

# Financing Peace: Special Autonomy Fund as a Peace Dividend in Aceh, Indonesia

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## Abstract

*This paper discusses the peacebuilding process in Aceh Indonesia. Southeast Asia is one of the regions that has been plagued by severe ethno-nationalist strives due to its high level of diversity and the impact of colonialism. Among several cases of ethno-nationalist struggles in this region, the separatist insurgency in Aceh, Indonesia has been regarded as the protracted conflict that has been successfully resolved and created durable peace. The Helsinki Peace Agreement attempted to redress the economic grievances that were manifested in perceived inequality and the exploitation of Aceh's natural resources through the arrangement of Special Autonomy Fund. This fund serves as a peace dividend that is expected to bring welfare and enhance economic development in Aceh. The paper examines the role of Special Autonomy Fund in accelerating economic development in Aceh in the past ten years by utilizing the concept of the peace dividend and the model of fiscal-sharing. While this fund has been successfully increasing Aceh, economic growth compared to the conflict era, it has not been optimally utilized to reduce poverty and inequality. Due to the nature of peace in Aceh as an elite-based peace, the peace dividend has contributed to the patronage politics particularly among the former combatants.*

*Key words: Southeast Asia Insurgencies, Peacebuilding, Aceh, Special Autonomy Fund, Economic Grievances, Peace Dividend*

## Introduction

Southeast Asia is one of the regions that has long been plagued by separatist conflict. This type of conflict is described by Weller (2005, pp. 4) as “among the most damaging and protracted to have bedeviled states and the international system since 1945”. Reilly and Graham (2004) argue that the weakness of Asia-Pacific countries

towards internal insurgencies is caused by the vulnerable state structures which deal with identity-based conflict insurgencies. Due to the impact of colonialism, many states in Southeast Asia and the South Pacific are artificial creations of the twentieth century, incorporating diverse ethnicities, races or religious group without strong cohesion (Reilly & Graham, 2004). Among several Southeast Asian countries, Indonesia, Thailand and

the Philippines are the homes of the longest ethno-nationalist insurgencies.

Indonesia provides an appealing case study of ethno-nationalist insurgency as well as its successful resolution. Aceh, the westernmost province of Indonesia, is known for its long history of war, resistance, and rebellion. The longest post-independence insurgency in Aceh commenced in the midst of increasing centralism of Suharto's New Order government. In December 1976, Tengku Muhammad Hasan di Tiro or known as Hasan Tiro established Aceh-Sumatra National Liberation Front (ASNLF) which was later renamed Free Aceh Movement (*Gerakan Aceh Merdeka*/GAM). Hasan Tiro is the descendant of a prominent Acehnese family and the grandson of Teuku Cik Di Tiro, an Indonesia national hero during the struggle against Dutch colonialism (Schulze, 2004). Grievances over center-periphery antagonism, economic-natural resources distribution, political participation and cultural acknowledgement fueled the mobilization organized by GAM.

The central government responded to this rebellion by launching a series of counterinsurgency operations that caused extensive casualties, widespread human right violations and heightened the scale of the conflict. Many years later in 1998, Suharto fell from power. This was followed by dramatic changes in the overall Indonesian political landscape, including the way the government dealt with internal conflict. Under President Abdurrahman Wahid and Megawati

Sukarnoputri, two efforts towards a peaceful resolution in Aceh were initiated under the facilitation of the Henry Dunant Center. In May 2000, the Government of Indonesia and GAM agreed to sign a cease-fire agreement, the Humanitarian Pause, followed by a Cessation of Hostilities Agreement in December 2002. Neither agreement lasted very long, owing to unsatisfied demands between GAM and the Government of Indonesia regarding the issue of Aceh's independence.

In December 2004, Aceh was hit by a calamitous earthquake and tsunami which caused more fatalities. According to data from the International Recovery Platform, there were 16,389 people dead, and 532,898 displaced (International Recovery Platform, 2004). In the aftermath of the tsunami, a historic agreement between Aceh Rebel Movement (*Gerakan Aceh Merdeka* or GAM) and the Government of the Republic of Indonesia (GoI) was signed in Helsinki, Finland on 15 August 2005. This peace agreement was mediated by Martti Ahtisaari, former president of Finland, under the auspice of Crisis Management Initiative (CMI). Since the peace agreement was signed in 2005, peace in Aceh has been maintained for 13 years, former combatants have secured seats in Parliament and the Executive branch of government. Economic indicators have gradually improved, and development projects are robust.

In the aftermath of conflict, the economic condition in Aceh has gradually improved as shown in table 1. From

conflict period in 2004-2005 to peacetime in 2006-2007, economic growth in Aceh rocketed from 1.8 and 1.2 per cent to 7.7 and 7.4 per cent, respectively. Negative growth in 2008 and 2009 indicated the impact of the depleting oil reserves in Aceh coupled with the diminishing construction and rehabilitation sectors (Bank Indonesia, 2009). In 2015, the negative growth was instigated by the discontinuation of the operation of Arun Gas Company that produces condensate and liquid natural gas (Medan Bisnis Daily, 2016).

**Table 1. Aceh Economic Growth 2004-2017**

Year	With Oil and Gas	Without Oil and Gas
2004	-9.6	1.8
2005	-10.1	1,2
2006	1.6	7.7
2007	-2.5	7.4
2008	-8,3	1.9
2009	-3.82	3.78
2010	2.79	5.49
2011	5.02	5.89
2012	5.21	6.09
2013	4.82	5.45
2014	2.71	4.02
2015	-0.72	4.34
2016	3.31	4.31
2017	4.19	4.14

Source: BPS (Indonesia Statistical Bureau)

**Table 2. Aceh GDP Per Capita 2007-2017**

Year	With Oil and Gas (In USD)	Without Oil and Gas (In USD)
2007	1.684,90	1.178,31
2008	1.705,60	1.601,07
2009	1.633,66	1.336,84
2010	1.760,97	1.468,62
2011	1.914,05	1.599,36
2012	2.034,72	1.714,83
2013	2.012,00	1.714.00
2014	2.193,63	1.971,61
2015	1.927,16	1.852,34
2016	2.024,33	1.961,90
2017	2.112,15	2.043,57

Source: BPS (Indonesia Statistical Bureau)

Table 2 shows the Gross Domestic Product per capita in Aceh more than one decade after the peace settlement that reaches approximately around USD 2100 per year with oil and gas and USD 2000 without oil and gas in 2017. Before peace, GDP per capita in Aceh was recorded at USD 1090 with oil and gas in 2004 (World Bank, 2006). While the Aceh's GDP is catching up due to the growth, in the same year in 2007 Aceh was one of the poorest Indonesian provinces ranked at sixth lowest among 33 provinces with 16,89% of those in Aceh living below the poverty line of US\$ 34/ months (BPS).

