

Local Governments, Business Interests, and Direct Elections: Assessing Two Rounds of *Pilkada* in Indonesia

An Open Forum with

Prof. Alasdair Bowie and Prof. Indria Samego



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Introduction

Over the last decade, Indonesian democracy has greatly expanded and matured to empower regular Indonesians to cast their votes and choose their own leaders. After 2004, with the introduction of greater regional autonomy, Indonesians have enjoyed direct elections on a district (*kabupaten*) level.

General perceptions on district level government in Indonesia range from being non-transparent, nepotistic, and a significant obstacle to investment and the economic goals of the national government.

However, upon closer study, each district's success is largely dependent on its district executive (*bupati*), especially those who have been elected directly. Because of the nature

of the constituency of districts, many personal factors such as wealth, reputation, and professional background weigh significantly more.

Since the introduction of direct elections, a number of districts throughout Indonesia have improved their economies as district executives promote more attractive business environments for investment.

On July 12, 2012, USINDO hosted an Open Forum with Prof. Alasdair Bowie of George Washington University and Prof. Indria Samego of LIPI (*Lembaga Ilmu Pengetahuan Indonesia*, or the Indonesian Institute of Sciences) to discuss Prof. Bowie's recent research of district governments in Indonesia, economic opportunities in such regions, and the effects of district elections during the last decade towards business interests.

This brief is USINDO's summary of their talk.

Regional Direct Elections: Four Cases

General perceptions of the public on district governments in Indonesia are fairly uniform and tend to be negative. Nevertheless, a number of district executives in recent years have succeeded to improve economic conditions and make a more attractive business environment for their jurisdictions.

Professor Bowie's research focuses on four districts which are Jombang and Lamong, which are adjacent to Surabaya in East Java, and Maros and Gowa, in South Sulawesi near Makassar.

The four districts were selected based on their potential for attracting foreign and domestic investment, due to their proximity to a major regional market and infrastructure, such as airports, sea ports and so on. Not included in this study are municipalities and districts that already have enormous situational and infrastructural advantages, and massive cumulative investment in industry and manufacturing.

This research also looks at '*pilkada*' (short for *pemilihan umum kepala daerah*) or direct elections of regional heads. Specifically, for this study, Professor Bowie refers to direct elections for '*bupati*' (district executives) and '*walikota*' (mayors) rather than '*gubernur*' (provincial governors).

East Java: Jombang and Lamongan

Jombang

In the *kabupaten* (district) of Jombang, the *bupati* was first elected in 2003 by indirect election and only later in 2008 by direct election.

There were only a handful of candidates, just three tickets, in Jombang. Jombang is known as “watermelon country” as illustrated by Professor Bowie, it is “green on the outside, red in the center.” This means that the district of Jombang is predominantly identified as traditional Muslim, or in his case, close to Nahdlatul Ulama (in other words “green”), but at its core it is dominated by nationalists such as the PDIP (*Partai Demokrasi Indonesia Perjuangan*, the Indonesian Democratic Party of Struggle), which is “red.”

The candidates of Jombang’s first *pilkada* in 2005 included the incumbent *bupati*, Suyanto, first elected indirectly, in 2003, by the then regional district parliament. He was a businessman involved in agricultural processing and he was from a wealthy family. He also served as *wakil bupati* (vice district executive) for two and a half years, from 1999 to 2003.

Suyanto has both “green and red credentials”. He has a background in Nahdlatul Ulama (NU, a traditional Islamic group) and also worked on Megawati’s political campaign team. Suyanto later became leader of PDIP in Jombang for 11 years and for 9 of these years, he was also *bupati*.

The issues in Jombang’s election campaign are: education, improving economic conditions in the district for the average Jombang resident, and the provision of healthcare. There were slightly different emphases by the candidates: e.g., Suyanto’s platform was to emphasize good governance. These statements, however, have been described repeatedly, by both politicians and outsiders, as “normative.”

