



# Beyond “Good Governance”: The Multi-level Politics of Health Insurance for the Poor in Indonesia

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**Summary.** — Recent decentralization reforms in low- and middle-income countries have revived a long-standing debate on the benefits and drawbacks of empowering local governments. While some scholars highlight advances in local democratic accountability, others emphasize the dangers of decentralized governance when democratic practices are poorly institutionalized. This paper studies the case of health politics in Indonesian local government to contend that the focus on democratic accountability and good governance may be insufficient to explain major policy outcomes associated with decentralization. I show that the quality of local democracy affects health insurance policy during the first stages of the decentralization process. However, to understand policy trajectories over a longer time frame, relations between politicians at different levels of government become the crucial factor. Using original qualitative and quantitative data from nearly 400 Indonesian districts and provinces, I find that regions in which cooperation between provincial and district authorities has emerged display systematically higher levels of health insurance coverage. I explain why multi-level cooperation improves local policy outcomes, and I show that the positive effect of cooperation does not depend exclusively on patronage networks. These findings contribute to the literature on decentralization and development by showing that policy cooperation across levels of government is crucial for the implementation of complex social policies, and that multi-level cooperation can have beneficial effects even when local democratic institutions are weak.

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## 1. INTRODUCTION

Decentralization reforms implemented in the last two decades have fundamentally transformed governance in many low- and middle-income countries. Research on decentralization suggests that such reforms can be beneficial in fostering desirable policy outcomes, but only in the presence of virtuous dynamics of democratic accountability at the local level. Such a focus on local government and democratic accountability, however, neglects that decentralization reforms give rise to multi-level political systems, in which complex policies are enacted at different levels of government, often with overlapping jurisdictions and potentially conflicting preferences. This paper studies the case of health politics in Indonesian local government to argue that relations between different levels of government are crucial in affecting the quality of social policy implementation. While the quality of local democracy and governance helps explain health policy innovation in the early stage of decentralization, the long-term sustainability of such policies depends on the ability and the willingness of local political leaders at various levels of government to work together and address common policy challenges.

Decentralized governance has often been promoted as necessary to achieve development policy goals. Building on theories of fiscal federalism (Oates, 1972, 1999; Tiebout, 1956), advocates of decentralization have argued that empowering local authorities fosters desirable policy outcomes and strengthens democracy in local government. The empirical record of decentralization reforms in the developing world, however, is mixed. After a first wave of decentralization reforms was implemented in the late 1980s and early 1990s, empirical evidence began to mount that increased local autonomy was not alleviating deep-seated evils such as corruption, poverty, and inequality (Burki, Perry, & Dillinger, 1999). Many observers attributed such disappointing outcomes to the poor functioning of democratic institutions at the local

level, where low levels of socioeconomic development often impeded the emergence of robust dynamics of democratic participation and competition (Bardhan & Mookherjee, 2000, 2006; Cai & Treisman, 2006; Keefer & Khemani, 2005; Shah, 1999).

Although the quality of local democratic institutions is key for understanding decentralization outcomes, the focus on local-level factors predominant in this literature has neglected that decentralization reforms create multi-level political systems, in which policy is designed, implemented, coordinated, and sometimes vetoed by elected officials at various levels of government (Hooghe & Marks, 2003). Building on the literature on federalism and multi-level governance in socioeconomically advanced democracies (Stephenson, 2013; Wibbels, 2006), I argue that policy cooperation across levels of government is crucial to ensure social service delivery at the local level. In low- and middle-income countries, where many local governments suffer from low levels of financial and institutional capacity, social policy implementation is often inadequate, and assistance in policy implementation from higher levels of government is vital to achieve desirable policy outcomes (Prud'Homme, 1995). I focus, in particular, on the role of a set of actors that are neither local nor national. Cooperation between local government and these

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“meso-level” political units, such as regions and provinces, is beneficial for local policy outcomes. On one hand, intermediate-level governments dispose of higher levels of institutional capacity and financial resources, and can thus offer local government valuable assistance in implementing social policy. On the other hand, the larger size of meso-level units allows them to exploit economies of scale better than local government, thus avoiding the inefficiencies of excessively localized social service delivery (Ahmad, Devarajan, Khemani, & Shah, 2005). As intergovernmental cooperation may improve both policy outcomes and the quality of local institutions, neglecting meso-level governments may lead analysts to overstate the importance of local democratic accountability in fostering desirable policies.