Aceh Peace Process is considered as one of the most successful and durable peace processes in the world (Djuli, 2018). The model of peace settlement in Aceh has

inspired other countries in Southeast Asia that also experience separatist insurgencies such as The Philippines and Thailand. One primary aspect of the peace process in Aceh that was partially followed by The Philippines Government to resolve the conflict in the Mindanao, Southern Philippines is the economic settlement. Since perceived inequality is one of the primary causes of conflict in Aceh, the narrative about economic exploitation and unequal sharing of natural resources between the central government and the province of Aceh has fueled grievances over the years. Therefore, post-conflict peacebuilding in Aceh is directed to addressing these grievances by redistributing the revenue from the national budget and natural resources through a national budget that aims to enhance Aceh's economic independence, supporting economic growth and social welfare. This arrangement is duplicated by The Philippines Government through The Law of Bangsamoro or BOL. In BOL, The Bangsamoro Autonomous Region in Muslim Mindanao will receive annual block grant, the increasing share in revenue taxes and natural resources taxes and rehabilitation fund for ten years (Marcelo, 2018).

Against this backdrop, this paper seeks to analyze the role of special autonomy fund as a peace dividend to address a (perceived) economic inequalities that fueled the conflict in Aceh over thirty years. The paper argues that within ten years of the disbursement of special autonomy fund, this peace

dividend has not yet yielded the expected result in alleviating economic deprivation in Aceh. It occurs due to the lack of skill from the former combatants that dominate local government and the type of peace in Aceh that tends to be an elite-based, exacerbated by the patron-client network that is sustained from the reconstruction period to peacetime.

### **The Special Autonomy Fund (SAF) as Peace Dividend in Aceh**

Peace dividends are the crucial part of the peacebuilding process as stated by the 2009 Report of the Secretary-General on Peacebuilding in the Immediate Aftermath of Conflict. The report stated, "that if countries can deliver early peace dividends, build confidence in the political process, and strengthen core national capacity early on, they can reduce the risk of relapse into conflict and substantially increase the chances for sustainable peace".

The term "peace dividend" has significantly different meanings at different levels of analysis. Peace dividend is commonly understood as the reduction defense budget to increase the fund to finance non-defense spending such as education, health and poverty reduction. O'Hearn (2000) classified the literature on peace dividends based on three major streams. The majority of studies on the peace dividend analyze the impact of the reduction of conflict such as cold war to the level of dividends accepted by the militarized regions. Smaller literature examines the benefit of the military expenditure transfer to the non-defense

purpose or to avoid the destruction of war. The minor literature on peace dividends analyses the effects of peace on peripheral regions or on communities that have been in conflict with regionally powerful states. These communities have been experiencing political marginalization and economic disenfranchisement that create a fertile ground for armed conflict. Hence, peace dividends give these communities a promise of greater economic participation and development in terms of trade, investment and entrepreneurship.

Chan (1995) categorized peace dividends into the three steps: firstly, the reduction of military expenditure to generate nontrivial saving (resource dividend) and secondly by the promotion of greater production efficiency (product dividend). The last step is the direct transfer of defense saving to increase the budget for the social program and an indirect one by creating a healthier economy. The other form of the peace dividend is fiscal power sharing. Fiscal sharing is focused on the politics of peace dividends to generate an equal share of fiscal resources by reducing the proportion of central government and allocating a bigger share to local government (Aleman & Treisman, 2005). The impact of fiscal decentralization on secessionist violence will depend on the true motives of those demanding secession. According to Aleman and Treisman (2005), there are three common motives for secession: autonomists, opportunities and local ethnic entrepreneurs. Autonomists aim to win greater authority to build local entities

within existing states. Opportunists extort bigger shares of national wealth, while local ethnic entrepreneur demands independence to gain local support (Aleman & Treisman, 2005 pp. 176-177). Therefore, the result of peace dividend to generate welfare to the community will depend on the leader of the separatist movement, whether it will be well utilized for the society or being manipulated for the leader's benefit.

The importance of fiscal sharing is acknowledged by scholars in the consociationalism school as it is argued by (Lipjhart, 1973; 1993 pp. 188-189 as cited in Aleman & Treisman, 2005 pp. 177): "Proportionality in the allocation of public funds is an essential element of successful power sharing arrangement among ethnic groups". The central transfer to the most likely separatist region is also considered an effective strategy to prevent secession (Roeder & Rotschild, 2005).

In addition to fiscal sharing, peace dividends could also be based on natural wealth sharing. Onder & Cordela (2016) state that natural oil revenue-sharing in post-conflict areas would generate various result. This scheme works in Aceh because fiscal decentralization was part of the peace agreement between The Government of the Republic of Indonesia and the Free Aceh Movement in 2005. It did not work for Colombia Civil War resolution as 1991 fiscal reforms led to the appropriation of revenue by the rebel group to finance the movement. In Iraq, the result is mixed. Temporarily, oil revenue sharing between Iraq and

Kurdistan Regional Government might preserve Iraq territorial sovereignty, but in the long run, it could strengthen the Peshmerga fighters in their bid for independence (Onder & Cordela, 2016).

The subject of fiscal politics as peace dividend is crucial in post-conflict peacebuilding especially in sub-national conflict since the central government tends to allocate a large number of funds to redress the imbalance of the distribution of natural wealth during the conflict. As it was mentioned earlier, the impact of the distribution of the peace dividend will depend on the motives of separatism. It may generate optimal welfare for the wider public and alleviate grievances or will end up benefiting certain groups of elites who belong to one ethnic group. Thus, unless managed fairly, a peace dividend may contribute to the possibility of the repetition of internal colonialism, in which one group tends to exploit resources at the expense of the other.