The 2008 Jombang *pilkada* was not a very competitive election. Suyanto as the incumbent secured 56 percent of the votes, while the nearest challenger only gained 38 percent of the votes. It has been argued that Suyanto won the 2008 elections in Jombang due to his existing prominence and name recognition with voters, general perception of improved economy during his first period, the advantage of family wealth, and a public image of being clean and anti-KKN (*kolusi, korupsi, and nepotisme*, also known as collusion, corruption, and nepotism). Suyanto also had the advantage of access to government apparatus, communal identity from NU, the dominant mass organization in Jombang, and political support from Megawati and PDIP, currently the largest political faction in the regional parliament.

After his sweeping victory in the *pilkada*, Suyanto felt he had greater legitimacy than during his first period and is generally recognized to have performed better during his second period compared his first as Jombang’s *bupati*. It has been noted, however, that there was a change of attitude by *bupati* Suyanto as he felt less constrained by having to massage and fund relations with minority factions in Jombang’s parliament.

Suyanto also had a new policy emphasis, which was to make Jombang competitive as a destination for manufacturing and processing investment, particularly foreign investment, thereby generating local revenue, providing jobs, and contributing to rapid expansion of the economy of the district.

Suyanto's primary focus on achieving these goals was to improve infrastructure. He stepped up Jombang's role in the development of the new toll road, construction of a new bridge, and commitment to land acquisition and clearance. Thanks to his lobbying, Jombang was also included in the national master plan as a new cluster site for footwear manufacturing to attract footwear industries from neighboring regions.

In terms of his policy approaches, Suyanto used "good government" in Jombang as a selling point, and was determined to create a bureaucracy that was known as "investor friendly." Professor Bowie described his approach as "clean, efficient, and low-cost" which meant the elimination of formal fees for many business licenses and permits. The district government has issued construction and other permits very rapidly, and has an explicit policy of "no tips" for officials to "smooth the way" for processing these applications.

For land acquisition for the toll road and industrial zone, Suyanto mandated that officials of the government of Jombang and those at lower levels (sub-district and village levels) abstain from playing the "middle man" role in negotiations over land acquisition for investors that might enable the reaping of profits from escalating land values. Suyanto has also used heavy sanctions such as the dismissal of a *camat* (head of sub district) from *bupati* for those found to have violated this mandate.

The results of Suyanto's second period following the 2008 *pilkada* were improvements in the business climate and investment. These improvements included new investment in an MSG plant, expanded investment by Taiwanese investors in the footwear industry, construction of toll roads, approval of and financing new bridges, and a master plan approval for the industrial zone and for the national "footwear cluster" designation.

Lamongan

The neighboring district of Lamongan had initial conditions that were already favorable to investment. The district had a relative ease of access to the city of Surabaya and to major national roads. Lamongan also had natural endowment with northern seacoast opportunities, such as sea ports and recreation, as well as fisheries both in the ponds and from the ocean.

In Lamongan, however, in contrast with Jombang, the story of *bupati* dynamism began long before his direct election in the first *pilkada* (2005). Most of his initiatives appeared to have begun during his first period from 1999 to 2005. During this period, Lamongan's economy grew very rapidly, although the benefits of new investment were not widely distributed, so inequality grew also.

Its previous *bupati*, Masfuk, had finished two terms in 2010. His tenure saw Lamongan transformed from 70 percent swamps, with no industry (apart from home handicrafts) to speak of, into a district on the way to taking full advantage of its more than 40 km of coastline for tourism, oil services, port docking facilities, etc.

Masfuk won the 2005 *pilkada* campaign due to his business background and personal style of being very personable, humorous, and interacting well as *bupati* with the common people. But the bureaucracy itself was also, indirectly, a source of campaign funds. As is the pattern for both national and regional government in Indonesia, securing a civil servant position required a significant payment to the executive: the higher the position, the bigger the payment. And regular retainers every three to six months were also expected. These two factors combined covered the cost of surveys and a political consultant. In the end, Masfuk won 68 percent of the vote.

His first term emphasis was attracting investment with a “macro focus”. The pace of Masfuk’s initiatives seemed to lessen during his second term from 2005 to 2009. After he was directly elected, infrastructural inadequacies, especially roads, became more apparent.

