

**BUSINESS AND POLITICAL ACTOR RELATIONSHIP
IN INDONESIA'S LOCAL AUTONOMY PROJECT:
A COMPARATIVE STUDY ON BATAM CITY AND KUTAI KARTANEGARA
REGENCY¹**

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Introduction

Almost one decade has passed since the Local Autonomy (*Otonomi Daerah/ Otda*) project was introduced to Indonesia's political system in 1999. Balancing fund transfers, territorial proliferation and direct local election are just some of its several features. As the deadline of the project's evaluation period approaches, numerous studies have been undertaken to observe the effect of its implementation on local development.

One study on territorial proliferation has arrived at a fairly pessimistic conclusion, with 45% of 143 proliferated territories being studied shown a very low potential for development progress. Approximately 34% of 89 evaluated 'parent' areas have shown a similar potential (Litbang Kompas 10 March 2007). Several studies hypothesised the usage of territorial proliferation as a *gerrymander* strategy by local elites who are disappointed due to their loss of the political struggle within 'parent' areas³. Instead of enabling more efficient development in a sizeably smaller territory, territorial proliferation enables the emergence of opposition elites from

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³ Nugraha, P. (2007). Akal-akalan Pemekaran. Kompas; Ratnawati, T. (2007). Beberapa Permasalahan Pemekaran Wilayah di Era Reformasi dan Alternatif Solusi (Several Problems over Territory Proliferation in Reformation era and its Alternative Solution). Seminar Nasional Asosiasi Ilmu Politik Indonesia XXI, Manado.

‘parent’ areas within the politics of new proliferated areas and provides them with a better chance of winning and a new branching of the balancing fund transfer from Jakarta.

Similarly, the Otda’s new balancing fund scheme was initially part of the effort of giving wider opportunities for local development according to its uniqueness and needs. However, it has been transformed into an opening for manipulation by local elites, particularly in relation to another feature of Otda, the territorial proliferation (*pemekaran daerah*).

The groups most active in seeking benefits from Otda changes are particularly those who constitute the “three pillars” of local elites: bureaucracy, politicians and business⁴. In a wider discussion of the progress of local politics after Otda was enforced, Hadiz highlights the “dissemination” of corrupt local activities to an ‘epidemic’ proportion through elite manipulation and symbiotic relationship similar to those seen at the national level which particularly involves political and business elites⁵.

This paper discusses the relationship between two of the three elite pillars in local politics: the ruling and non-ruling political actors and entrepreneurs in Otda. The discussion focuses on the role of entrepreneurs in the formation of a local power constellation and political elites’ contribution to establishing suitable conditions for local investment and the supply of privileges for businesses within the new Otda setting. The two cases being compared in this paper, Batam and Kutai Kartanegara, have unique business foci and local political constellations which have influenced the localities’ distinctive responses to Otda arrangements. Although not aiming to create a generalization of the decentralization project nationally, this study sheds light on comparative studies of decentralization and their possible impact on local politics and business-politics relationships.

Decentralization and the Assumption of Participative Democracy

The literature in support of the decentralization project asserts that the disadvantages of centralistic government in centre-periphery relations have fuelled many upheavals in local areas. The development planning, implementation and excessive control undertaken by the central government is believed to have marginalized the specific interests and needs of the

⁴ Nugraha, *Ibid.*

⁵ Hadiz, V. R. (2005). *Dinamika Kekuasaan, Ekonomi Politik Indonesia Pasca-Soeharto*. Jakarta, LP3ES, p. 296.

local society. These centre-periphery grudges are expected to be solved by greater decentralization.

Decentralization is generally defined as "...a transfer of authority to perform some service from an individual or an agency in central government to some other individual or agency that is 'closer' to the public to be served"⁶. International organizations are among the main sponsors in promoting decentralization projects particularly in the southern hemisphere countries in Asia and Africa in the 1980s and 1990s⁷. Several of the World Bank's publications on decentralization suggest that it is integral to the process of democratization and part of the deepening tract of democratization⁸. The partial transfer of political power (devolution/political decentralization) or management and financial authority (deconcentration) to local governments supposedly streamlines the bureaucracy and serves as a better compromise to anticipate local grudges against central government, promoting participatory democracy by activating local politics and societal participation, which thus positively contributes to 'healthy' national democracy⁹.

Nevertheless, the decentralization project has its critics. Decentralization projects in less-developed countries have "almost everywhere fallen short of expectations" and end up as non-democratic local government while at the same time still need "strong central control over local authorities" to build self governing institutions¹⁰. With newly transferred authority, lower levels of government have become more vulnerable to 'capture' by elite interests, both local and (re-capture by) national, when targetted by lobbying attempts to influence policy output¹¹. Various factors influence the vulnerability of local level capture, namely the low levels of

⁶ Turner, M. (1999). Central-Local Relations: Themes and Issues. Central-Local Relations in Asia-Pacific. M. Turner. London, Macmillan Press Ltd., p. 4.

⁷ Work, R. (2002). Overview of Decentralisation Worldwide: A Stepping Stone to Improved Governance and Human Development. 2nd International Conference on Decentralisation, Federalism: The Future of Decentralizing States?, Manila, The Philippines, United Nations Development Programme; Snyder, R. (2001). "Scaling Down: The Subnational Comparative Method." *Studies in Comparative International Development* 36(1): 93; Matsui, K. (2005). "Post-Decentralization Regional Economies and Actors: Putting the Capacity of Local Governments to the Test." *The Developing Economies* XLIII(1): 172.

⁸ WorldBank (2000). Decentralization: Rethinking Government. World Development Report, WorldBank, p. 17-8.