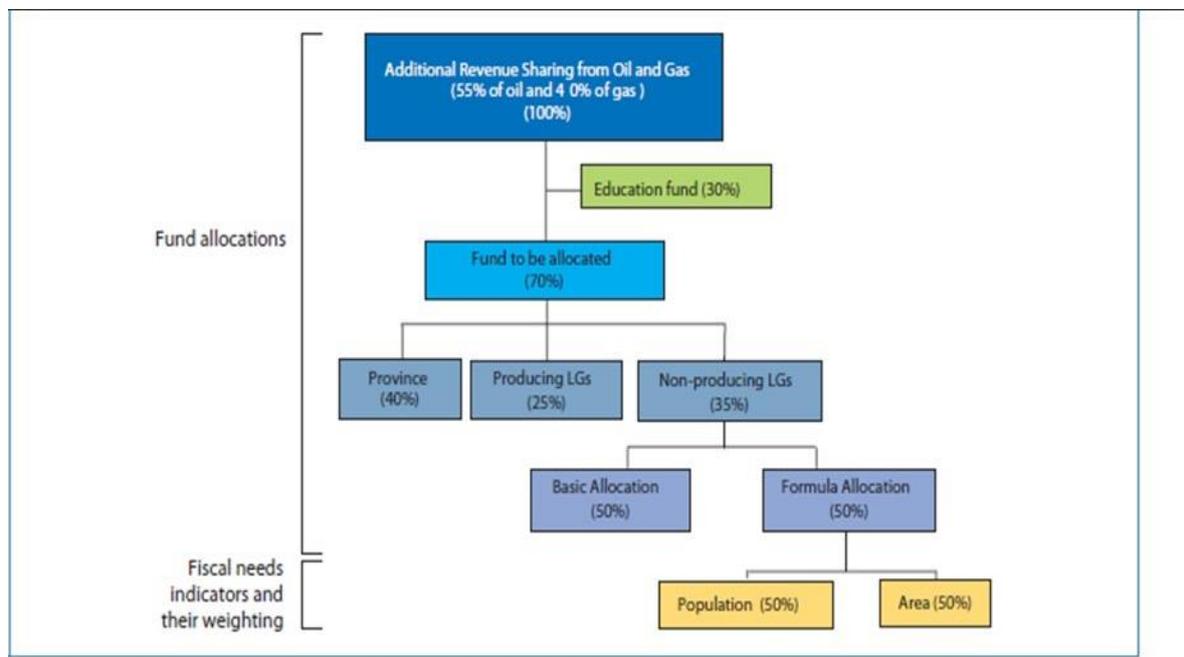
Unlike the traditional literature of peace dividends that links the reduction of military spending to economic development, the concept of peace dividends in Aceh is closer to fiscal and natural wealth sharing. Fiscal and natural revenue sharing are the important aspects of Aceh's economic development as a mean to alleviate economic grievances that fueled the conflict. The imbalance of the past unfair distribution of Aceh's natural wealth is being alleviated by granting a large amount peace fund which is expected to accelerate economic

development in Aceh and can bring welfare to the Acehnese people.

Aceh has received the Special Autonomy Fund since 2001, but the amount was increased as a result of the peace settlement. Peace dividend in Aceh consists of the Natural Resource Revenue Sharing Fund (*Dana Bagi Hasil Sumber Daya Alam/DBH SDA*), in which Aceh gains a bigger percentage (70 per cent) of oil and gas compared to other provinces. This fund is also called the "Additional Oil and Gas Profit Sharing Fund" in article 182 of LoGA (Law on The Governing of Aceh). This provision is an effort to redress the grievance about the imbalance of the profit sharing from oil and gas which has been perceived by the majority of Acehnese as center-periphery economic exploitation.

Figure 1 describes how LoGA regulates the utilization of the Natural Resources Revenue Sharing Fund, with Aceh's government obtaining 55% from oil and 40% from gas. Thirty per cent of this fund must be allocated to education, and 70 per cent is granted to intergovernmental sharing (Islahudin, 2010 pp. 4).

**Figure 1. Allocation of Additional Revenue Sharing from Oil and Gas for District/City Government in Aceh**



Source: World Bank (2008)

The other component of the peace dividend is the additional two per cent share of the General Allocation Fund (*Dana Alokasi Umum/DAU*) for 15 years. It will then continue at one more per cent for five more years until 2027, as shown in figure 5.3. DAU is the new system of Indonesia's inter-governmental transfer as defined in Law No 25/1999 on decentralization (Barr, Resosudarmo, Dermawan & McCarthy, 2006 pp. 65). According to Article 1, Law No 22/1999 about decentralization, "this fund is allocated from the national government budget according to a specified formula with the objective of equalizing the financial capacity across regions to fund their respective expenditure within the context of implementing decentralization". The additional 2 per

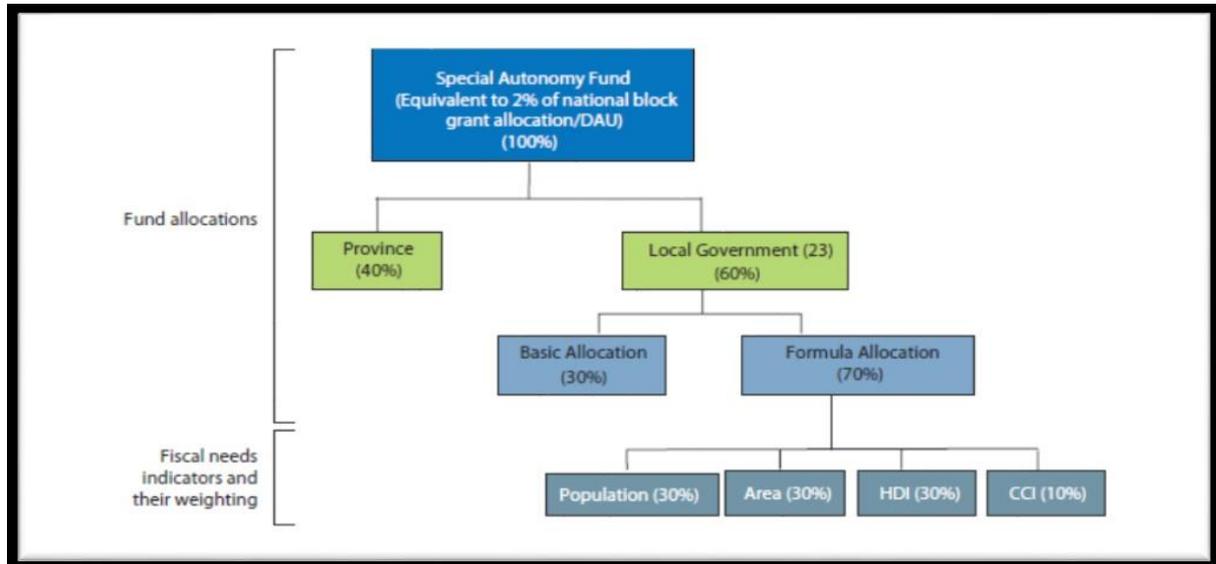
cent share is an effort to redress the imbalance of previous decades of the distribution natural resources, as the oil and gas in Aceh is already in decline. To avoid a confusing word swap, these two schemes of peace dividend are called Special Autonomy Fund (*Dana Otonomi Khusus-Dana Otsus*).