He concentrated during this second term on improving the infrastructure and the environment of the city of Lamongan, as well as maintaining the rate of new investment established in his first term. However, nothing much changed in the second term. The prevailing poverty rate in Lamongan still remained high at 21 percent. Masfuk also appeared less engaged with the people than before. In addition, there was little progress with the tough issue of declining transportation infrastructure, somewhat tarnishing his otherwise very positive image.

For the 2010 *pilkada*, his role in choosing to support a candidate to succeed him suggests his considerable influence in candidate recruitment for direct elections. This can send, in his case, an anti-nepotism message in rejecting pressures to nominate his spouse or other immediate family members as a candidate.

Also the nature of the former *bupati*’s subsequent business activities can send signals about regional government collusion in the *kabupaten*. Masfuk stopped his business activities in Lamongan while serving as *bupati* and, although he has resumed life as a businessman, he has no business activities in Lamongan to prevent the appearance of collusion or special treatment during the administration of the new *bupati* whose candidacy he basically made possible.

Lamongan’s second *pilkada* held in 2010 saw the election of its regional secretary, Fadeli. During these elections there were five tickets, which included the first independent ticket. This second *pilkada* was more competitive and there was a recount.

Fadeli also had a number of important assets as a candidate, including the backing of a popular *bupati*, Masfuk, who was considered successful, an association with the district government’s achievement in managing a period of rapid growth, as well as a campaign that emphasized redistribution of wealth and focus on farmers and the poor.

Bupati Fadeli’s policies were focused on farmers and on better distributing the wealth generated during the rapid macro growth period of his predecessor. However, he faced the same looming problems of deteriorating infrastructure.

Business people in Lamongan indicate that government practices under Fadeli are typical of most other *kabupaten* in Indonesia: investment project proposals and applications for licenses and permits need to be accompanied by “tips” to ensure smooth and timely processing. Manufacturing investors seeking to buy land will find district officials playing the role of go-betweens with landowners, quoting a higher price to the investor, offering the landowners a lower price, and presumably making use of the difference to meet their quota, thereby securing their continued position or further promotion in the district bureaucracy.

Comparing Jombang and Lamongan

In comparing the impacts of direct elections on economic conditions and on business environment for investment in both Jombang and Lamongan, the first *pilkada* in Jombang involved an incumbent *bupati* and was not very competitive. Given the very large winning margins, one would not expect that the competition from other candidates in the *pilkada* would have been a significant force to change the approach of the incumbent towards developing more favorable economic conditions for business. Lamongan has had its second *pilkada* in 2010, and this was much more competitive, although the lame-duck *bupati*'s nominee still won by a reasonable margin.

While the *bupati*'s initiative with respect to economic development and attracting business investment was more apparent in Jombang after the first *pilkada*, in Lamongan it was more apparent before the first *pilkada*.

The *bupati*'s initiative in Jombang after the first *pilkada*, particularly involving attracting investment with new infrastructure, was supported by a “clean government” image. Investors noted that, in a significant departure from the normal practice of district governments nationwide, in Jombang “tips” were not required for projects or to smooth licensing or permit processes, and indeed were eliminated altogether.

But there's a paradox here. In terms of collusion, the *bupati* Jombang after the first *pilkada* did not recuse himself from his various business activities in the district and, in terms of nepotism, the *bupati* appears to be putting his weight behind his younger brother as a likely candidate for *bupati* in the *pilkada* next year.

In Lamongan, *bupati* Masfuk's initiative seemed to wane after the first *pilkada*. While officials followed practices typical of district government, in expecting tips for projects or to smooth license applications, the *bupati* chose to recuse himself from business in the district and demurred when asked to back his wife or another immediate family member as a candidate in the second *pilkada*.

South Sulawesi: Gowa and Maros

As with the proximity of Jombang and Lamongan to Surabaya, Gowa and Maros are on the peripheries of Makassar. Sharing the initial conditions of Jombang and Lamongan, Gowa and Maros have a relative ease of access to an important city, Makassar, with its port and international airport, as well as straddle major regional roads. Both districts have natural

endowment with sea coast opportunities for ports, marina development, tourism, and fisheries, and have small scale mining in marble, stone, and limestone.