⁹ Manor, J. (1999). The Political Economy of Democratic Decentralization. Washington DC, The World Bank, p. 5; Katorobo, J. (2005). Decentralization and Local Autonomy for Participatory Democracy. 6th Global Forum on Reinventing Government Towards Participatory and Transparent Governance, Seoul, Republic of Korea, p. 6; Turner, M., O. Podger, et al. (2003). Decentralisation in Indonesia, Redesigning the State. Canberra, Asia Pacific Press, Australia National University, p. 4 - 10; Smith, B. C. (1985). *Decentralization, The Territorial Dimension of the State*. London, George Allen & Unwin, p. 19-20.

¹⁰ Smith, B. (1980). Measuring Decentralisation. *New Approaches to the Study of Central-Local Government Relationships*. G. Jones. Hampshire, Gower Publ.Comp.Ltd: 144-5, quoted in Turner (1999), *Ibid.*, p. 13.

¹¹ Malley, M. S. (2003). New Rules, Old Structures and the Limits of Democratic Decentralisation. *Local power & Politics in Indonesia, Decentralisation & Democratisation*. E. Aspinall and G. Fealy. Singapore, ISEAS, p. 104.

voter's political awareness, the cohesiveness of interest groups and effectiveness of electoral competition¹². Hence, it is important to take into account the potential of local elite interests and strong-men rule hijacking the process and taking advantage of the vulnerable lower level governance as well as the "...cultural factors such as the existence of authoritarian attitudes and social relationships, or egalitarian values applied to political institutions, will have a varying impact on decentralisation"¹³.

Similarly mixed developments have happened in Indonesia, although the present decentralization project was hardly the first attempt ever launched. A negative sentiment towards the centralized and authoritarian rule of the New Order era has dramatically strengthened since the independence of Timor Leste in 1999. The weakening of the authoritarian central government after Suharto's resignation and Habibie's significant concessions to Timor Leste have given new hopes to areas rich in natural resources such as Aceh, Papua, Eastern Kalimantan and Riau to demand greater freedom in local governance.

The Otda project in Indonesia is an ambitious project (*the big bang of decentralization*) which not only involves the transfer of fiscal management authority but also political authority to the local government. However, the project's planning and particularly the codification of regulations have been hampered by very limited preparation and the absence of blueprint due to the conflicts and power struggles at the national level in 1998, despite two years of preliminary socialisation and the 2004 amendment on Otda law being subsequently issued¹⁴. Contradictions and overlaps between the Otda regulations and other parallel regulations particularly related to the local economy, namely energy, natural resources, forestry and commerce, have often resulted in conflicts between different levels of government institutions.

These have contributed to problems of control and evaluation which are crucial for the successful development of the project, in particular the structural control which exists as a bridge between the central and local government. The structural oversight role of provinces was significantly reduced in the 1999 Law No. 22 where they no longer directly supervised the local government. The executive leaders at both provincial and local levels were no longer

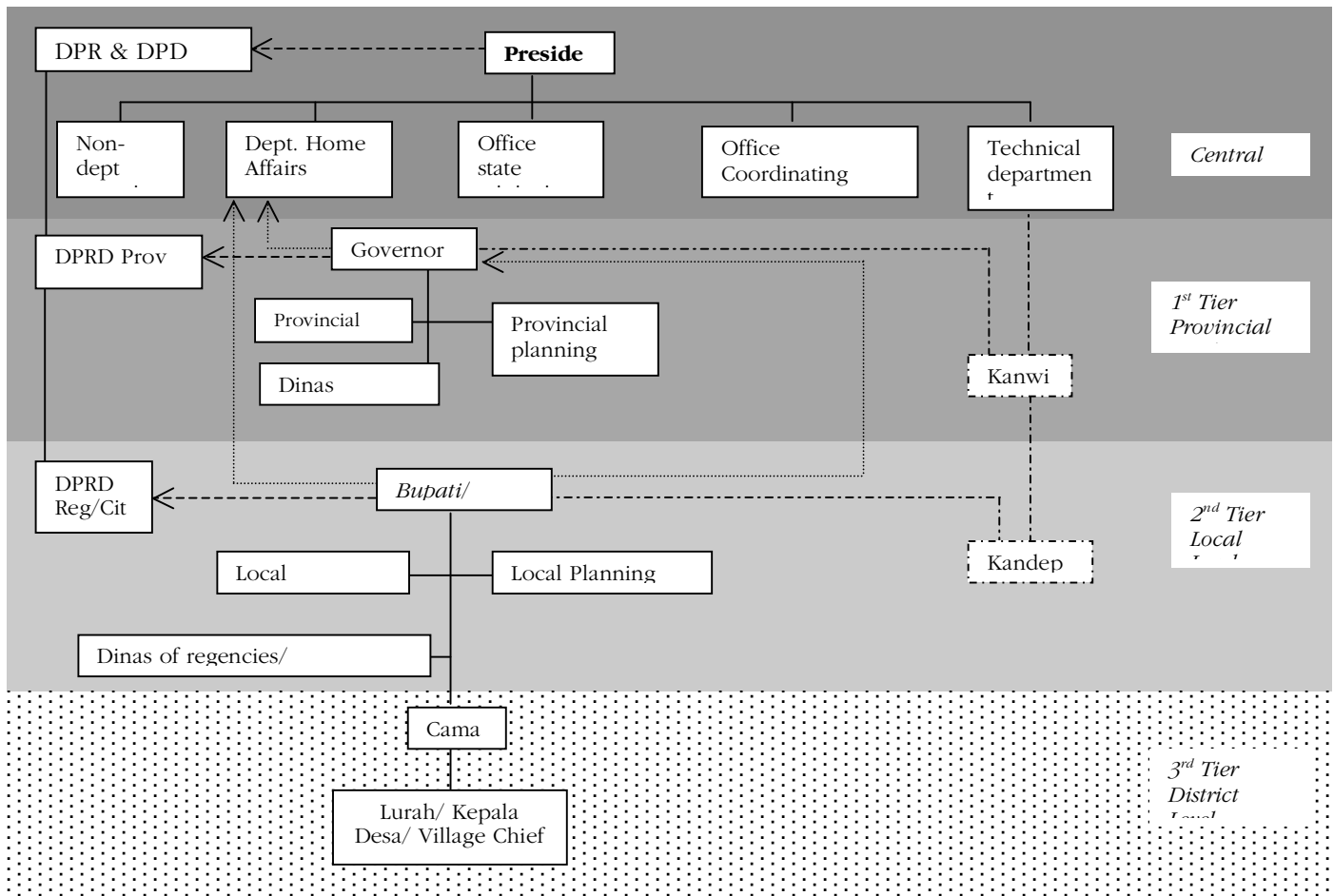
¹² Bardhan, P. and D. Mookherjee (May 2000). "Capture and Governance at Local and National Levels." The American Economic Review 90(2), p. 136-7