The utilization of the Special Autonomy Fund is regulated in Law of Governing Aceh (LoGA). It is aimed to finance the following development programs:

1. Development and maintenance of infrastructure
2. Economic empowerment of people
3. Eradicating poverty
4. Education

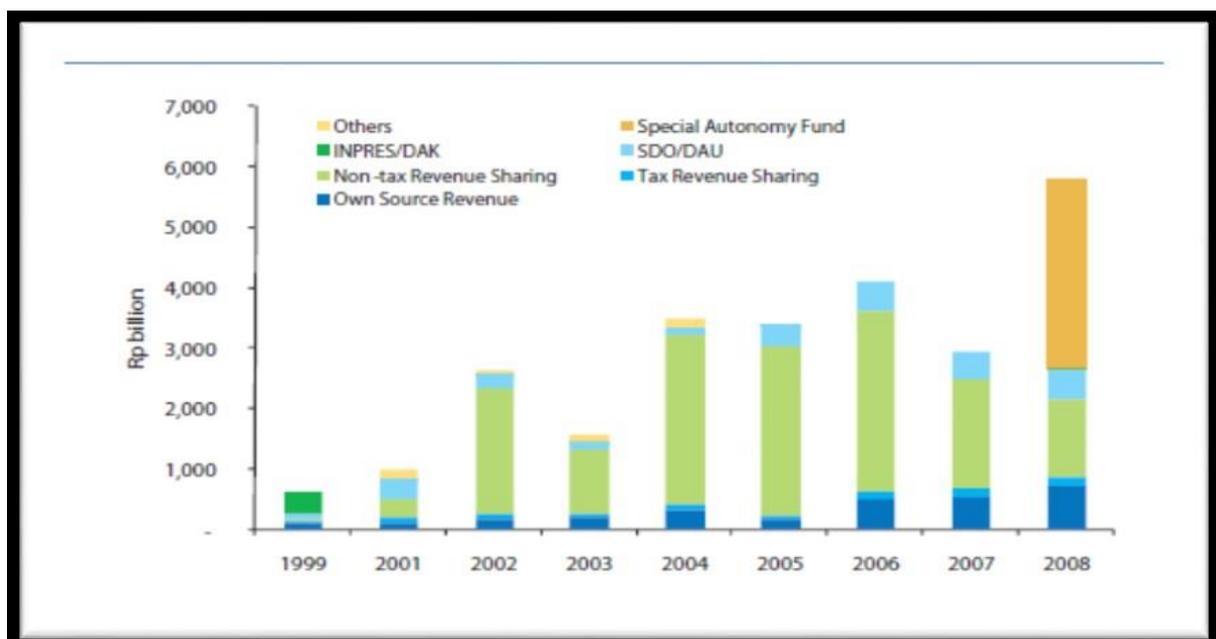
- 5. Social
- 6. Health (Law of Governing Aceh, article 183).

Figure 2. Allocation of Special Autonomy Fund into City/District



Source: World Bank (2011)

Figure 3. Aceh Provincial and District's Revenues 1999-2008



Source: The World Bank (2011)

From Figure 3 we can see that the Special Autonomy Fund had contributed significantly to Aceh's provincial and district's revenue. Aceh provincial and district revenue started to escalate and reached a peak in 2008 after the allocation of Special Autonomy Fund. Under Governor Irwandi's administration, the committee was established to decide how to allocate oil Special Autonomy Fund. The allocation was articulated in the Government of Aceh Mid-Term Development Plan period 2007-2011 and set out as follows:

- (1) Strengthening of governance, political processes and the law
- (2) Economic empowerment, employment opportunities and poverty reduction
- (3) Development and maintenance of investments in infrastructure
- (4) Development of education that is of high quality and accessible
- (5) Increase in quality of health care services
- (6) Development of religion, society and culture
- (7) Disaster risk reduction and management. (Hillman, 2011 pp. 537)

Among the five priorities, education and health were the priorities of Governor Irwandi. During the election campaign, Irwandi promised to allocate a large proportion of the fund to these two sectors (Hillman, 2011). Irwandi's policy echoes Collier (2006) argument about the importance of inclusive social expenditures such as expansion in

primary health care and education for growth in post-conflict settings that are often deteriorating during the prolonged conflict. In other words, there is a need to put greater emphasis on social inclusion and hold macroeconomic and long-term policy (Hehn, 2011 pp. 294). The items in the planning were based on the stipulation in LoGA with some additions on disaster risk and governance, two important subjects for the development of Aceh in post-conflict. This section will focus on the disbursement of Aceh Special Autonomy Fund in infrastructure, health, and education.

### **Infrastructure**

Infrastructure is allotted the most significant share of the fund, with stark disparities in spending compared to other sectors such as economic development, education and health. According to the LoGA, infrastructure is one of the priorities to be financed by the Special Autonomy Fund. Between 2008 and 2010, infrastructure always received the biggest share of the fund. Most of the fund for infrastructure, 58%, is spent on road and bridge construction and maintenance. Allocation for irrigation is 11%, river conservation and flood control 9.8%, village infrastructure 8.7%, and housing 6.6% (World Bank, 2011).

However, from the survey conducted by the World Bank (World Bank, 2011) the level of satisfaction with infrastructure development is low compared to other sectors. The dissatisfaction occurred due to the poor quality of the construction and unfinished

projects. Another shortcoming of the infrastructure in Aceh is that most of the fund is allocated to small scale projects below IDR 200 million (approximately US\$ 20,000). Based on Presidential Decree No 70/2012, the procurement of goods/construction works/others are set at the maximum of IDR 200,000,000.00 (two hundred million rupiahs) that be implemented through the direct appointment. This regulation gives an opportunity to newly established and small contractor companies which only have the low skill to win projects, often through collusive practices that primarily occurred during post-conflict reconstruction.

Small-scale projects such as building paving blocks or fences will not have a significant impact on the broader community. Borrowing the term used by Muhammad Syarif (Jawa Post, n.d) development in Aceh is interest-based, not need-based. It is built to cater to political interests by creating patron-client networks rather than focusing on a long-term development strategy to create welfare and stimulate economic growth.

