

The Analysis of Network Governance in the Investment Development of Free Trade Zone and Free Port (KPBPB) Batam

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Abstract

Large amount of investment is one of income sources for a country. Recently, the investment in Indonesia has not been managed optimally due to, one among others, poor organization system of investment management. This study is aimed at analyzing the network governance within organization system in investment development at Free Trade Zone and Free Port Batam. The research methodology used was Coordination Network Analysis with 5 aspects of study; those are governance structure, service characteristics, operational interaction of partner characteristics, and network characteristic on 3 organizations at the level of province and regency/city. The result of the analysis indicates that coordination between provincial and regency/city organizations is not yet optimally conducted. Horizontal and vertical coordination are not yet optimally established. **Keyword:** democratic values, integrity, objective behaviour, public services.

Keywords: Investment, network governance, coordination

Abstrak

Nilai Investasi yang besar merupakan salah satu sumber pemasukan negara. Sampai sekarang pengelolaan investasi di Indonesia belum dapat dikelola secara optimal, disebabkan salah satunya oleh sistem pengorganisasian pengelolaan investasi yang masih lemah. Studi ini bertujuan untuk menganalisis hubungan antar organisasi (network governance) di dalam sistem pengorganisasian dalam pengembangan investasi di Kawasan Perdagangan Bebas dan Pelabuhan Bebas Batam. Metode penelitian yang digunakan adalah analisis jejaring koordinasi dengan kajian terhadap 5 aspek yaitu struktur pemerintahan, karakteristik pelayanan, interaksi operasional karakteristik partner dan karakteristik jaringan pada 3 organisasi tingkat provinsi dan kabupaten/kota. Hasil analisis menemukan bahwa koordinasi antar organisasi tingkat provinsi dan kabupaten/kota masih belum optimal. Koordinasi secara horizontal maupun secara vertikal belum terjalin secara optimal.

Kata kunci: Investasi, network governance, koordinasi

I. INTRODUCTION

Being well aware of the dispute over Foreign Direct Investment (FDI), the Government of Indonesia adjusting its function toward changes of international environment by prioritizing public services. Government's paradigm orienting on investment development in Indonesia refers to Act No. 40 year 2007 on investment. Investment service is a strategic service conducted by government. Investment service, particularly in the field of Licensing and Non-Licensing, holds a very strategic position since becoming the key of the economic growth development. Failure on its management may lead to an overall failure of investment management.

One instrument in encouraging investment is the policy of Free Trade Zone (FTZ), FTZ is investment service to attract as many as investors through free tax incentives for imports. However, the actual condition suggests that the management of investment development in Indonesia has not been optimal. With the application of Free Trade Zone (FTZ) policy in Batam, issues related to division of authority among institutions/ agencies occur. Based on Empirical observation, researcher found an overlapping authority between Batam municipality and Batam Indonesia Free Zone Authority (BIFZA) in conducting investment service and therefore hinders the investment development.

Thus, the substance of the issue lies on the organization design in investment development which covers aspects of division of labor policy, coordination, and delegation of authority (Regulation of the Head of Coordinating Board No. 5/2013). In addition to that (Prihartono, 2012) states that organization design is highly influenced by the complexity and size of organization depicted in organizational structure including formal organization, vertical and horizontal relations and the establishment of organizational structure chart.

Those three indicators will be in accordance with aspects of organizational design in investment development. Division of labor policy is included in the formal organization aspect. Coordination is included in vertical and horizontal relations aspect. Whilst, delegation of authority is included in establishment of organizational structure chart aspect (Handoko, 2003).

II. LITERATURE REVIEW

A. Concept of Free Trade Zone

Free Trade Zone concept, as the development of Special Economic Zones/SEZs, is prepared to maximize the industrial activity, exports, imports, and other economic activities with high economic value. It is an effort in developing governance by benefitting all existing potentials. Free Trade Zone (FTZ) development is aimed at accelerating regional development and as ground breaking model of regional development for economic growth; among others, industry, tourism, and trading to create job fields.