¹³ Smith (1980), *Ibid.*, p. 143.

¹⁴ See further Matsui, K. (2000). Decentralization: Seeking a New Central-Regional Relationship. Abdurrahman Wahid government and its Challenge, Indonesia Entering a New Era. Y. Sato. Tokyo, IDE-JETRO: 37-47.

responsible to Jakarta but to the sub-national parliaments, as the representatives of local community, which elected them.

Figure 1. The Evolution of Centre-Periphery Relations through 1974 Law No. 5, 1999 Law No. 22 and 2004 Law No. 32



Notes: old authority and coordination line based on the 1999 Law No. 22 and re-attached by the 2004 State Law No. 32 (on consultation over local budget & planning and appointment of head of local secretary).

----- past authority line and institutions based on the 1974 Law No. 5

-----> accountability line

Source: K. Marijan. *Decentralization and Cluster Industry in Indonesia*. Surabaya: Airlangga University Press, 2006, 270-271; Prasajo 2007, with modifications

When signs of manipulation and corruption became increasingly rampant, the introduction of 2004 Law No. 32 to amend the 1999 Law No. 22 has reasserted some evaluative functions and relationships into the centre-periphery relations. These functions include the oversight by the central authorities over the draft of local budgets and tax regulation as well as the introduction of a wider range of co-authority functions between provincial and local governments. The law has also introduced a new sub-national election mechanism, *Pilkada*, which no longer involves

local parliaments appointing the heads of local governments but instead returns this task to the local voting public as part of the deepening of ‘grass-root’ democratization agenda. Thus, the new law has strengthened formally the vertical as well as horizontal evaluation mechanism at sub-national governance.

The outcomes of the (democratic) decentralization project are not always achieved when undermined by weak regulations implemented by equally low managerial resources or hijacked by corrupt elites¹⁵. Where the state is ‘ill-equipped’ to implement any policy including the decentralization project, it often fails to attain its main goal which is to empower local society and establish good governance. An increasing amount of local legislation suggests that local governments are inclined to boost locally generated revenue (PAD) by introducing new local taxes. KPPOD’s research in 2002 showed 30% of 1,500 samples from more than 6,000 local laws issued since 1999 are distorting local investment by the implementation of double taxation. This especially occurs in areas which exhibit strong potential as centres of commerce but do not have significant natural resources. By contrast, areas with large natural resources potential, particularly forestry and mining production highly valued by the international market, are prone to ambitious plans to promote greater production and attract more investment, despite serious danger of environmental destruction from over-exploitation of resources. Such plans often took place liberally with, sadly, low vertical evaluation particularly from Jakarta.

Similar problems also occurred with the spending of local budgets. There are cases where parts of the annual local budget (APBD) are increasingly used to pay honoraria to burgeoning local bureaucracies and newly-invented incentives for top officials and members of local parliaments, which carry the spectre of cronyism and inefficiency. At the same time, local areas are continuously abuzz with complaints of insufficient funding for actual local developments, despite the fact that the present Otda balancing fund is significantly larger than funding in the pre-Otda period.

On the one hand, it is undeniable that Otda has opened greater opportunities for local communities’ participation in the public policy making process. Otda has reactivated the role of local political elites due to the larger transfer of political and administrative authority to

¹⁵ Matsui, *Ibid.*, p. 42-3. The badly prepared human resources in combination with the widely varied otda’s interpretations by sub-national elites are some of the crucial problems emerged during the first few years of Otda. The level of understanding on Otda at the local level is lower than at the provincial level.

local government as well as the greater role for local communities in electing certain figures as government leaders. On the other hand, this assumption of active societal participation is contradicted by the reality of strong elitist policy making (both in terms of policies made by and for elites) and underdeveloped local civil society in many parts of Indonesia. The introduction of *Pilkada* in 2005 serves as a better alternative to the previous closed local executive election system by parliaments which rendered members of parliament vulnerable to corrupt lobbying and bribes. Nevertheless, the *Pilkada* will be another hijacked vehicle of democracy if no effort is made to enhance voters' political awareness in order to make *Pilkada* function and for them to choose those who have good governing performance. It is also important that significant revamps are made not only of the election mechanism of senior policy makers, but also in wider evaluation mechanisms to limit (presuming eradication is impossible) the opportunity for corrupt collaboration between executive and legislative bodies or ruling and non-ruling elites and interest groups.