Indonesia is an illustrative example of how a profound restructuring of a centralized state has yielded mixed policy results. After the demise of the authoritarian regime led by President Suharto in the late 1990s, this country implemented a package of radical reforms granting substantial autonomy to its local administrations. Districts-level local governments, in particular, were empowered with important prerogatives in a number of policy areas, while provinces, larger political units between the district and the national level, received more limited powers. The outcomes of such reforms, in terms of development policy, are somewhat disappointing: while the country has continued on a stable trajectory of economic growth, local-level advancements in key policy areas such as social service provision and poverty alleviation have continued at a pace closely reminiscent of the years of centralized planning (Ilmma & Wai-Poi, 2014), and there is wide variation in local government success in attaining policy goals (Lewis, 2014a). Students of Indonesian politics have often explained these varying results by studying how democracy works in Indonesian local government, stressing factors such as civic participation and informal linkages between elected officials and social groups, and the dominance of predatory interests in democratic competition (Pepinsky & Wihardja, 2011; Von Lueke, McCulloch, & Patunru, 2009). In this paper, I study the case of the politics of free healthcare for the poor in Indonesian local government to argue that the prevailing attention on local factors has neglected relations among politicians at *different* levels of government. Although various Indonesian districts, especially those with strong democratic institutions, implemented innovative policies in the early stage of the decentralization process, such policy experiments have often proved unsustainable. The empirical data that I present demonstrate that, over a longer time frame, districts that cooperated closely with provincial governments in the implementation of institutionalized, accurately targeted, and financially sustainable local health insurance plans have achieved higher health insurance coverage rates.

The remainder of this paper proceeds as follows. In the next section, I review the literature on decentralization and service delivery in low- and middle-income countries, with a particular focus on Indonesia, and I discuss why relations between various levels of government should be investigated with greater attention. I then transition to the empirical section of the paper, presenting the diffusion of local health insurance programs in Indonesia as a two-stage process. In the early stage of decentralization, when local government served as a laboratory for policy innovation, the quality of local institutions played a key role, as innovative policies were more likely to be adopted in districts with strong democratic accountability dynamics. However, such policy experimentations were often unsustainable beyond the short-term. In a second stage of the policy diffusion process, national and provincial author-

ities gradually took the center stage in designing health insurance policies, putting issues of multi-level coordination at the forefront of the policy debate. I then outline the research design and I analyze quantitative data showing that districts in which multi-level cooperation between districts and provinces emerged have provided higher rates of health insurance coverage. I also show that the effect of multi-level cooperation on local policy outcomes does not depend on district-level institutional and political factors. I conclude by discussing the implications of these findings for the literature on decentralization and development, and by identifying avenues for further research.

## 2. DECENTRALIZATION, ACCOUNTABILITY AND SERVICE DELIVERY: THE MULTI-LEVEL DIMENSION

Seminal work on decentralized governance argued that federal institutions foster desirable policy outcomes because of two main reasons. First, local government has better knowledge of local conditions and policy preferences (Hayek, 1945). Second, federalism promotes a process of competition among subnational units through which citizens can choose the policies they prefer by sorting themselves into different jurisdictions (Tiebout, 1956). Some presumed benefits of empowering local authorities include more efficient public goods provision, better economic performance, smaller government, and enhanced accountability and representation at the local level (Oates, 1999). These theoretical tenets have informed the shift toward more decentralized governance in developing countries since the mid-1980s, as consolidated models of central planning to promote economic development and reduce poverty started to fall into disrepute. A few years after decentralization experiments had begun to proliferate, however, the empirical record of decentralization projects in the developing world was already mixed (Burki *et al.*, 1999): the promise of cleaner, more efficient and responsive public administration often contrasted with policies that failed to address persistent problems such as inequality, poverty, and corruption. One explanation for these disappointing outcomes is the quality of local democracy: local-level democratic institutions in developing countries are often very different from those subsumed in the theoretical literature<sup>1</sup>: due to low levels of socioeconomic development, local democracy is often plagued with problems such as lack of public information, participation and awareness, low levels of political competition, absence of credible institutions, and service delivery targeted to clients of local officials (Bardhan & Mookherjee, 2000, 2006; Keefer & Khemani, 2005; Shah, 1999). As a result, the virtuous circle of democratic accountability posited in theory often fails to establish itself in practice, and resources that should be devoted to improve popular welfare are “captured” by local elites (Golden & Min, 2013, p. 88).

Indonesia illustrates the mismatch between the positive expectations propelling decentralization reform and its empirical outcomes. In the late 1990s, after the breakdown of the authoritarian regime led by President Suharto, Indonesian legislators implemented a package of institutional reforms that would quickly transform Indonesia into a more democratic and decentralized political system. The “regional autonomy” (*otonomi daerah*) laws, in particular, introduced substantial autonomy for local government, a remarkable departure from the New Order regime, in which Indonesian regions were governed by centrally appointed bureaucrats.<sup>2</sup> Law 22/1999 specifies that there are two main levels of local government,

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