

Local Institutional Failures in Decentralized Indonesia: The Case of Batam

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Abstract— Batam's development began in 1970 by the Batam Authority (now called BP Batam) and was projected as an industrial area. In its time, Batam was transformed into a city with growth above the average national economic growth. Yet, the contrasting situation occurred after the implementation of regional autonomy in Batam. The presence of the Batam City Government as an executor of regional autonomy has a very strong legal and political position. Therefore, this paper focuses on institutional failures which have implications for the decline of the economy during the decentralized era. The methodology used in this research is descriptive exploratory by extracting information from primary and secondary data. Primary data was obtained using surveys and interviews with expert informants. The data was analyzed by the Delphi Method and Analytical Hierarchy Process (AHP). The results of the study stated that the problem faced was institutional dualism between the Batam City Government and BP Batam which had implications for legal uncertainty. The Delphi method produces recommendations including the Free Trade Zone (FTZ), Special Economic Zones (SEZ), and the application of special autonomy in Batam. Whereas based on the Analytical Hierarchy Process (AHP) method, it was found that special autonomy was the best policy choice. The concept of asymmetric decentralization based on economics is a possible model of special autonomy. However, in its implementation, further stages are needed to prepare a special law regarding the substance of specialization given to Batam.

Keywords— *Decentralization, Institutional Failures, Special Autonomy*

I. INTRODUCTION

Some recent studies discuss decentralization as a conflict mitigation tool (Gjoni et al, 2010), decentralization improves the quality of public services (Faguet & Sánchez, 2014; Dwicaksono & Fox, 2018), the problem of decentralization (Smoke, 2015), failure of decentralization (Koelble & Siddle, 2014; Englebert & Mungongo, 2016), as well as decentralization reforms and political parties (Adams & Agomor, 2019). Decentralization has two sides, success and failure, which means that decentralization does not guarantee

the success of development. This is in line with the opinion of Herath (2009) stating that the level of decentralization does not have a positive correlation with growth. Other scholars, Suwanmala and Weist (2009) mentioned that based on the experience of decentralization in other countries, their success or failure often depends on strategies and mechanisms to develop, monitor and implement these strategies. This means that decentralization must be put in place as an effort to achieve broader democratic goals.

In the case of Indonesia, decentralization has been implemented several decades ago. Nasution (2016) argued that symmetrical decentralization in the New Order era had no positive impact on the region and society. Then, according to the regional autonomy law (Law No. 32 of 2004), Indonesia has two decentralized models, namely symmetrical and asymmetrical decentralization. Kurniadi (2012b) explains that there are five regions based on asymmetric decentralization with consideration of conflict and separatism (Aceh and Papua), economic development (Batam), borders (West Kalimantan), cultural (Yogyakarta) and the national capital (Jakarta). Symmetrical and asymmetrical implementation of decentralization in Indonesia has failed (Kurniadi, 2012b; Nasution, 2016).

Behind the practice of asymmetric decentralization, Batam is a case that stole attention. During the era of centralization, Batam experienced significant economic growth and actually experienced a decline in the era of decentralization. Whereas the aim of asymmetric decentralization for Batam is to develop the economy but what happened is the opposite. Previous studies related to Batam (Pamadi, 2007; Putra, 2014; Murti, 2014; Albitani, 2018, Wiryawan, 2019) show that the problem of institutional dualism and conflict of authority is very clear. The root of the problem lies in the legal basis of the two overlapping institutions. It starts from the framework of industrial estates, the framework of regional autonomy, and within the framework of free trade areas. Overlapping in this

framework has a negative impact on Batam's economic growth (Putra, 2014; Damuri, Christian & Atje, 2015). Therefore this study focuses on institutional failures which have implications for the decline of the economy during the era of decentralization.

II. LITERATURE REVIEW

Decentralization is basically a pattern of relations between the central and regional governments relating to authority, institutions, finance, and control. Furthermore, Turner and Hulme (1997) classified the nature of delegation in decentralization into two, namely territorial and functional based. It should be underlined that the territorial base is different from the geographical decentralization which focuses on relocation. The purpose of the territorial base is to prioritize the delegation of functions and authority from the Central Government to the Regional Government. Meanwhile, the functional base emphasizes the functions to be achieved through decentralization.

This is in line with the concept of asymmetric decentralization that appears to accommodate the diversity of regional potential and requires special authority for certain regions in a country. Lay (2009) argues that decentralization can be provided by encouraging the establishment of special administrative areas directly under the central government. Kurniadi (2012a) mentions that asymmetric decentralization can be given at least with consideration: conflict, history and culture, border areas, national capitals and economic development. Therefore the concept can be considered as an alternative solution to the central-regional relations within a country.