Batam, the Two-Headed City of Commerce and the Question on FTZ status

Prior to the Otda period, Batam as an industrial city was totally controlled by Jakarta, as its special project, through the Batam Authority Office (Badan Otorita Batam/BIDA), which enjoyed privileges and 'de-facto' FTZ status. Unlike in other localities, the Otda project in Batam has altered and complicated its local politics by the introduction of a new city administration (Pemko) and legislative institutions (DPRD) in 2001. At the same time, BIDA's existence is continued as Jakarta's representative. This decision has created business confusion and fueled local political competition which swirled around the two power centres. Despite their solid legal foundations, Pemko and the DPRD have little power to gain support from business communities in comparison to BIDA's old money and vast patrimonial network inherited from the New Order era. Thus, they were in need of 'goods' to build their power foundation, both formally through taxation and informally through building patronage networks.

The erosion of oversight authority by the provincial government has added to the power conflicts between different levels of governments. Often newly-issued local regulations (Perda) contradict national regulations and have been annulled as a response¹⁶. In the case of Batam's

¹⁶ This evaluation process itself often takes a long time within the ministry of interior affairs and passes the six months deadline given to the central government to conduct screening. Hence although these local regulations were later annulled by Jakarta, the local governments with the support of the parliaments at times try to challenge this.

Perda on alcoholic beverages (the 2001 Perda No. 19), there was a competition between Batam city and Riau Archipelago province governments¹⁷. Since its implementation, Batam city has significantly increased its PAD to more than 8.8 billion rupiah in 2002, following the issuance of more than 140 licences on the distribution of alcoholic beverages. However in 2004 the Minister of Interior Affairs annulled this Perda and argued that this licensing function is part of the province's jurisdiction. As a consequence, since 2004 Batam's tax-based PAD decreased dramatically to 545 million rupiah. Nevertheless, the new authority in Batam has managed to take advantage of Otda arrangements to generate more PAD from various other sources.

With the local government's great authority to generate taxation and local development management, APBD has become a very sensitive political commodity, being debated, seized or even bartered between executive and legislative bodies involved in its formulating process as an opening for ruling elites to informally build power. Even though APBD's formulation already involved both the executive and legislature in the pre-Otda period, up until 2004 their involvement had become significantly more intense due to the withdrawal of the central government's authority and the competition between the dual head of government increasing. Both local bodies are legitimately able to promote plans for projects which are important according to their interests by using, and 'profiting from', APBD funds. Public access to APBD information in many areas, supposedly available to public because it involves the welfare of local communities, is still very limited.

The absence of an oversight function by higher level governments has led to an inefficient formulation of APBDs and a failure to employ them in the interest of local communities. Often 'collaboration' between the executive and members of local parliament has occurred as they act as 'brokers' or 'middlemen' for certain interest groups keen on winning projects through tender or direct appointment. In order to be successful, business people have had to allocate extra expenses in their budget plans to cover the expenses of possible graft¹⁸. Those who do not follow 'the rules of the game' are not likely able to participate in future projects.

In 2001, Pemko promoted a plan to legalise an amusement (including gaming) complex in Batam city as part of a policy to build the Exclusive Tourism Area (*Kawasan Wisata Terpadu*

¹⁷ Interview with M, a staff at the local office for industrial and trading, 26 March 2007.

¹⁸ This graft often charged particularly on projects financed from APBD, amounted to 20% of the project's total value. Interview with N, a local academician, activist and journalist, 28 March 2007.

Eksklusif/ KWTE). Initially, the plan was proposed in order to boost Batam's PAD from tourism sector and at the same time to enhance Batam's market price in competing with other popular business-amusement centres in Malaysia and Singapore. In reality, the clandestine gaming industry has bloomed secretly in Batam for many years. Hence, Pemko further justified that the plan would help localise and limit the industry in Rempang Island, the proposed KWTE complex¹⁹.

With the support of Golkar and PDIP leaders in the local parliament (DPRD), the Pemko instantly pursued the development of a temporary KWTE area in Nongsa. Because of the absence of provincial oversight, the project at first faced no significant objection despite the oddity of the project's existence considering national regulations which forbid any gaming practice. The Pemko used Batam's 'special' position as Indonesia's "gateway for international commerce" for many years to justify its KWTE plan despite many protests from Malay/Moslem communities in Batam. Other deep concerns expressed were particularly focussed on perceived heavy cronyism in KWTE's management, which was linked to the family of a local PDIP leader (also the local parliament's speaker). He was allegedly benefiting from the project through direct appointment of PT Dewa Menara Wisata (DMW) in 2003 in KWTE's temporary management in Nongsa²⁰. At the same time the development of 13,000 ha in Rempang Island planned for KWTE area also involved PT MEG and ARP, two subsidiaries of the Artha Graha group, a Jakarta-based enterprise led by Tommy Winata, a shadowy bigboss based on a discreet agreement made by Pemko worth 3.6 trillion rupiah.

The KWTE project was finally 'abandoned' after a change of government as a result of the 2005/6 provincial and municipal Pilkada. This Pilkada has significantly changed the political constellation and disrupted the short-lived establishment of Pemko-DPRD patronage networking following the defeat of the PDIP-backed Nyat Kadir (Batam former mayor) group and the victory of Ismeth Abdullah's pro-BIDA group. This sudden change, however, is not a coincidence but rather the culmination of a power struggle between BIDA and Pemko-DPRD,

¹⁹ The minimum available infrastructure in Rempang Island has compelled the city government to propose another temporary but more established location (though still rather secluded) at the north eastern point of Batam, the Tering Bay (Nongsa). Secret gaming industries were, however, already rampant in hotels at Nongsa such as at Pura Jaya hotel in any case. The hotel owner until today is still a strong lobbyist for KWTE, claiming it will 'boost Batam's tourism industry', using business associations such as KADIN and personal contacts with government officials. Read further I Made Suarjana & Syafriyal Syahril, "Bakin Menentang Judi Batam" (Bakin Repelled Gaming in Batam), *Gatra*, 3 March 2003.