FTZ is a concept designed from the countries' purpose to pursue success through a permanent and continuous application of free zone. The desired results through FTZ concepts are:

- a. Creating non-adverse region
- b. Increasing income
- c. Labor market
- d. Attracting investment, especially foreign direct investment (FDI)
- e. Transfer of technology and human resource

The purpose of FTZ is generally to provide convenience within free zone by setting up benefits and company management in the designated area. (Torres A. Raul "Free Zones and the World Trade Organization Agreement on Subsidies and Countervailing Measures" (Global Trade and Customs Journal , 2007.)

FTZ is designed by central government as a window for observing global trend in economy, technology, and scientific development, as the foundation of experimental reformation and as a school for human resource training (Ng and Tang, 2004).

FTZ bears a function to unify domestic area to global area as measure to accelerate economic cooperation, technology flow with other countries.

The role of the state in Table 1 demonstrates state's interest in encouraging economic growth. One among many other important duties of the state is to increase gross domestic product (GDP) that will impact society's welfare through the increased investment and which ultimately will provide more job opportunities. Regime management system not only functions as legislator but also as investor, implementer, infrastructure provider, promoter and supervisor of FTZ region.

B. Cross-sectoral Coordination

Stoner in (Sukron Amin, 2007) defines coordination as “integration process of objectives and activities from separated units (section or functional areas of an organization to achieve organizational objectives efficiently). McFarlandin Ismael Ismardi explains that “coordination is the process where by an executive an orderly pattents of group efforts his subordinates and secure unity of action in the pursuit of common purpose”.According to Sutarto in Sukron Amin, in referring to coordination the term coherence can actually be used. Either unity of action, unity of effort, cross-sectoral coordination, cross-sectoral balancing or synchronization must be based on coherence.

One of the instruments to establish network governance is through cross-sectoral governance to integrate institution characteristic and partnership affectiveness. Cross-sectoral governance is followed by an assessment

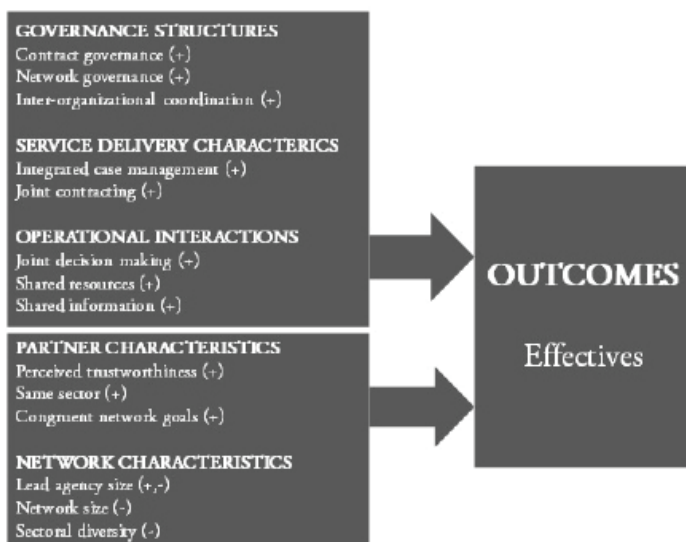
Table I. Matrix of State Role in Regional Development

State	Region	State Role	Authority	Target
Philippine	Subic	Regulatory, provider, implementer, Promoter, supervisor	Philippine Economic Zone Authority (PEZA)	Creating/Retaining jobs and encouraging investment
Indonesia	Batam	Regulatory, provider, implementer, Promoter, supervisor	Batam Indonesia Free Zone Authority (BIFZA)	Creating/Retaining jobs and encouraging investment
China	Shenzhen	Regulatory, provider, implementer, Promoter, supervisor	Shenzhen Municipal Government	Creating/Retaining jobs and encouraging investment
Malaysia	Iskandar	Regulatory, provider, implementer, Promoter, supervisor	The Iskandar Regional Development Authority (IRDA)	encouraging investment and international standing
USA	50 states	liberal regulatory regime,	Foreign-Trade Zones Board	Creating/Retaining jobs and encouraging investment