### Education

The importance of education in post-conflict development in Aceh is manifested in the 30% allocation for education fund in Additional Revenue Sharing from Oil and Gas and one of the sectors financed by Special Autonomy Fund. Until 2027, when Special Autonomy Fund is phased out, Aceh will receive IDR 34, 7 trillion (USD 23 million) in education funding. One of the indicators of the

progress of education is by measuring the Human Development Index (HDI). Aceh's Human Development Index (HDI) was quite good in the past. Based on official statistics, in 1996 Aceh's HDI was 69.4 with it ranking 9th out of 26 Indonesian provinces while during the 2004-2010 period, Aceh's HDI gave the province a rank of 17-18th of 33 provinces (Barron, Rahmant & Nugroho, 2013). In 2016, Aceh's HDI was steadily progressing and in the relatively same level with the national index (CMI, 2017).

**Figure 4. Aceh Human Development Index 2010-2016**

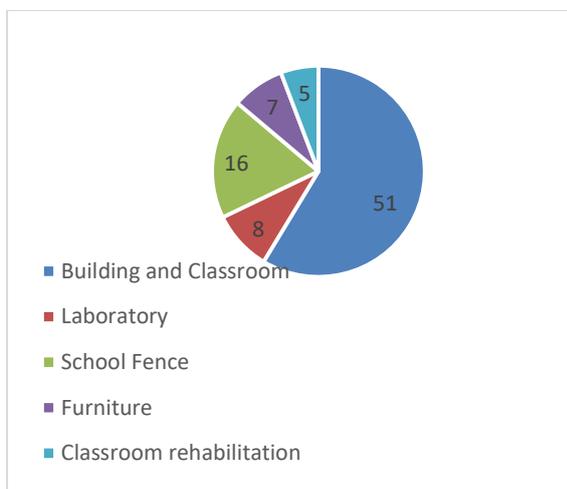


Source: CMI (2017)

However, the vast amount for education in Aceh has not been properly and strategically allocated for increasing the quality of education. As shown by Figure 5, the biggest proportion of the Special Autonomy Fund for the education sector was allocated to building classrooms and school fences, expenses that do not significantly contribute to the Aceh's educational excellence. As mentioned earlier, such minor

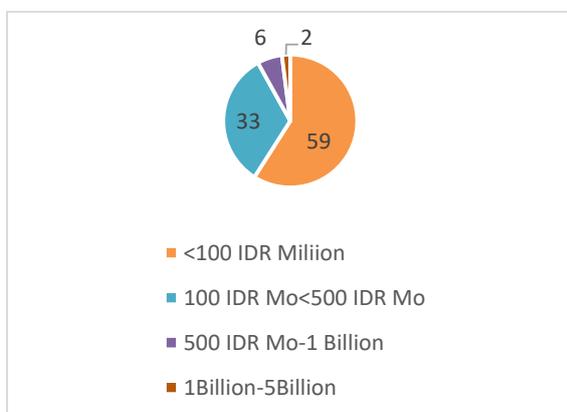
construction projects are normally valued below IDR 200 million. Because government regulation does not require a tender process for the low-value project, the local government can employ direct appointment, a practice that is prone to patron-client network.

**Figure 5. Utilization of Special Autonomy Fund in Education Sector based on the type of expenses 2012 (In Percentage)**



Source: ACDP (2014)

**Figure 6. The Utilization of Special Autonomy Fund in the Education Sector in Aceh Based on the Value of the Project 2013 (In Percentage)**



Source: ACDP (2014)

Another landmark of the utilization of Special Autonomy Fund in Aceh is by the establishment of Aceh Scholarship Commission, an ambitious tertiary education program that sends Acehnese to study in prominent universities in Indonesia or overseas. From its commencement in 2009 to 2013, this program has spent a total of IDR 609 Billion, sending 6031 scholarship recipients to pursue domestic or international postgraduate education (ACDP, 2014). This program is not free of problems. Lack of strategic analysis of scholarship has caused unemployability of the scholarship awardees upon their return in Aceh (Putri, 2018). Most recipients aspired to work in the public sector, partly due to the stagnation of the Aceh economy and lack of investment that leads to limited work opportunities. There is also a problem of misuse of scholarship funds by the recipient, which they spend it to non-educational expenses.

### Health

As one of the priority sectors in the allocation of Special Autonomy Fund, health is an exemplary case in the utilization of peace dividends in Aceh. In 2010, Governor Irwandi launched Aceh Health Insurance (*Jaminan Kesehatan Aceh/JKA*), a provincial-level health insurance scheme for Acehnese. This populist program has been praised as one of the achievements of Aceh’s local government post-conflict. This insurance offers a simple process for people to access health service and facility. Unlike national health insurance that is often

criticized of its layered referral system, BPJS (*Badan Pengelola Jaminan Kesehatan*/National Health Insurance or JKN/*Jaminan Kesehatan Nasional*/National Health Insurance Program), JKA beneficiaries are only required to show their ID card to access the health service in all hospitals in Aceh. In 2010, JKA had spent IDR 241 Billion or 15 per cent of the Special Autonomy Fund. In 2011, it used 9.5 per cent of the Special Autonomy Fund, and by 2017, IDR 773 Billion of the Special Autonomy Fund had been disbursed to finance JKA (Putri, 2018).

Despite the compliment as one of a successful program of local government in Aceh, JKA under Irwandi administration was severely criticized for its lack of means-testing. All Acehnese, regardless of their economic status and income bracket, are eligible to access free health services through JKA (Cahyono, 2016). During Zaini Abdullah's governorship, JKA was under BPK's (*Badan Pemeriksa Keuangan*/State Audit Agency) scrutiny due to IDR 63 Billion potential loss. It occurred during Zaini Abdullah's governorship because Aceh local government kept paying IDR 63 Billion to JKA beneficiaries who failed to validate their ID card (Putri, 2018).