²⁰ The same person was also allegedly involved in a marked-up construction project of DPRD building in 2002, along with several other top leaders of DPRD. Interview with RD and SMN, local senior journalists in March 2007 and January 2008. Read Dalle, R. (2003). *Kejaksaan Periksa Pengelembungan Dana Gedung DPRD Batam* (Attorney Office Investigates Mark-up Project on Batam's DPRD Office Construction). [Tempo Interaktif](#).

with business groups divided among the two power centres, striving for better and more conducive business arrangement during Otda.

The uncertainty and confusion created by changing economic regulations and Batam's status after the implementation of Otda have pushed politico-economic elites in Batam to cooperate in special joint lobbies. In combination with Batam's dual power centres which have been competing for dominance since 2001, business communities are divided between the two patrons and actively involved in shaping local politics for the sake of their business futures including through contributions to campaigns. They have been active not only as members of the local parliament and city government but also in lobbying at a higher level, in this case Jakarta. In fact, Otda's enforcement and introduction of local government institutions seen as a new opportunity for entrepreneurs' more formal political manouvres. Jakarta's decision to reconsider Batam's *de facto* special exemption from income tax (PPh) and luxury goods tax (PPnBM) since the 1980s became the first of a series of changes in Batam²¹. The principle of equality in Otda's implementation was a major reason for Jakarta to re-enact its implementation of the 1978 Government Regulation (PP) No. 41 on Free Trade Zone enclaves in industrial areas.

The long process of negotiation and lobbying by various local interests at a central government level in 2001 was mainly influenced by changes in political leadership as well as uneasiness towards the present division of Batam's economic pie²². In the FTZ case, Batam entrepreneurs have a solid agenda and have worked together to assure a definite status and legal base for business in Batam. Business associations, such as Apindo (*Asosiasi Pengusaha Indonesia* or Indonesian Entrepreneurs Association) and KADIN (Indonesian Chambers of Commerce), were most active in mobilizing support and funds to finance Batam's lobbying on members of parliament in Jakarta. Public dialogues often arranged between business associations and government on general issues over business and Otda in Batam.

Similar collaboration also took place between Pemko and BIDA to support this lobby since Batam's status is nevertheless important for its continual prosperity. However the continuing

²¹ PPnBM includes consumption products such as electronics, alcohol beverages, cigarettes, and motorized vehicles. In response, local business groups considered the policy would disadvantage them, by indirectly influencing labour wages and production costs.

²² In 2004 the central parliament agreed on the draft law granting Batam with FTZ status. However, the law was not ratified by Megawati, who was the president at that time, and was therefore automatically annulled after 3 months.

power struggle between Pemko and BIDA has threatened the success of this joint lobby for Batam's FTZ status²³. The conflict was gradually resolved through BIDA's 'infiltration' of Pemko Batam's structure, with a group of influential entrepreneurs actively involved in the grand design of 'harmonizing' Batam's power constellation through winning and 2005/6 Pilkada.

Table 3. Pilkada Results of 2005 Gubernatorial Election and 2006 Mayoral Election

Results in numbers and percentage (%)	
2005 Gubernatorial Election	2006 Mayoral Election
Ismeth Abdullah Muh. Sani 309,119 (60)	Ahmad Dahlan Ria Saptarika 93,616 (41.46)
Nyat Kadir Soerya Respationo 172,923 (34)	Ahmad Dachlan Zulbahri 45,051 (19.96)
Rizal Zen Firman Bisowarno 27,522 (5)	Abd. Basyid Richard Pasaribu 43,926 (19.45)
	Nazief Soesila Dharma Sahat Sianturi 43,193 (19.13)

Source: Choi, Nankyung, *Local Elections and Democracy in Indonesia: The Case of the Riau Archipelago*, Working Paper No. 91, Singapore: IDSS, 2005, p. 16; KPUD Batam, *Dinamika Demokrasi di Kota Industri*, book draft.

The first success in this 'harmonizing' scheme was the 2005 gubernatorial election victory of Ismeth Abdullah, the head of BIDA, over the former Batam mayor. The second stage was the victory of Ahmad Dahlan, a second tier official in BIDA, in the 2006 mayoral election which further consolidated BIDA. Since then, there has been a gradual transfer of staff from BIDA to Pemko's structure leading to a more harmonious relationship has developed between the two institutions and particularly in lobbying for better business consideration from Jakarta²⁴. By the end of 2007 the joint lobbies have successfully lobbied Jakarta's political elites to ratify the 2007 Law No. 44 on Free Trade Zones in the city and two regencies of Batam, Bintan and Karimun (BBK), which hopefully will further integrate and expand Batam's industrial ability and Kepri province's at large.

Kutai Kartanegara (Kukar), Indonesia's 'Richest' Regency

Kukar in 1999 was one of the largest and richest regencies in Indonesia, situated in Eastern Kalimantan province and specialised for decades in the exploitation of natural resources, namely oil, coal and forestry. In contrast with Batam, Kukar's experience with Otda has been highlighted by the strengthening domination of the regent's personal rule and consolidation of

²³ Interview with AH, head of local industrial and commerce office, 21 March 2007; DP, AS & DZ, officials in BIDA, 23 and 24 January 2008. Despite the gradual transfer of authorities was introduced, twinning offices remained existed for several years in BIDA structure.