Compiled from various sources

toward organizational structure, cross-agency operational structure and its affectiveness (Graddy, 2009). Cross-agency characteristic is generally divided into 2 (two) those are mutually beneficial agency or competitor agency. Hyung-jun Park and Min-jeong-Park describe 3 significant roles in government collaboration; initiating role, intermediating role and practical role. Initiating role is the role in which government is providing economic incentive, encouraging the participation and evaluating performance. Intermediate role is the role in which government is delivering the information and Official Coordination. Practical leading role is the role in which government is giving development advice and idea and is participating in decision making (Hyung-jun Park and Min-jeong-Park, 2009).

Picture 1. Cross-Sectoral Coordination



Source: Determinants of Service Delivery Effectiveness in Cross-Sectoral Partnerships (Graddy, 2009)

Referring to Gaddy, there are several variables which play significant role for the success of cross-agency partnership. Those significant variables include cross-agency's division of labour, organizational structure, coordination (operational interaction) which are variables in organizational relation.

The determinant factors for the success of the partnership are lead agency factor, service delivery factor, and infrastructure factor (resources). Coordination is one of the fundamental major problems in network governance.

The network established must accommodate and coordinate a highly complex collaboration. Accommodating proportional division of authority is means of the establishment of effective collaboration.

III. RESEARCH METHOD

The research was conducted toward Provincial organizations of Riau island and Batam city. The data gathering was conducted on June 2014 until February 13th 2015.

A. Sampling techniques

The identification result shows as many as 3 (three) organizations to be involved in the investment development of Free Trade Zone and Free Port Batam from all levels. Sampling was taken using purposive technique in which the chosen respondents were those of officials at echelon IV to II who are occasionally assigned or whose duty is related to investment and service regarding free trade and free port. There were 5 respondents in total, representing their respective organizations.

B. Data Compiling and Analysis

The data compiled consists of primary and secondary data. Primary data was respondents' opinion which demonstrated perception of organizations/institutions in regard to cross-organization relation. Thesis statements for this research covered: (1) authority of the respective institution; (2) division of labour of the respective institution; (3) correlation of administration and planning.

Secondary data were taken from each organization being observed, those data were in forms of collaboration document and organization profile concerning relation and collaboration of those organizations respectively and their involvement in investment and service delivery concerning free trade zone and free port.

Data analysis used procedure adapted from Cross-Sectoral and Performance in Service Delivery (Graddy, Elizabeth 2009) as follows:

- a. Governance structure. This analysis used combination of respondents' answers to the questions whether their organization (a) has fix duties and authority; (b) has fix role in the development of Free Trade Zone and Free Port Batam. The purpose of this analysis is to identify an appropriate and ideal governance structure.
- b. Service delivery characteristics. This analysis used respondents' answers to the question whether their organization (a) has delivered a service based on its main duty and function; (b) has collaborated with other organizaions in delivering service. The purpose of this analysis is to obtain an overview of the organization's partnertship in service delivery.
- c. Operational interaction. This analysis used respondents' answers to the question whether their organization (a) communicates its innovation to other organizations; (b) conducts coordination meeting with other organizations. The purpose of this analysis is to obtain an overview of the Cross- organization interaction.
- d. Partner characteristic. This analysis used respondents' answers to the question whether their organization (a) has a high level of trust in other organizations; (b) involves other organizations in planning process. This analysis is to illustrate the organization's trust and planning.

Network characteristic. This analysis used respondents' answers to the question whether (a) lead agency has been effective in performing its duties; (b) involved organizations have established an effective network. The purpose of this analysis is to obtain an overview of the role of lead agency and the affectivity of partnertship network.