Gowa

Syahrul Yasin Limpo was initially elected indirectly, by the regional parliament in Gowa, in 1999 as *bupati*. Syahrul was then reelected in 2005, in the Gowa's first *pilkada*. Among the issues in the *pilkada* campaigns for *bupati*, was one raised in many regions of Indonesia, that of free education in schools. Syahrul used this idea to spearhead his campaign in the first *pilkada*. In contrast with the normative and general aspirations of other candidates, Syahrul was quite specific in his campaign commitment to free education.

Like Masfuk in Lamongan, Syahrul in Gowa appears to have been very active in terms of the economic development of Gowa during his first period (after being indirectly elected). But unlike in Masfuk's case, the pace of Syahrul's initiatives appears not to have waned after the first *pilkada*. His second period, appears to have been equally as supportive of new business development as his first. In 2009, he was considered successful in his run for the governorship of South Sulawesi.

After a short period under an interim *bupati*, Syahrul's younger brother, Ichsan Yasin Limpo, was elected *bupati* in Gowa's second *pilkada* in 2010 with Syahrul's backing. As in Jombang and Lamongan, neither *pilkada* in Gowa were very competitive as the brothers had secured large majorities of the valid votes cast in successive elections. Both Ichsan and his older brother are prominent members of the family dynasty that has dominated Gowa politics.

As *bupati*, Ichsan has a strict policy of officials not accepting informal payments for project approval. One businessman has said that, for a project he sought approval for, if he submitted an envelope it would slow the processing of approvals, and not speed it up. Ichsan is also known as a stickler for punctuality and rapid processing of investment-related approvals and permits by his officials.

In the second *pilkada*, Ichsan added commitments to free healthcare, as well as annual, lump-sum, community-building payments to villages in addition to his brother's initiative of free education.

Despite the strong backing of Governor Syahrul, free education has yet to be implemented province-wide. Most regional districts and municipality executives claim they do not have the budget for it. However, in *kabupaten* Gowa, *bupati* Ichsan has forged ahead in implementing free education there, not only receiving substantial funds from the province, but also committing its own regional funds, to this endeavor.

In terms of establishing favorable business conditions to attract investment to Gowa, the main initiatives of the district government have involved a large, new, mixed-use development at Tanjung Bunga. This involves upscale housing, retail, a theme park, a convention center, and a planned hotel.

After his direct election in the second *pilkada*, Ichsan has not merely continued his brother's initiatives, but also established his own initiatives, as well as established a clean and efficient government reputation. He has been credited with jumpstarting more, upscale, exclusive housing and retail areas. Ichsan has also invested *kabupaten* government funds in building a substantial new, divided concrete road to new housing areas. Ichsan has also taken the initiative to add a substantial industrial zone component in Gowa, which has received central government approval. The industrial zone exists, but so far only one factory is located there. It awaits the new Mamminasata toll road and the building of a *kabupaten* access road to connect it to an interchange on that road. This will give easy access to the international airport and the port of Makassar.

Maros

In the regional district of Maros, also near Makassar, the current *bupati* is H.M. Hatta Rahman. Professor Bowie admits to knowing little so far of the previous *bupati*, before Hatta Rahman, and the possible effects of the first *pilkada* in Maros on the economic and business environment there. Professor Bowie has indicated that he will continue with this in future research.

Hatta Rahman's party affiliation is with PAN (*Partai Amanat Nasional*) and he spent two terms in the regional parliament, becoming vice-legislative leader during his second term. His father is a respected religious leader in the district and the family well-known for being devout. Before his career in politics he was an entrepreneur in the construction business.

Hatta Rahman was elected in the 2010 *pilkada* of *kabupaten* Maros and although the election campaign did not involve an incumbent, nevertheless, it was not competitive. Because he is not an incumbent *bupati*, Hatta Rahman could not rely on infrastructure of the Maros regional government and bureaucratic support for his campaign. He relied instead on his personal wealth and backing from companies and individuals. The estimated cost of Hatta Rahman's campaign was 200 billion Rupiah (21 million USD).