²⁴ Interview with YD, entrepreneur, official at KADIN province office & leader of Ahmad Dahlan campaign team in 2006 Pilkada, 26 March 2007. Although YD stated there was no special candidate preference for entrepreneurs during 2006 Pilkada, different perspective applied to the 2005 governor Pilkada. He was a member in Ismeth Abdullah's campaign team who used provincial KADIN as part of mobilizing support strategies for BIDA candidates.

his patronage network backed up by strong institutional support from Golkar. Under the regent's strong personal rule, entrepreneurs, like other societal forces, remain politically docile and cooperative in feeding from and into the local patronage network.

The regent has built his local bureaucratic career since the New Order era under Golkar's banner. The increased authority of the regent in combination with Golkar's domination over the local legislature has led to a simpler policy making process in Kukar, particularly in terms of APBD and local development planning draft. This was due to Syauckani's strong leadership not just within the bureaucracy but also over other governing institutions, such as legislative and law enforcement institutions, despite the 'heavy legislative' structural reform generally prescribed in Otda. His position as the chairman of the Association of Regencies in Indonesia (APKASI) and the head of Eastern Kalimantan Golkar office as well as other various associations has made him a strong populist member amongst the top political elites in Eastern Kalimantan and just embarked as a newcomer elite at the national scale²⁵.

There are two interdependent ways by which the regent is able to strengthen his personal rule within the Otda project, which involved local business communities. The first method is through cooptation in the 'New Order style' of the government and non-government institutions, particularly those which have undermining potential, such as the local legislature and law enforcement bodies. In order to maintain this cooptation strategy and 'oil' this patronage strategy, Otda's large increase of authority and fund in Kukar was often manipulated as part of the second method – the 'selling of favours' through appointments to infrastructure projects and business licensing²⁶.

The infrastructure and living standard in the coastal districts, namely Samboja and Sanga-Sanga, have remained limited and of low quality despite their richness in oil and the existence of large international companies operating there. In response, coastal elites have actively expressed their aspiration to secede from Kukar because despite being the largest contributor to the regency's wealth, their wellbeing is hardly acknowledged. The building of roads and

²⁵ Syauckani HR started his career as a bureaucrat in Kukar and was actively involved in Golkar's structure in Eastern Kalimantan as well as playing an influence at the national level. His role as APKASI leader enabled him to promote a greater transfer of authority which also often placed him in conflict with the central government's efforts to maintain parts of its authority within sub-national governments through the 2004 Law No. 32. He succeeded in being reelected for a second term at the first local direct election of July 2005. During his period in office, Syauckani practically became leader to many social organizations, one of the reasons for his having incredibly strong influence not only within Kukar but also in Eastern Kalimantan and at national level.

²⁶ Interviews with H, local academician; OL and KaB, activists, January 2007 and February 2008.

schools in the coastal districts, known as PAMPMB, is one of many APBD-funded infrastructure projects in Kukar regency which has followed a similar, but more grotesque, pattern of corrupt patronage. Often infrastructure projects were left unfinished or of such poor quality and useless for local communities because contractors did not receive full payment for construction expenses from the local government. The amount owed was allegedly embezzled by certain individuals within the budget team of Kukar DPRD and the Regency Construction Office, which are part of the regent's patrimonial pyramid. A sizable portion of the project budget is often cut by 'project brokers' within the bureaucracy and the legislative as a fee for gaining access to the project at the expense of its quality.

At the end of 2006, not long after his re-election in the 2005 *Pilkada*, Syauckani was linked to allegations of corruption, which cost the state 120 billion rupiah²⁷, by the KPK, the central government's anti-corruption machinery. The allegations related to four crucial cases which all are related to Syauckani's patronage strategy: the preparation for the Loa Kulu airport project, the project's visibility study, the misuse of a social assistance fund and the distribution of revenue from the oil and gas balancing fund. The airport project in particular is significant because of the scale and transparency of the regent's corrupt strategy. He was accused of benefiting his three children who formerly owned the land designated to accommodate the airport. He was also allegedly benefiting the contractor directly appointed to tackle the marked-up visibility study of the project²⁸.

Cases of the social assistance and oil and gas balancing funds have been widely known by local communities for some time as being 'siphoned off' or unevenly distributed based on personal closeness or lack of management evaluation. One of the corrupted channels is the social assistance program in Kukar which has included the annual distribution of 1 - 2 billion rupiah in subsidies for every village and SME loans projects. An additional case is Kukar Education Office's subsidy project to help provide heads of schools and teachers in Kukar with motorbikes as means of transport because of the non-existence of public transport in Kukar's great territory. In order for teachers to be able to purchase the motorbikes, their monthly subsidy was diverted as a credit payment for the motorcycles. This supposedly voluntary

²⁷ This amount of loss was added from the initial amount of 40 billion rupiah after KPK's investigation process finished. Most of the loss, around 93 billion rupiah, was linked to the case of oil and gas balancing fund distribution from 2001 – 2005 to local top officials.

²⁸ The project was managed by PT Mahakam Diastar International (MDI), chaired by Vonnie Panambunan. She is formerly a mining owner in the regent, closely linked to the regent, who later became the regent of Northern Minahasa, Sulawesi. During the project, the firm subcontracted most of its duty to two other firms and pocketed large sums of profit.

project turned out to be compulsory with hallmarks of mark-up and cronyism.