IV. RESULTS AND DISCUSSIONS

A. Governance Structure

The analysis resulted that the division of authority of governance structure in investment development indicates partnertship characteristics between BIFZA and government of Batam. Referring to Act No. 53 year 1999 Article 21 Clause (1) on the establishment of Batam; by the establishment of Batam as Autonomous Regions, in conducting governance and development in its region the Batam municipality should involve BIFZA. Accordingly, as the consequence to this, partnertship between Batam municipality and BIFZA needs to be regulated through Government Regulation to avoid an overlapping governance and development of Batam.

Still referring to Act No. 53 of 1999, Government Regulation on partnertship between Batam municipality and BIFZA should be made no later than a year or 12 (twelve) months since the establishment of Batam as Autonomous Region. With the respect to this, central government promised to make special rule to regulate the division of authority between BIFZA and Batam municipality.

Despite its significance to regulate the division of authority between BIFZA and Batam municipality in overcoming problems arouse between those two governmental institutions, the promised rule had never been issued.

The regulation of Governance Structure in Batam as Free Trade Zone and Free Port is held by the Regional Councils formed by central government which is responsible for the following duties:

- a. Establishing general policy, monitoring, supervising and coordinating activities of BIFZA in Free Trade Zone and Free

Port Batam.

- b. Conducting general policy of Free Trade Zone and Free Port Batam.

B. Service Delivery Characteristics

Service is an interaction activity between service provider and consumer/public, in which the service provider must provide optimum service as solution to consumer/public's problem (Edvardson, 2005). Service delivery in Free Trade Zone and Free Port Batam is an interaction between BIFZA and Batam municipality in delivering service to consumer/public with its respective institution's characteristics.

Services in Licensing

In licensing's service delivery, agencies with the responsibility to deliver service establish One Stop Service (OSS); where in the implementer of this service are government, local government, BIFZA, and Administrator of Special Economic Zones (Presidential Decree No. 97 Year 2014).

Function of BIFZA is as an agency to conduct OSS in large-scale and small-scale industry as well as licensing service in the field of domestic and foreign trade. Those services include the approval of Limited Stay Visa, Business Visa, Multiple Business Entry Visa (VKUBP) & Retirement Visa.

Function of Batam municipality is as an agency to conduct OSS in licensing services related to domestic investment including Investment Registration, Principal License, Expansion Principle License, Amendment Principle License, Business License, and Amendment Business Licence. By the issuance of Presidential Regulation No. 97 of 2014 on OSS, Batam municipality owns more authority in licensing services. If previously BIFZA shared authority with Batam municipality in which Batam municipality

was responsible for Foreign Investment (PMA) while Batam municipality was responsible for Domestic Investment (PMDN), following the Presidential Regulation No. 97 of 2014 on OSS all licensings in Free Trade Zone and Free Port Batam are delegated to BIFZA.

This Presidential Regulation passes all duties concerning licensing which is the authority of Ministry to BIFZA, and regional authority will still be delegated to Batam municipality.

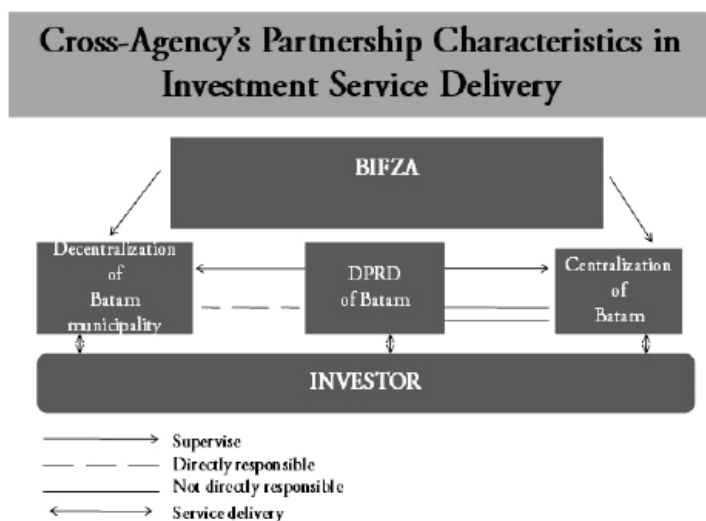
Although, with the implementation of OSS, the service delivery of Business Licence is in one building there are different procedures to be followed from BIFZA and Batam municipality. Consequently, the fee becomes higher. Therefore, the OSS implementation has not been optimal yet by the separated gates in Business License despite being located in one building. BIFZA has its own OSS which delivers services on land sector, urban design, and immigration; whilst service on Building Permitt (IMB) is the responsibility of the OSS of Batam municipality.