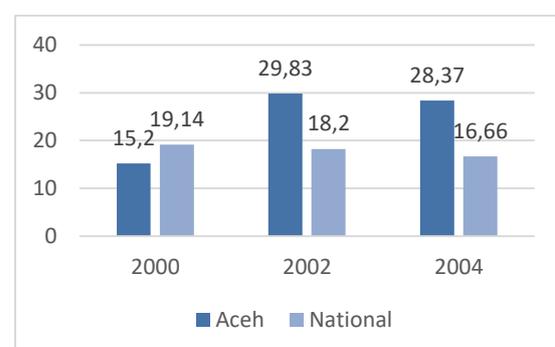
In sum, from the three sectors of the allocated Special Autonomy Fund, infrastructure, education and health, the fund is primarily disbursed to finance small scale projects and populist programs. Infrastructure is dominated by low quality and small projects that cantered around GAM elite and

contractors, while health and education are mostly invested in directing assistance in the form of health insurance and scholarship. This pattern of fund disbursement could be understood from the necessity of former GAM combatant to create legitimacy and maintain loyalty and trust from their beneficiaries through the patron-client network. However, as will be further elaborated in the next section, it leads to difficulty in generating performance legitimacy of the former combatant in post-conflict long term development.

### Post Conflict Economic Challenges: Provincial Poverty and Inequality

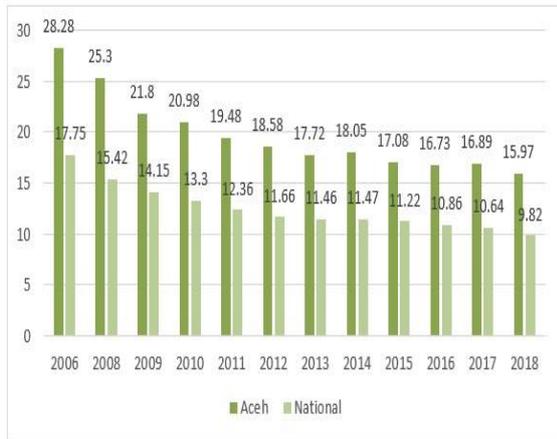
Poverty alleviation and equal economic development among all districts and municipalities are paramount in post-conflict-economic settlements, as the perceived inequality is the major contributing factor to the rebellion in Aceh. However, ten years after from its first disbursement, Special Autonomy Fund has yet to significantly contribute to poverty alleviation in Aceh as demonstrated in the following figures.

**Figure 7. Comparison of Poverty Rate in Aceh and National**



Source: BPS (Indonesia Statistical Bureau)

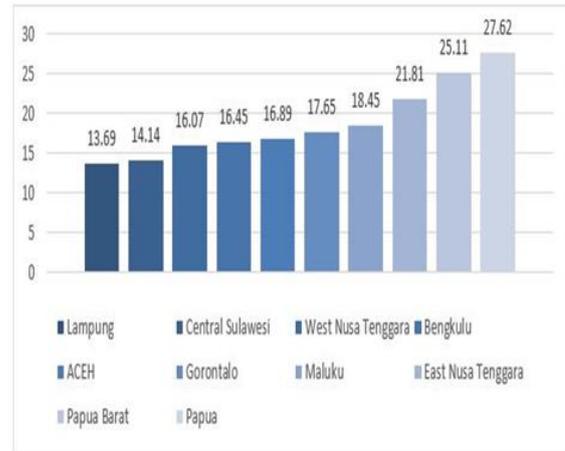
**Figure 8. Comparison of Poverty Rate in Aceh and National in Post Conflict Period (2006-2018)**



Source: BPS (Indonesia Statistical Bureau)

Figures 7 and 8 tell us about poverty, conflict and its aftermath. Interestingly, in 2000 the national poverty rate was higher than Aceh that might be caused by the residual impact of the Asian Financial Crisis experienced by Indonesia. Poverty in Aceh increased significantly in 2002 after Indonesia stepped into the post-authoritarian era but placed Aceh in security turmoil due to martial and civil emergency law. After the 2004 Tsunami and the peace agreement, poverty rates in Aceh began to demonstrate decreasing pattern even though the rate has been higher compared to steady declining pattern in the national average. However, if Aceh is compared to other provinces in Indonesia, its poverty rate has placed Aceh as the sixth poorest province in Indonesia in 2017, after Special Autonomy Fund has been allocating for ten years since 2008 as shown in following Figure 9.

**Figure 9. Ten Provinces with Highest Poverty Rate in Indonesia 2017**



Source: Databoks (2017)

Table 3 shows us a contradictory fact between the amount of provincial budget (*Anggaran Pendapatan dan Belanja Daerah/APBD or APBA in Aceh*) and the poverty level. With the highest provincial budget derived primarily from Special Autonomy Fund, Aceh scored as the poorest province on the island of Sumatra.

**Table 3. Provincial Budget and Poverty Rates**

No	Province	Provincial Budget	Poverty Rate
1	Aceh	IDR 14,76 Billion	16,89 %
2	Bengkulu	IDR 3,18 Billion	16,45 %
3	Lampung	IDR 6,80 Billion	13,69%
4	Sumatera Selatan	IDR 7,89 Billion	13,19 %
5	Sumatera Utara	IDR 13,03 Billion	10,22%
6	Jambi	IDR 4,34 Billion	8,19%
7	Riau	IDR 10,45 Billion	7,78%
8	Sumatera Barat	IDR 6,24 Billion	6,87%
9	Riau Islands	IDR 3,36 Billion	6,06%
10	Bangka Belitung	IDR 2,66 Billion	5,20%

Source: AcehTrend (2017)

In addition to the provincial poverty level, the other problem experienced by Aceh in the post conflict is the inequality among the districts. The six districts with the relatively persistent rate of 20 per cent poverty rate are Gayo Lues, Aceh Singkil, Bener Meriah, Pidie, Pidie Jaya and West Aceh. The three places with the lowest poverty level are all urban area with Banda Aceh is the only area with single-digit poverty rate and reached above the poverty line.

Three districts with persistently high poverty level, Gayo Lues, Bener Meriah and Aceh Singkil are resided by ethnically heterogeneous areas. Economic inequality in these two districts is perceived as the trigger of the ALA-ABAS partition movement. ALA and ABAS are the movements which aspired to create separate province based on Law No 22/1999 about Decentralization that authorizes the creation of new districts, often referred to as *pemekaran* (blossoming). ALA consists of Aceh central highlands, the district of Aceh Tengah, Aceh Tenggara and Aceh Singkil; while ABAS is covering areas along Aceh's west coast, Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Simelue, and Aceh Selatan.

Aceh will only repeat history if the economic inequality that is a legacy from the conflict period is continued during the peacetime. During the conflict period, Acehnese perceived that they were being colonized by the central government due to economic marginalization and the exploitation of natural resources; in peace,

the pattern has re-emerged. The GAM-dominated government could be seen as new "internal colonialism" especially by people from ethnically distinct areas that are politically disadvantaged and experienced persistent poverty during and after conflict.