Similar methods are applied on the distribution of parts of the oil and gas balancing fund (dubbed the ‘incentive fund’), which allegedly contributed to Syaukani's success in the 2005 *Pilkada* and beyond. The oil and gas balancing funds demonstrate Syaukani’s strong patronage and nepotism strategy and links. KPK noted that the ‘distribution’ to many members of bureaucracy and government institutions from 2001 to 2005 – allegedly not limited to local level, had caused a loss of 93 billion rupiah in local revenue²⁹. Despite the justification that this distribution is necessary to boost the quality of governance performance related to oil and gas production, it is obvious from studying the list of recipients that this is also part of the regent’s patronage strategy.

In 2004, the Otda project was closely linked with another ambitious project for direct local elections (*Pilkada*). This project is very crucial not only in the context of how the central government and local parliaments have relinquished their ‘prerogative’ to appoint local leaders, but also for the local communities who are interested in voting for those who they trust to run the community’s administration and development. As a result of these changes, the campaign arena and funding have significantly shifted to regional and local levels, thus activating the dynamics of politico-economy relations at that level.

Some observers consider the great importance of the coal mining industry in Syaukani’s political rise not only in Kukar politics but also in Eastern Kalimantan³⁰. The mining sector remains the largest contributor to Kukar's revenue although the local government has also declared its intention to develop the tourism sector as an alternative renewable source of local revenue³¹. From 2001 to 2006, the annual report of mining licences shows a dramatic increase of licence issuance precisely before the *Pilkada* took place in June 2005, and a slight decrease

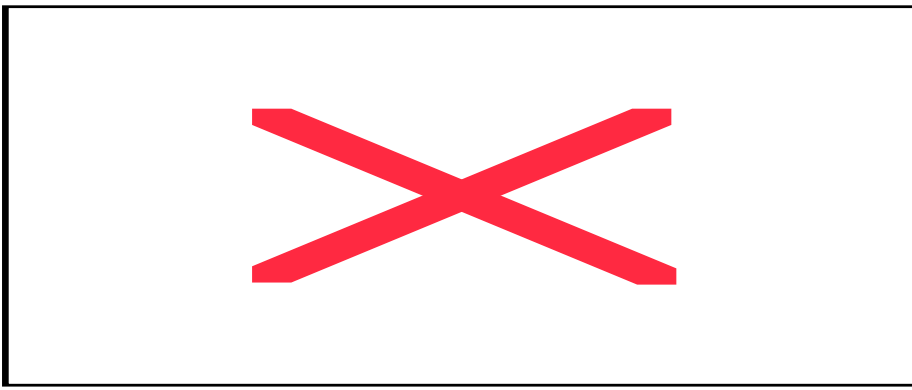
²⁹ Although the regulation and the Otda laws have given great authority to each regent in deciding their specific implementation, the choice of recipients of grants in Kukar suggests a channelling of funds for the enrichment of Syaukani and his cronies and political manoeuvres for *Pilkada*. A certain measure to return the incentive fund to the central government was later coordinated by Syamsuri Aspar, the deputy regent, without Syaukani’s consent and triggered division within Syaukani’s network of clients. A ‘purge’ of officials has taken place in Tenggarong ever since. Through this legitimised form of political corruption, in addition to possible informal rents from mining industries, Syaukani was able to secure relatively solid support from within his local government structure and safeguard economic resources. Another form of populist political manoeuvre – the dispersal of funds from mass social grants projects – was also implemented in an attempt to ensure a populist image.

³⁰ Interview with KaB, environmental activist; Ab, journalist, February 2008.

³¹ The tourism projects were another opening for alleged corruption and nepotism and, rather than contributing to local revenue, ended up exhausting it. Such projects include the development of the Pulau Kumala resort and amusement areas, two hotels, a planetarium, several museums and the sultanate palace.

(although a maintenance of high levels) after the *Pilkada*. Not only contributing to PAD, this increase of mining licenses may have expanded Syaokani's political capital and secured his victory in the 2005 *Pilkada*. Compared with the two other candidates, Syaokani's campaign coffer as formally reported to local election committee (KPUD) was considerably larger. Syaokani's victory (59.51% of the vote) was supported by the dominant parties of the Golkar faction in the local DPRD. Apart from a massive and populist campaign, Syaokani was allegedly supporting another candidate, Noor-Bukran, to divert anti-Syaokani votes from pooling and benefitting his main rival, Aji Sofyan Alex-Muh. Ikram (33.42% votes).

Graph 1. The Development of Mining Licenses 2002-2006



Note: This does not include licenses in the oil and gas sectors which are still under the central government's authority, managed through the Oil and Gas Management Authority (BP-Migas).

Source: Reports on Licensing and Tax Receipts 2002-2006, Mining and Energy Office, Kutai Kartanegara regency.

Since rights to limited, small scale licensing were granted to local governments, they have often seen no obligation to report the licensing activities and the revenue derived from them back to institutions with oversight authority, namely provincial/national governments or local DPRD. Large scale mining companies still have to acquire a letter of recommendation from the regent, in order to obtain a licence from the central government through the Department of Energy and Natural Resources (ESDM). Thus in some cases, applications are made in smaller patches of territory to make lobbying and brokerage practices by middle-men patrons and clients easier and limited within the regency. However, this overwhelming increase in the mining industry in Kukar since Otda has developed rapidly with critical environmental consequences. According to Jatam, since 1999 Kukar has issued 347 licences for various coal mining operations covering more than 328 thousand ha of land or over 1/3 of the province's total mining area, the largest number of mining licenses in Eastern Kalimantan³².