These separated OSS models lead to a less effective and less efficient service delivery. Take for example; service for freight traffic is delivered by OSS located only at Harbour Office, services on land sector and immigration are delivered by OSS of BIFZA, and service on IMB is delivered by OSS of Batam municipality. This causes difficulties for businesses that actually could have been avoided.

Furthermore, other difficulty faced by Free Trade Zone and Free Trade Batam in service delivery is concerning the un-settled joint contracting which is MOU between BIFZA and Batam municipality. What supposed to be integrated service is now becoming separated. The reluctance of BIFZA to share authorities on Harbour Office, Custom Duty and other authorities on land sector becomes another issue.

Problems on service delivery of Free Trade Zone and Free Trade Batam could actually be solved by contract of OSS MOU which shares service delivery and gives equal position to every related institution. Picture. 3 illustrates the partnernship characteristic in investment service delivery which needs the role of Provincial Legislative Council for Provinces (DPRD) of Batam as the supervisor and mediator between BIFZA and Batam municipality. With this structure, it

Picture 3. Partnership Characteristic in Investment Service Delivery



Source: 06/MOU/HK/VIII/2006

is expected that collaboration among those three institutions could be well established in delivering service to investors. The implementation of OSS is a way to increase investment by focusing on investment, banking and finance, taxation, custom and duty, immigration, and labor.

C. Operational Interactions

In Batam’s investment development, there should be a coordination as a way to improve society’s welfare as Free Trade Zone and Free Port.

Therefore, in its implementation, it is important pay attention and reinforce coordination among organizations. The coordination’s structure had already existed since Wednesday7thDecember 2005 on problems related to cross coordination on

investment as follows: the supervision toward foreign investment (PMA) and the overlapping industrial area and to study and to provide recommendation about OSS on investment.

Institutionally, before FTZ Act was issued,based on Article 3clause (1) of PresidentialDecree No.41 Year 1973 the responsibilityto synchronize government agencies was assigned to the Supervisory Board of Industrial Area of BatamIsland. It was then supported by the issuanceofPresidential Decree of Republic Indonesia No. 7 Year 1984 (7/1984) onworking relation between Batammunicipality and the Industrial Development Authority of Batam Island.

D. Partner Characteristics

The partnership system will almost always be a risky business. The system of partnership characteristics integrated from mutual dependence and mutual benefit to each other, indirectly creates weaknesses on behavior of one partner (Das and Teng, 2001). Partner characteristics can be seen from the level of trust between partners. Partner characteristics can also be seen from the joint planning systems to the mutually agreed objectives.

A clear and comprehensive planning is a necessary preliminary to all activities. Because the organization is a means to run business, the purpose of its business needs to be clearly formulated before the organization’s establishment. (Sutarto, 2012).

Analysis toward all aspects of planning(planning/agenda) in the investment development of Batam shows that all of the officials/heads of observed provincial and city level organizations (Regional Investment Board/BPMD, Investment Board/BPM, Zone Council/DK andBIFZA),have been well-acquainted. It means there has been arelatively good relation between all aspects of planning ideas and determination of planningg/program (Head of Investment License Zone Council/ DK BBK, 2015).