The difference between symmetrical and asymmetric decentralization lies in the level of conformity and similarity in relation to the level of government with the political system, with the central government and between countries. According study from Chien (2006) concluded that asymmetric decentralization has significance in China to respond to the demands of globalization by considering changes in regional and central relations. Moreover, China implemented an asymmetric decentralization policy to encourage economic growth in its region through the provision of different treatments to certain regions according to the potential of the region itself. Moreover, the practice of asymmetric decentralization in Indonesia is more normative than innovative. Kurniadi (2012a) concluded that asymmetric decentralization in Indonesia was a historical legacy of colonialism and continued in the state constitution. The study from Firdaus (2005) found that special autonomy in Aceh had not run optimally. Whereas Homer (2010) explained that there was no significant difference between regional financial capacity before and after special autonomy in the Papua Province. In addition, it was concluded that there was no correlation between regional financial capacity and the economic growth of districts / cities in the Papua Province.

III. METHODS

This study uses the mixed methods approach. There are research questions that require deep and meaningful data to be used as material for analysis which is characteristic of qualitative research. But there are also research questions that require measurable and concrete numbers and data to carry out assessments and measurements that are characteristic of quantitative research. In order to answer the research question regarding the factors that cause the decline of Batam City, this study uses descriptive analysis. The first source is secondary data originating from previous studies and research as well as studies conducted by several institutions. The second source is primary data obtained through surveys and in-depth interviews with various sources in Batam.

In-depth interviews were conducted to obtain information and opinions from experts who had relevant knowledge and experience in formulating and implementing policies in Batam. Expert informants in this study were representatives of the Batam City Government, BP Batam, the Chamber of Commerce and Industry (Riau Islands region), the Batam Regional Representative Council, academics, community leaders and business people or companies. In addition, this study also collected primary data through direct surveys of business people, companies and the people of Batam.

Next, to explore alternative policies, this study uses delphi analysis techniques. The aim is to obtain a reliable consensus from an expert group. In this study using the Delphi analysis method, 15 (fifteen) panelists raised questions, those are what policies can be implemented in Batam. In this case there will be several steps or rounds of interviews and or filling in questionnaires. In each round, it will be monitored whether all panelists have reached an agreement on what is the best policy that can be applied in Batam.

Then the Analytical Hierarchy Process (AHP) method is used to obtain the best alternative. The decision making process using AHP is basically choosing the best alternative. The principle of compiling a hierarchy is to describe and describe hierarchy, by breaking down the problem into separate elements. The questionnaire was prepared based on the AHP method which requires opinions and ratings from experts. Therefore, the selection of experts as samples remains using purposive sampling technique. The sample was chosen as many as 10 (ten) experts selected from the previous delphi technique.

IV. DISCUSSION AND RESULTS

Based on interviews with experts, it was shown that the main problem faced by Batam was institutional dualism after the implementation of regional autonomy. Other important factors are legal uncertainty due to frequent policy changes in Batam. The other factors faced by Batam now include the decline in investment, the declining rate of economic growth, the decline in competitiveness and social problems. While a survey of business practitioners also showed similar things. It is known that the factors that caused the first setback were institutional dualism. Then followed by a decline in investment

and the level of economic growth, unemployment problems, legal uncertainty, labor problems, a decline in Batam's competitiveness, and social problems.

The results are a bit different from the results of a survey of the general public Batam. From the results of the survey, the factor causing decline in society's view is the large number of unemployed. This is reasonable because the problem of unemployment is directly related to the community. But in general, the problem of Batam in the view of the community is not much different from the views of experts and business practitioners, namely the decline in investment and economic growth in Batam, institutional dualism, legal uncertainty in Batam, social problems and labor problems. Furthermore, a summary of the views of experts, business practitioners and the general public on the factors that cause Batam's decline can be seen in the following table.

TABLE I. CAUSES OF SETBACKS BASED ON PERCEPTION FROM EXPERTS, BUSINESS PRACTITIONERS AND THE GENERAL PUBLIC

Reason	Experts (order level)	Business Practitioners (percentage)	General Public (percentage)
Institutional dualism	1	17.61%	15.61%
Legal uncertainty and long-term policy direction is	2	15.34%	5.73%
The decline in investment and economic growth	3	14.77%	29.62%
The decreasing competitiveness	4	9.09%	-
Social problems (housing, unemployment, poverty, drugs)	5	-	5.73%
Unemployment	-	14.20%	38.85%
Labor issues	-	12.50%	2.55%
Other problems	-	5.11%	1.91%

Source: Author's own analysis

The results of this study have similarities with previous research (Putra, 2014; Murti, 2014; Albintani, 2018) who found that the main problem faced by Batam was institutional dualism after the implementation of regional autonomy. The presence of Batam as an autonomous region raises overlapping authority between the Batam City Government and BP Batam. The existence of these two institutions which are supported by legal substances and different structures make the implementation of Batam's management policies not harmonious. The study from Putra (2014) states that after the implementation of regional autonomy, the Batam City Government and BP Batam felt that they had a very strong legal and political position. A strong legal basis triggered a regulatory conflict between the Batam City Government and BP Batam, especially the authority related to land management, licensing, ports, airports and management of tourist area functions.