³² JATAM-Kaltim, J. A. T. K. T. (2007). Mosaik Pertambangan di Kalimantan Timur. Samarinda, p. 3.

The contribution from mining licenses above does not include the retribution stated in the 2001 Local Regulation No. 2, which directs 50 US cents to be paid to the local government for each tonne of mining production. In spite of the local government's seeming eagerness to gain more local revenue, this contribution has allegedly not been strictly enforced. This ineffective implementation has led to continuously low local genuine revenue (PAD)³³. The funds have instead allegedly flowed to 'extra' incentives paid by mining entrepreneurs to certain officials who have helped them to avoid paying the formal retribution and left the legislation unenforced. These extra payments are thus relatively smaller than the amount potentially owing for the local fee. McChesney has highlighted the importance of this rent mechanism, dubbed as 'money for doing nothing', where officials instead gain rent/payment through their successful threat of issuing/imposing a policy³⁴. This patronage connection over mining owners and bureaucracy or other mechanisms, hence, is very significant for Syaukani's various political interests.

Syaukani's strong financial support during the *Pilkada* campaign is indicative of a successful mobilization strategy of capital accommodation. Entrepreneurs' weak bargaining position has contributed to their inclination to play safe by being passive and following the patronage rule of game enforced by the regent's powerful influence for the sake of their business and privileges. Despite Syaukani's unsuccessful fate recently, it is clear that Otda's changes have played an important role in strengthening his local dominance but failed to build civil society's capacity, including the capacity of its entrepreneurs, to actively participate in evaluating and building local good governance.

Conclusion

The cases from Batam and Kutai Kartanegara discussed above have highlighted the dynamics of many aspects in local political economy being accelerated since the implementation of Otda. Batam's experience has shown the changing face of pluralistic power struggles in contrast to

³³ Kukar's coal production is mainly exported to fulfil the international supply of Taiwan, Japan, and China rather than for domestic purposes. Coal production in 2006, for example, reached more than 13 million metric tons (Kutai Kartanegara Dalam Angka 2007, 241-3). Hence, Kukar's local revenue each year from coal retribution alone should be able to reach dozens of billion rupiah. In contrast, Kukar's projection of local retribution 2005 – 2010 still fell below 10 billion rupiah. According to S, member of local parliament, in a short interview in January 2008, local government has never even mentioned or included this retribution revenue in its annual report to parliament.

³⁴ McChesney, F. S. (1997). *Money for Nothing: Politicians, Rent Extraction, and Political Extortion*. Cambridge, Harvard University Press, p. 38-41.

the replication of authoritarian government in Kukar. However this comparative study cannot be used to generalize the dynamics of Indonesia's decentralization. There are undeniable success stories in Sragen and Jembrana while many are adapting slowly and progressing as the Otda project establishing its regimen.

Many of the problems pointed out previously are partially caused by the magnitude of Otda's initial introduction and carelessness in the transition process, i.e. a significantly suppressed evaluating authority and open-ended governmental restructuring. The initial Otda regulations in 1999 disregarded many weak points unaddressed within the local politics in adjusting to Otda's transfer of authority, which made it prone to (local) free-rider elites taking advantage and dominating local politics for self-advantage. This development has taken place in Kukar, where personal-cult domination and cooptation of one group rendered the opposition, evaluating power unable to effectively function and extremely deviating Otda's aims. The monitoring of the executive body, both from within and outside the governing structure, became ineffective due to the personal cult of the regent and his extensive cooptation of societal organizations and other competing government institutions. Even though there are groups which have been co-opted to a lesser degree, these groups' influence is too weak to be able to mobilize support from within for effective criticism of government performance. Thus in those areas, patron-client relationships may easily resumes their place locally and become widespread in most spheres. This progress closely involves the role of business communities, which supply the dominating power of its capital needs to stay in power in exchange for business privileges granted by the ruling elites with their newly transferred greater authority. Thus, the state-corporatism of business associations and corrupt networks is mostly prominent in Kukar's case.

By contrast, this trend is short-lived in Batam, where Pemko established its patronage networks to dominate local politics in tandem with the DPRD, due to the continuing existence of BIDA and Jakarta's interests in the area. Batam's political dynamic is characterised more by pluralistic interests, not only competing and changing sides but also collaborating and manipulating new Otda changes for political domination. This is manifested in the struggle between BIDA and Pemko-DPRD (2001 – 2006) but also between Pemko and the DPRD itself after the success of 'BIDA infiltration' strategy in the 2005/6 *Pilkada*. The assumption that local governments and the local community combined have better requisite 'power' to control the power of local governing bodies, rather than Jakarta closely monitored the local politics is

one that requires verification through further research. However, Batam's strong characteristic of corporate governance and the active involvement of business lobbies/associations has enabled better public participation in evaluating government performance as well as in shaping policies. The case of FTZ status highlights dynamic collaboration which was, despite stuttered beginnings caused by elite conflicts, later successfully accelerated in 2005. Entrepreneurs' support at first was divided among these power centres. Yet in the end, clearer regulations and more conducive business environment for Batam are in the mutual interest of all groups, which has united them behind a common cause, i.e. in the 2005 provincial election and the FTZ lobby.

Thus, decentralization project planning should bear in mind the different capabilities of local communities to atune to the opportunities for participatory democracy offered by the project, the power relation settings in different localities and the controlling mechanisms to support the establishment of good governance at local level. Jakarta's role as the 'nightwatch' on the case of Kukar should only be the last possible resort to ensure local good governance, supported by rigorous Otda legislation and its enforcement which build and engage the true participation of local communities in the check and balance system.