After the existence of Zone Council, the

relationship between organizations in the investment development's planning in Batam is well coordinated. The Council consists of people from Provincial Government (the governor), Investment Board, Batam municipality (Mayor of Batam). The presence of people from regional government is expected to control BIFZA in a more purposeful and planned according to the regional government's desire. One important step to unify the vision and mission of the regional government and BIFZA is to assign former chief of Regional Investment Board (BPMD) of Riau Islands as vice chairman of BIFZA (Vice Secretary of Zone Council/DK BBK, 2014).

To support a well investment planning, budget planning is required as the initial step of investment development. Batam as Free Zone has differences with other free zone, where in Batam receives state budget (APBN) for its infrastructure.

The central government concerns more over Batam city than other free zones. This concern includes funding of Batam municipality which receives its funding from the provincial government, whilst BIFZA receives its funding from state budget. The central government gives special attention for infrastructure projects through relevant ministries and Batam municipality only provide assistance for BIFZA.

In terms of planning, based on the MOU 06 / MOU / HK / VIII / 2006 on the Implementation of Coordination Meeting explains that the budget planning on the development of Batam is processed through a budget planning meeting held after regional budget planning meeting and before the filing of the financial memorandum of a regional budget planning by the mayor and before the Batam Authority proposed Budget Implementation List (DIPA) and List of Proposed Plan of Activities (DURK) to central government.. Budget planning meeting become the most significant part in preparing for investment development program in

Batam (Vice Secretary of Zone Council/DK BBK, 2014).

Financial planning is divided based on duties of the agency respectively. BIFZA is responsible for building infrastructure facilities such as harbor expansion, airport expansion, construction of roads and bridges. Whilst Batam municipality has more responsibilities in building public facilities such as educational facilities. The income sources of BIFZA, derived from Non-tax State Income, do not increase significantly after the implementation of FTZ (Vice Secretary of Zone Council/DK BBK, 2014)

The long-term target of Free Trade Zone and Free Port Batam is not only to attract more foreign investments but to also distribute the development progressively to neighboring islands that are included into administrative regions of Batam. To reach for these islands, Zone Council through BIFZA and Batam municipality plans to build more bridge and public facilities on those islands.

To reach for the islands, Free Trade Zone and Free Port Batam will build some bridges, such as Batam-Tanjung Sauh project. Some cross-island projects are suggestions to develop the islands through project of shipyards investor development In consideration of foreign investment development (Head of Promotion and Investment Cooperation Riau Island Islands Province, 2015).

It needs a major of infrastructural financing to implement the development of investment projects. The infrastructural development in Free Trade Zone and Free Port Batam is periodically budgeted through the State Budget (APBN).

Financing of infrastructural development includes the construction of airports, roads and harbor. The building of those infrastructures may attract as many as investments as the desired target (Head of Investment Licence Zone Council/DK BBK, 2015)

E. Network Characteristics

The capacity of the lead agency (the Zone Council) has a function to improve relations between the two institutions, Batam municipality and BIFZA. In this aspect, a special policy from lead agency is required to synergize relation between the aforementioned institutions. Zone Council by regulatory consists of people who occupy positions as regional head/head of government, such as the Governor as Chairman and Batam's Mayor as Vice Chairman of the Zone Council. Meanwhile the level of secretary is commonly assigned to the head of Regional Investment Board. The number of significant positions held by government elements has impact on the role of BIFZA. The authority of government in Zone Council is able to influence the position of management in BIFZA. It is the right of the Zone Council to appoint the chairman and vice chairman of BIFZA (Vice Secretary of Zone Council/DK BBK, 2014).