### **Patronage Politics and Post-Conflict Economic Resources in Aceh**

As has been mentioned in the earlier section, the utilization of post-conflict fund is characterized by a patron-client network. Although the relationship between political elites and their political support networks is a central feature in any political network, it is particularly pronounced in a post-conflict setting (Haass & Ottmann, 2017). The government elites depend critically on their constituencies which provided necessary recruits and political and material support during conflict while during peace times, these constituencies form the electorate of the related political parties (Haass & Ottmann, 2017).

Haass and Ottmann describe this feature as selective resource allocation in political patronage or "a politically motivated distribution of selected private benefits to relevant constituencies by political elites" (Haass & Ottmann, 2017 pp. 63). The resources can take the form of construction of public infrastructure and facilities, electrification and road and building management.

According to Aspinall (2009), there are three main sources of funds that GAM actors have been able to tap: post-conflict

"reintegration" funds, post-tsunami reconstruction funds, and the development budgets of provincial and district government. Thus, it is essential to also look at the other two sources of fund that create this clientelist economy in the post conflict era in Aceh. The patronage network had been started in the utilization of huge post-tsunami reconstruction fund. The former GAM members entered this business as a material supplier or construction contractors through the structure of KPA (*Komite Peralihan Aceh/Aceh Transitional Committee*) as an organizational-based of GAM mass' membership (Stange & Patock, 2010).

After winning seats in Aceh's politics, GAM expanded their influences in the construction business as contractors through KPA network. Since KPA is a civil organization, its members cannot be banned from joining in bids for construction works. However, due to the close connection with GAM elites in government sectors, contractors from KPA knew how to place the right bid and also often won the contract (Aspinall, 2009). It was helped by the presence of GAM elite in BRR, such as Teuku Kamaruzzaman, the former GAM negotiator and the head of BRR's executive agency (Aspinall, 2009). The leaders of KPA were usually awarded the major contract by the provincial government, the BRR and national government. Two examples were the national government project of a major bridge in Lhokseumawe and BRR project of the construction of metal frames for tsunami house in Calang (Aceh West

Coast), both are valued at approximately US\$ 2, 2 million that was won by Pulo Gadeng Company owned by Muzakkir Manaf (Aspinall, 2009).

The connection between the construction business and politics is not exclusive to Aceh. The Global Corruption Report with Special Focus on Corruption in Construction and Post-Conflict Reconstruction (Transparency International, 2005) provides global case studies of the nexus between politics and business in the construction industry from Asia and Africa including India, The Philippines, Lesotho, Iraq and in the Europe, Italy and Germany. However, the cases in post-conflict areas like Aceh are more extreme because of the legacy of violent conflict (Klinken & Aspinall, 2011). GAM members quickly turned into construction contracts, relying on influence, patronage, and coercion to influence business.

The next post-conflict fund is channeled through the reintegration program. Based on MoU's provision, a special provincial agency was established in February 2006 to manage the reintegration process, namely the Board for the Reintegration into Society of Former GAM Members, later shortened to the Aceh-Peace Reintegration Board or BRA. The tasks of BRA covered the implementation and monitoring of reintegration programs as well as coordination with related agencies and advisory role to the governor (Governor Decree No 330/145/2007). MoU also regulates the responsibility for such

programs rested with the Indonesian and Aceh governments, not international donors. From 2005 to 2012, the Government of Indonesia through the Ministry of Social Affairs has been transferring approximately IDR 2 trillion (US\$ 133 billion) for reintegration program through BRA.

The contribution to the reintegration program from provincial budget started in 2008, the first year of the allocation of the Special Autonomy Fund to Aceh. During the period of 2008 to 2015, the Aceh Provincial Government has been disbursing approximately IDR 700 billion rupiahs (US\$ 46 million) for the reintegration program. Generally, the type of assistance of the reintegration program in Aceh could be classified into three major categories. The first category is cash allowances in the form of *diyat* (individual cash disbursement to former combatant households that had lost family members). The second category is the economic empowerment fund through the livelihood program assistance. The last type is in-kind assistance that comprises of housing settlement and farming land.

After BRA was officially dismissed by Governor Irwandi, in 2013 during Zaini Abdullah's governorship, there was an attempt to maintain the existence of reintegration institution through the establishment of BP2A (*Badan Penguatan Perdamaian Aceh/Aceh Peace Strengthening Board*). The advocates of the establishment of BP2A based their argument on the unfinished reintegration programs such as land farming allocation,

housing and cash allowance and urged by the mandate of the reintegration process in MoU Helsinki. On the contrary, the opponents opposed the establishment of BP2A or any other ad hoc reintegration institution, instead preferring to hand over reintegration process to related SKPA (*Satuan Kerja Pelaksana Aceh/Aceh Government Work Unit*) for efficiency and transparency. SKPA (or SKPD in district level) is the provincial unit or regional office of national ministries. For example, the disbursement of cash allowance for conflict victims could be channeled through the regional office of social services and the allocation of land farming could be coordinated under the regional land agency.

The preference of individual cash disbursement indicates the patron-client relationship in the reintegration program, as personal loyalty is easier to guarantee than through community-based loyalty. BRA as an ad hoc institution is prone to be exploited by the ruling government as their political vehicle, especially in a political setting where the former combatants won the election and hold the political power. The reintegration fund for their fellow former combatants is easily manipulated or mismanaged to gain more control or political support as a cash disbursement program is a lucrative aspect in political competition.

The third source of funding in Aceh's post conflict era is the ordinary development budget in the form of Special Autonomy Fund. Barron and Clark note that "special autonomy boosted

natural resource revenues kept within Aceh by more than 150 times, from IDR 26 billion (US\$2.7 million) in 1999 (or 1.4 percent of total revenue) to IDR 4 trillion (US\$421 million) in 2004 (40 percent) (Aspinall, 2014).

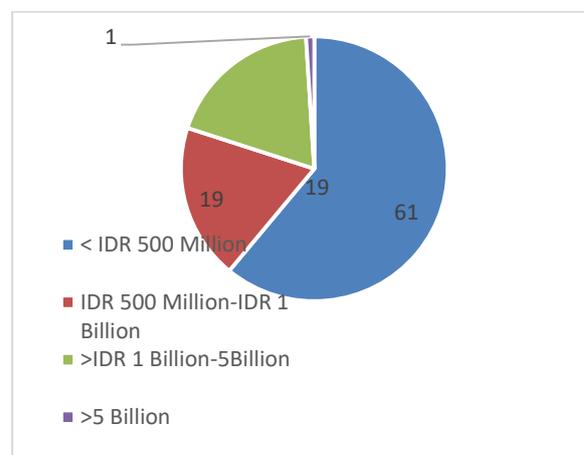
The increase in regional budget, including the one received by Aceh constitutes a huge injection of resources for predatory captures and patronage, particularly for GAM members and the supporters who have moved into government as well as their business and political allies (Aspinall, 2014). This patronage has taken form in direct budgetary transfers. In 2013, for example, the provincial budget includes grants of IDR 127,5 billion (approximately US\$ 125 million) to the Aceh Transitional Agency (*Komite Peralihan Aceh*) the organization representing former combatant (Aspinall, 2014).