Hatta Rahman's campaign program included a commitment to providing each village with an annual, lump-sum, community development grant of 10 million Rupiah and, in terms of infrastructure development, to resurface or seal 60 kilometers per year of *kabupaten* roads. As with Syahrul and Ichsan in Gowa, these were quite specific commitments, not general normative statements usually found in mission and vision statements.

The election of a new *bupati* in the *pilkada* of 2010 was accompanied by quite specific commitments during the campaign in terms of community development and infrastructure improvement to make Maros more attractive for business investment.

Hatta Rahman's business background and personal style appears to have been an asset in helping to resolve disputes with ordinary people that, under the previous *bupati*, had held up infrastructure developments. Also there is no confirmation yet of implementation of the lump-sum payment scheme for the *desa* (village) that was featured in the campaign.

Efforts by the Maros government to secure revenue streams from the Sultan Hasanuddin International Airport, located in Maros, have so far only been marginally successful mainly through some parking revenues.

Maros has some plans on the drawing board for an industrial zone, and this is included in the Mamminasata master plan. But so far there is no master plan for the industrial zone. A new private port north of Makassar, originally slated for Maros, is now being built about 80 km up the coast by Bosowa.

However Hatta Rahman does not appear to have so far developed a significant record of attracting new investment in manufacturing to complement the existing mining and cement industries in the district. And although the national master plan and the approved Mamminasata master plan features industrial development in Maros, there is little evidence so far of dynamism on this front in comparison with *bupati* Ichsan in Gowa.

Prof. Bowie concludes his presentation by stating that the districts presented in his study have the potential to absorb investment being diverted from areas with pressure on land and labor. The relationship to the *pilkada* in each of these districts can be seen with the *bupati* making a variety of initiatives after being elected. However, it appears that there is no clear story that the *pilkada* can be identified as a basis for initiative for the *bupati* after the *pilkada*, but there are some examples where that has, in fact, happened.

Remarks by Prof. Samego: The Need for New Government Regulations on Regional Elections

Prof. Samego states that although research in the field shows that conducting regional elections have shown many positive impacts of democratization in the regions, from a government perspective there are three issues that still need to be addressed.

First, direct local elections have large costs both economically and politically. Candidates can spend billions of Rupiah on election campaigns and approaching prominent figures, but these do not equate to clear victories. Indeed, due to election regulations, campaign budgets are much more restrained. Candidates must also be able to woo enough political parties to gain major support for their campaigns.

Second, there are still strong nepotistic practices in the form of political dynasties. As shown in the study and as can be seen around Indonesia, there is still a strong presence of political dynasties. New candidates supported by incumbent leaders not eligible to run for office again tend to have family ties or at least very close ties to the incumbents.

Third, elected officials usually have a "honeymoon" period of three months, seemingly active in pursuing their campaign promises, after which they will shift focus to their own political agendas.

In conclusion, Professor Samego stated that if the government does not regulate future regional elections properly, it will create more problems than solve existing ones.

Conclusion

The *bupati* elected in the four regional districts of Jombang, Lamongan, Gowa, and Maros in direct elections since 2005 had similar traits: they had wealthy backgrounds either by inheritance or business; were charismatic and already well known to the general populace of their constituencies; and aimed to improve their regional districts with the goal of attracting investors, in particular those from abroad.

These four regional districts also have similar situations: they are not currently economic centers in their respective provinces; they all have access or potential access to major cities, sea ports, and airports; and are endowed with natural resources.

In this study, it has been noted that directly elected *bupati* who were reelected are not always consistent in running their programs that they promoted before their first election. After reelection, some have either shifted their policies or their focus has dwindled. It is also noted that political dynasties are also formed at the *kabupaten* level where the incumbent “lame duck” *bupati*'s backing can influence voters even if the new candidate is related.

Despite these setbacks, the economies of these regional districts have improved at different levels after direct elections. Even though these economic improvements may have strictly business aims, these regional districts have so far enjoyed the new investment and new infrastructure in their areas.

Questions and Answers

Q: In your research in South Sulawesi and East Java, did you find a particular attitude from foreign investors to the nepotistic practices in these areas and whether that is good or bad?