The identification results found that partnership structure between Batam municipality and BIFZA has not been integrated yet; there are still unconfirmed partnership structures. In this aspect, the Zone Council plays an important role as a coordinator (lead agency) in investment development in Batam (Head of Investment License Zone Council/DK BBK, 2015)

V. CONCLUSION

Institutional structure in FTZ Batam generally reflects a clear and integrated relationship among national institutions, provincial and municipal government. In the governance contract, the MOUs made has not clearly regulated division of labor in the management of Free Zone and Free Trade Batam. BIFZA in implementing its main duty and function is still being based on Presidential Decree of Republic Indonesia No. 41 Year 1973 on Industrial Area of Batam Island which institutionally is organized by the Industrial Development Authority of Batam Island. While the main duty and function of

Batam municipality is based on the Act of the Republic Indonesia No. 32 Year 2004 on Regional Government explaining that regional autonomy creates dualism of authority that often causes clash and dispute over authority between those institutions even until now, which further give impact on their partnership. Below are evidents from the unoptimal division of labor:

- a. BIFZA has not submitted authority of Batam municipality in accordance with the Act on regional autonomy
- b. There is no clear division in the division of labor between foreign investment (PMA) and domestic investment (PMBN).

The analysis on Service Delivery characteristics especially on licensing services found that business licensing is delivered in one building. However, the procedures are still conducted separately in BIFZA and Batam municipality causing the fee to be higher. The establishment of OSS has not been optimal due to the multiple gates despite being in the same building. The OSS has not been fully-effective implemented referring to the Zone Council regulation. The gradual establishment of the regulation structure proves that institutional structures of FTZ has a harmonious and planned organizational design. Infrastructure is an important part of cross-organizations collaboration. The analysis resulted that the construction of roads and bridges, airport and harbor, and Investment facility & incentives of Foreign Investment (PMA) & Domestic Investment (PMDN) in Batam are the results of cross- organizations collaboration, where in BIFZA with its fund from State Budget build basic infrastructure and Batam municipality completes its facilities through Regional Budget.

As seen from its operational interaction, the cross-organization coordination is harmonious vertically but is less harmonious horizontally. The coordination meeting is scheduled only when cross-agency's problem arouses or when there is planning from the central government.

This leads to a less optimal coordination. BIFZA often works on its own accordance, including in the construction of the neighborhood unit (RT) / community association (RW) without involving Batam municipality. Analysis result on the operational interaction towards aspects of planning (agenda) in investment development of Batam shows that in all provincial and city level organizations observed (Regional Investment Board/BPMD, Investment Board/BPM, Zone Council/DK and BIFZA), have been well-acquainted. It means there has been a relatively good relation between all aspects of planning ideas and determination of planning/program. It means that all aspects of planning ideas, determination of planning/program have been relatively in a good relationship but the analysis in the field, especially at the city level shows the two agencies (BIFZA and Batam municipality) are lack of communication.

Result of analysis on the partner characteristics shows a high level of trust given by the Zone Council to its coordinated organizations. The planning of the investment development has been in accordance with the initial purpose of FTZ development. In contrary to this, level of trust from BIFZA to Batam municipality and vice versa, is low. Both institutions are still lack of trust due to their respective strong sectoral egoisms.

The analysis on the network characteristics show that lead agency/the Zone Council consists people who occupy positions as regional head / head of government, such as the Governor as Chairman and Batam's Mayor as Vice Chairman of the Zone Council. Meanwhile the level of secretary is commonly assigned to the head of Regional Investment Board. The number of significant positions held by government elements has impact on the relationship between the two agencies. Although in the actual, the relationship between the two agencies (BIFZA and Batam municipality) has not been integrated yet.

Based on the condition above, there are some suggestion as follows: 1) some agencies should implement cooperation model centered in OSS one room service, 2) should involve

Batam municipality to establish Batam dealing with the investment development, 3) the role of Zone Council should be improve well since the role of lead agency is only as coordinator and mediation among agency. therefore, if there are some problem between BIFZA and Batam municipality, Zone Council can resolve the issue and the Legislative Council does not take a part to overcome them.

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