Based on Law No. 32 of 2004, the Batam City Government actually has very broad duties and authority in regional management both in terms of social, urban development,

economy and investment, education and health. Meanwhile, BP Batam has limited authority on economic development when referring to Article 8 of Government Regulation Number 46 of 2007. Means the task of developing economic fields (especially foreign trade and investment) is managed by two institutions with almost the same authority. This condition is actually beneficial for economic growth because both institutions can support each other. But in fact, it exacerbates the conflict of authority between institutions.

In addition, overlapping licensing services also occur in land and building use permits, trade permits and billboard permits. The impact of this land problem directly affected business practitioners, especially housing developers who felt that the dualism of authority in land management led to a high cost economy because both institutions were entitled to issue permits.

V. CONCLUSION AND POLICY RECOMMENDATION

Asymmetric decentralization depends on political negotiations. This model succeeded in reducing political conflict, but did not succeed in real terms to increase prosperity. While in the case of Batam, special autonomy was used to prioritize economic functions. Historically, the development of Batam as a special area was very dependent on the political will of the Central Government. However, after the implementation of decentralization, there appeared to be a reluctance of the Central Government to give full authority to Batam. The previous autonomy model was replaced by a generic decentralization model. This can be seen from the institutional dualism between the city government and BP Batam, which caused overlapping of authority and caused the decline of Batam. The illustration shows that the practice of decentralization in Indonesia still fails to realize regional governance that relies on functions. The implication is that Batam's growth has decreased.

A series of problems and conflicts of authority shows that the implementation of regional autonomy has failed. Decentralization and regional autonomy look very real in the form of institutions, but not clearly in function. The decentralization policy should reduce the authority of the Central Government and expand the authority of the Provincial and Regional Governments. But in reality the Provincial and Regional Governments are limited to the extension of the Central Government with certain authorities. Even though the main essence of regional autonomy is to bring services closer to the public and develop according to their potential. It means that the Regional Government cannot rely on or even depend on the Central Government. Therefore this research also tries to explore alternative policies for the development of Batam. In order to overcome this, the study carried out an iterative process of selecting policy alternatives carried out with experts.

After going through the iteration process of selecting alternative policies by experts, 3 (three) alternative choices of policy were adopted in the final process of delphi analysis, namely implementing special autonomy by forming Batam

Special Province, implementing Special Economic Zone (SEZ) policies, and Implementing Free Trade Zone Policy (FTZ). Based on the results of interviews with experts, as well as previous research studies, the main reason for implementing special autonomy in Batam is that this policy is considered a solution to institutional dualism. Meanwhile the reason behind the implementation of SEZ policies is to maintain Batam as a special and strategic economic area in Indonesia. In addition, SEZs are also considered to have better incentives than other policies. Then there are two reasons for maintaining FTZ policy. First, provide legal certainty in Batam because the law states that FTZ in Batam is valid for 70 (seventy) years since being invited. Second, the application of FTZ policies in the past provides experience for increasing competitiveness. Further explanation of the three alternative policies can be seen in the following table.

The final results of the Delphi analysis are then used as alternative choices in the AHP method. Previous findings of identifying the main problems in Batam can be classified into four criteria, namely economic, legal certainty, political aspects, and bureaucracy. Through the AHP method, it is expected that there will be priority policy choices that can be applied in Batam. Based on the results of the AHP method calculation, it appears that the Special Autonomy policy is the best policy choice that can be applied in Batam. The Special Autonomy policy option has the highest final calculation value of 0.434759. Whereas the Free Trade Zone (FTZ) policy option has a final calculation value of 0.303706 and the Special Economic Zone (KEK) policy option has the lowest final calculation value of 0.259758. For more details, see the following table.

TABLE II. THE BEST POLICY SELECTION RESULTS THROUGH THE AHP METHOD

Policy Alternatives	FTZ	KEK	Special Autonomy
Economics	0,0307	0,0288	0,0644
Law	0,0271	0,0263	0,0397
Politics	0,0971	0,0853	0,1731
Bureaucracy	0,1486	0,1191	0,1573
Total	0,3037	0,2597	0,4347
Priority	2	3	1

Source: Author's own analysis

According to the expert's opinion by choosing special autonomy as the best policy option, it is expected that the Batam City Government and BP Batam will merge into one institution. With the merger of those institutions, it is expected that Batam's revenue will be greater because it is managed by one institution. In addition, with the status of a special province, it is also expected to be easier in managing. This option is considered the most realistic solution and resolves the issue of institutional dualism on Batam permanently. If the Central Government still applies the SEZ or FTZ policy, there is a possibility that the two institutions will remain and have the potential to revive institutional dualism in Batam. The study from Murti (2014) states that the formation of special autonomy is important so

that Batam can develop further into an industrial area, as well as free trade and free ports.

As a result, the implementation of the special autonomy policy was considered as a solution to the problem of institutional dualism. But the concept of special autonomy is not a new study in government policy, it is already known as asymmetric decentralization. In this case, Batam has its own uniqueness compared to other special autonomous regions. Since its inception, Batam has been prepared for strategic economic interests. Therefore the concept of asymmetric decentralization must also follow this orientation. However, to realize the application of economic autonomy-based special autonomy policies in Batam also requires follow-up and more technical and detailed studies related to juridical and regulatory aspects.

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