Even though it is fragile, East Kalimantan has a monopoly on the legitimate use of force, and is therefore able to enforce law and order, provide public services and regulate economic activities.

Even though both regions have extractive political and economic institutions, the differences in the institutions have a significant effect on the development of both regions. While Papua is stuck in a vicious circle, East Kalimantan is breaking the mold. Papua has severely extractive economic and political institutions, and the lack of accountability and constraints against power abuse create a vicious circle. The very extractive political institutions lead to extractive economic institutions and distributes power and resources in the

hands of a small Papuan and non-Papuan elite. These resources and power are used by the elite to remain in power, and enables them to keep the institutions extractive. Additionally, the fact that Papua does not have a monopoly on the legitimate use force greatly undermines any form of development towards inclusiveness, since this is needed to enforce law and order. On the other hand, East Kalimantan is slowly breaking the mold. The province has extractive economic and political institutions, and has experienced unsustainable growth under extractive institutions. However, certain forces have been slowly breaking this vicious circle, making the institutions more inclusive. There are more constraints on the abuse and accumulation of power and wealth, political power is getting more widely distributed, and the rule of law is increasingly enforced. When these characteristics arise, it also leads to more inclusive economic institutions, and decreases the incentives to re-create extractive political institutions in East Kalimantan. Thus, Acemoglu & Robinson's theory keeps holding explanatory power when it is applied to regional comparison within a country.

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