In the subsequent years, the amount of grant gradually decreased to IDR 80 million in 2014 and IDR 61 billion in 2017. Although the trends show the declining patters, the continuity of this grant indicates the entrenched patronage in the post-conflict era in Aceh. It is important to note that the provincial budget receives the biggest share from the special autonomy fund, exceeding other income items such as Local Own-Source Revenue or Additional Revenue Sharing from Oil and Gas.

Another striking feature in the utilization of the Special Autonomy Fund in Aceh is the disproportionate use of funds. The problem of a massive

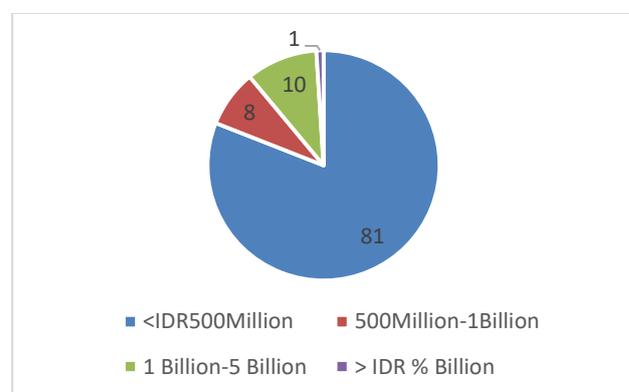
percentage of small value projects in infrastructure and education that is mentioned in the previous section is depicted in provincial and district/city data of the all priorities sectors of Special Autonomy Fund as shown in Figures 10 and 11.

**Figure 10. The Utilization of SAF based on Value of the Project in Provincial Level 2014**



Source: Bappeda Aceh (2015, n.d)

**Figure 11. The Utilization of SAF based on Value of the Project in District/City Level 2014**



Source: Bappeda Aceh (2015, n.d)

Small-value projects have been creating a problem for monitoring and evaluation programs. These projects are mostly implemented by direct appointment and could be executed without undergoing supervision and the monitoring system by LKPP (*Lembaga Kebijakan Pengadaan Barang Jasa Pemerintah*/ National Public Procurement Agency). Due to the domination of GAM in local government as a result of their victory in local elections, these small projects could easily be awarded to fellow GAM contractors and sustain the patron-client based economy.

The most current case of the mismanagement of the Special Autonomy Fund is the arrest of incumbent Governor Irwandi in July 2018 by KPK (*Korupsi Pemberantasan Korupsi*/Corruption Eradication Commission) due to allegation of taking illegal fee for development projects funded by special autonomy fund (Diela, 2018). Irwandi was accused to corrupt IDR 500 Million (USD 33,000), a relatively low amount compared to other corruption cases in Indonesia. However, Governor Irwandi arrest is the first high profile corruption case in Aceh after the peace agreement. The last case involving government official in Aceh was in 2004 when the former governor of Aceh, Abdullah Puteh was sentenced for 10 years due to marking up the price of the purchase of helicopter that caused IDR 2 Billion (USD 133,000) state financial loss. This “belated” KPK intervention could indicate the careful consideration of the national government to maintain the stability of the early phase of peace

building in Aceh, even though it cost a delayed good governance aspect.

Aspinall (2009) argues that GAM members and supporters have instead mostly been reintegrated into Aceh's political economy by way of predatory and clientelist patterns of economic behavior that seek to extract rents from the state. The reconstruction and reintegration funds had been utilized to create the patronage network in the post-conflict era and this practice is sustained in peace time through the disbursement of Special Autonomy Fund, that could indicate the long-term economic predatory behavior during the peace building phase in Aceh.

### Conclusion

Economic factors were the major grievances that triggered a rebellion in Aceh. Grievances over the inequalities of distribution of natural resources have been a powerful narrative in mobilizing discontent during GAM insurgencies. The conditions have been worsened by the armed conflict, leaving Aceh as one of poorest provinces in Indonesia with low investment and high economic costs caused by illegal taxes by GAM and poor infrastructure due to the damaging impact of the conflict. The primary effort from the central government to alleviate economic grievances in Aceh was initiated in 2008, by a Special Autonomy Fund as a development fund. The government of Aceh channeled the fund according to the provisions in LoGA which gives the biggest share for infrastructure, education and health. Infrastructure has been

criticized for its low quality, the lengthy process, and the focus on small projects that gives insignificant impact on people's welfare and economic development.

While showing a positive impact, health and education sectors also suffer several shortcomings in the planning and implementation. The inequality of economic development within districts and municipalities in Aceh is also becoming a concern. To some extent, infrastructure, health and education programs contributed to the short-term legitimacy of GAM due to their populist character and the patron-client network. Particularly on the small-scale project, these practices indicate the continuation and maintenance of patron-client economic network among GAM circle that was initiated in the post-tsunami reconstruction industry and reintegration program.

Aceh's first post-conflict administration demonstrated an ability to identify policy targets of the disbursement of the Special Autonomy Fund but not an ability to formulate concrete strategies designed to meet those targets and a lack of capacity in implementation. Another shortcoming is state capacity in translating development plans into comprehensive programs. They lack the long-term vision to channel the peace dividend into inclusive growth and investment projects which can stimulate future economic welfare and justice.

It partially resulted from a lack of capacity building of the Aceh local bureaucrats dominated by former GAM

members. Various kinds of peace dividends in Aceh had successfully integrated former combatants into post-conflict economic development and peacebuilding at large, but the participation and integration will not be sufficient to maintain peace: there is also an urgent need of building and enhancing capacity. The economic settlement in post-conflict peacebuilding in Aceh is characterized by the establishment of an institution with patronage practices and limited participation in economic development. Given the fact that grievance over economic inequality has been the main driver of insurgency in Aceh, the incompetence of the new government in delivering services, stimulating inclusive growth and equal development among regions in Aceh can potentially harm the durability of peace.

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