Prof. Bowie – Foreign investors tend to not want to be involved in local elections. They prefer smooth transitions and a calm environment where there is some predictability of law. Proactive *bupati* will use their powers such as executive decisions to smooth the rough edges of regional regulations. It's easy for these informal arrangements to evolve into policy mechanisms. There may be a desire by foreign investors for stability but they also have the perception that there are visible regulations and those not so easily seen, such as executive decrees and other mechanisms that are not transparent. Foreign investors figure that these sorts of mechanisms will be continuous if it's in the family or if there is a smooth transition. In short, foreign investors wanted smooth transitions and transparent regulations so they can conduct business easily.

Q: It's clear that there's a new breed of leaders: young, ambitious business people who, sometimes, do not have any appreciation of law or ethics and do not care about civil bureaucracy. How do you counter this trend?

Prof. Bowie – I disagree. Business people that I have encountered and were involved in the elections tend to have good interpersonal skills and they look at themselves as providing care for customers who are paying for their service. In my experience, these new leaders do not run roughshod over existing laws but they are extremely pragmatic and understand that the existing law is a constraint for their activities. But these leaders with business backgrounds approach these challenges by finding ways to overcome them by recognizing the resources available and finding ways to maneuver within current regulations to further their goals.

Q: Other than the effects of pilkada that Professor Bowie studied, there is also a significant cross-district effect where the good performance of one district government puts pressure on political candidates in neighboring areas to match that performance. Have you encountered this in your study?

Prof. Bowie – In the places that I have visited, I will mention best practices (by neighboring districts) and the response will be subdued. Meanwhile, governors and provincial governments still have a role of connecting the various regional districts under their jurisdiction. For example, a governor will offer and help divide investment opportunities among different regional districts.

Q: Has the legitimation (of new bupati candidates) by the lame duck caused any problems in the elections? What do you think are the crucial points to prevent abusive power from the incumbent?

Prof. Samego – There are regulations to prevent this but the practice is not so. I think the impact of incumbents is not restricted at the local level but can also be seen on a national level. When an incumbent runs for office, he or she will try to gain support by awarding government positions. Those who prove to be loyal will stay, others will be replaced. In this situation, there will be power abuse. There must be new regulations to counter these abuses of power by incumbents.

Q: Regarding local government, decentralization and democratization, what do you think about our democratization? Can Indonesia be considered a consolidated democracy?

Prof. Bowie – The Indonesian elections in 1999 and 2004 had very high turnouts by international standards. This indicated a clear interest and commitment by voters. International election observers don't come to Indonesia anymore, which is good. Although there are still voting irregularities, this is normal with elections elsewhere in the world. My perception on Indonesian democracy is that it is very exciting. I have been observing elections in Indonesia since 1991 and people who voted in 1999 and 2004 had very different faces.

Q: Are business interests at an advantage or at a disadvantage with decentralization?

Prof. Bowie – Business attitudes towards politics are highly pragmatic. Those who are located in a district, especially small businesses, just want a smooth environment (for business). However, small to medium businesses that do business internationally have a difficult time with decentralization. For example, regulations from the Trade Ministry sometimes are not compatible with district level regulations concerning trade and causes for home-based handicraft manufacturers who sell their products abroad.

Q: Why do Indonesians tend to choose business people to be their leaders and tend to be negative about candidates with political backgrounds?

Prof. Bowie – This is difficult because perception whether someone is a business person or a politician depends on when you see that person in their career. A politician may be a businessman three or four years ago, but the public's perception will change about him. I learned from Indonesians that there is much more diversity in the background of politicians and Suyanto is a perfect example: he comes from a wealthy background; he has ties to NU and PDIP, was vice *bupati* before being elected and was a businessman. So what is he? All of these factors come together and this is why candidates spend a lot of time socializing with voters to form the public's perception of them, even up to a year before elections.

Prof. Samego – The most important thing is that there are three concepts needed in a leader. First is integrity and it is difficult to find someone with this. Second is popularity, we need somebody who is popular. The third is to be politically acceptable. These three concepts are considered to be political capital and it is difficult to find someone with all three.