

Research Report #4

Interregional Cooperation on Trade as Alternative Policy for Improving Regional Economic



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I. INTRODUCTION

1.1. Background

The implementation of the regional autonomy as an effort to increase a welfare society, for the last 12 years had not achieved its expected results. Some regions interpreted decentralization more at administrative level with viscous political issues and tended to override the economic decentralization aspect as an effort to improve public welfare. The weakening of the regional coordination and the emergence of egocentrism of each region drew the attention of the Local governments more away from the regional and local development issues.

The declining role of the Provincial Government as the representative of the central government resulted in continuously degrading the intensity of the regional management coordination. The role of provincial government as the coordinator of development of inter-regional area declined due to the the strengthening role of autonomy at the regency / city level. As a result, inter-regional development issues were not handled. Each government believed they could and should do everything as they wanted without the help of their neighbours. Further implications were that many potential problems in the regional developments were not dealt appropriately. Hence, it resulted in inefficient and declining quality and productivity of the local development.

In addition to the declining coordination among the areas, intensifying self-existence of each local governments and reducing economic scale constitute one of the the impacts of decentralization. The regions were divided into several smaller administrative areas. It is therefore very urgent for the local governments to work together in dealing with regional issues that involve two or more neighbouring regency and share common externality issues among themselves, such as the utilization of natural resources (the management of environmental issues) and issues of local policy as well as local trade. One of the examples in trade is that, many local governments set their own policy without facilitating a dialogue among them and they did even not try to build synergy and coordination among them in order to maintain the economy efficiency and to meet their own needs.

From the regulatory point of view, the trade bill currently being discussed in the Parliament has not yet showed government's commitment to promote and support the local trade. The bill states its goals – among others – to establish an intergrated economy, trade and territory. But none of the proposed stipulations has been reflected in it. However, it is clear that the bill is more favorable to foreign trade than domestic. It is even further clear that the bill discusses very limited domestic- related trade issue.

Looking at the background of having the bill being drafted, it is very urgent for the government to issue a regulation that will provide guarantee and its able to motivate local governments to create a unified national economy by minimizing barriers in the cross border trade both at levies (formal & informal) and licensing (deregulation) in nature. A unified economic zone will contribute to the achievement of agglomeration economies that will boost local economy.

On trade, it is very evident that some inefficiency resulted in from the levies and licenses charged by the local government that had led to negative economic impact on businesses. The findings from Local Economic Governance Study (TKED) that were conducted by KPPOD in 2011 found that 17% of the existing regulations had created problems to economic activities and most of them were related to commodity trade. The study found that 48% of businessmen admitted to pay official charges for the distributions of their goods across regions. The businessmen said that those taxes and fees as well as donations (official and unofficial) had hampered the performance of their businesses. This further confirmed the fact that the regions did not have co-operation agenda to synchronize and synergize their policies. The fact that local governments continued to issue counterproductive policies that distorted local businesses because of the application of various licenses and levies on goods entering into or departing from particular regions, which legally violated the principle of free trade, and high logistics costs had contributed to the declining competitiveness of local products and hence limited the local economic growth.

On top of these issues on business licensing and informal fee imposed on trade, we also found that the volume of the trade was relatively small compared to the efforts taken to develop this regional cooperation. The local trade also faced challenges in disproportionative information owned by and shared among them. Where the big business get more access compared to the small one, so that they can monopolize the trade. The 2011 KPPOD LEG Survey noted that 17% of businesses did not have access to market due to the limited information they had. Again, this showed the lack of government's support on the private sector development program. The program included a provision to capacity building businesses aimed at conducting series of training and education activity, provided access to information which then created access to capital, and other activities that would promote the business development process. The lack of information within the businesses, while other could have access to greater information, may

lead to unfair competition on trade. Furthermore, the fact the local economy was scaling down, at some points the regency will also faced challenges to meet their domestic needs. Hence, it is envisaged that the regions should establish cooperation on trade – through information sharing for example - among them which will result in a more effective and efficient trading.

The regional trade is one form of inter-regional cooperation. Some regency that shared similar characteristics or located in the same region had initiated this cooperation. Among them were Barlingmascakeb and Jonjok Batur in Central Java. Barlingmascakeb was formed in 2003 and consists of five regency of Banjarnegara, Purbalingga, Banyumas, Cilacap, and Kebumen. The latter was pioneer of this cooperation. They do joint trade through market auction which was regularly arranged and included larger involvement of participants. It was not limited to the merchants and buyers from the region, but also from the outside. The same practices had also been established in Jonjok Batur. Jonjok Batur consists of three regency of Lombok Barat, Lombok Tengah, and Lombok Timur. Jonjok Batur which means “helping friend” in Lombok’s language has established in 2006 and had also been participating in trade activities at provincial level through joint auction market.

The advantages of participating in the auction market that were applied in both Barlingmascakeb and Jonjok Batur provided assurance to the participants on the prices that were set in transparent way. It also helped them expand their access to markets, and improve the information sharing process among them. The scope of auction commodity market has expended to outside Central Java. The activity has been considered effective as a marketing medium by all of them more particularly by the farmers who need to expand their market access and promote their product.

1.2. Formulation of the Problem

Based on the discussion above, this study aims to answer the following questions:

1. What are the driving factors that encourage the region to initiate an inter-regional cooperation in trade?
2. How the practice of inter-regional cooperation has helped reduce trade barriers that will result in increased agglomeration economies?

1.3. The Purposes

The purpose of this study is:

1. To identify the factors that influence the regions to initiate inter-regional trade cooperations.
2. To analyze the quality of these practices on their contributions to the achievement of increased agglomeration economies.

1.4. The Benefit of the Study

It is expected the study will bring following benefits:

1. To provide inputs to local governments that are planning to participate in the inter-regional trade cooperations;
2. To serve as advocacy references needed by both business owners and the civil society to address their concerns about local development to the relevant stakeholders including the government.

1.5. Research Areas

To help the team answered the above questions, the following regency were selected for following reasons:

1. Regional Management (RM) Barlingmascakeb consists of 5 (five) regency in Central Java. They include regency of Banjarnegara, Purbalingga, Banyumas, Cilacap and Kebumen. Barlingmascakeb RM was selected because it was considered quite successful in improving the economy of its members in the regional cooperation context especially in the field of inter-regional trade. This was evident during the Period XV on Wednesday, July 15, 2009 it managed to record transactions totaling to Rp 18.764 billion (“Suara Merdeka” daily, 2009).

To further assess the quality of this inter-regional trade cooperation, regency of Purbalingga and Banyumas were selected to represent Barlingmascakeb on each member’s potential on the commodity they produced. From these two regency, the study intended to measure the results of this inter-regional cooperation among their members.

2. Regional Management (RM) Jonjok Batur consists of 3 (three) regency in the West Nusa Tenggara. The named was taken from Lombok’s language which means helping friend. They include regency of West Lombok, Timur, and Central Lombok. Jonjok Batur RM was chosen to help us produced a complete analysis and comparison of inter-regional cooperations that focused on trade cooperations through increasing the capacity of maize farmers in accessing markets and obtaining a better price. The overall objectives of this selection consideration were to obtain a comprehensive picture of the factors that influenced the implementation of inter-regional cooperations from different point of views.

In order to assess the performance of cooperations in trade initiated by Jonjok Batur in West Nusa Tenggara province, we also conducted a small study on the implementation of joint auction markets organized by the province as a form of inter-regional trade to promote joint marketing efforts.

1.6. Scope of Research

This study only examined inter-regional trade cooperations that were used to increase the scale of the local economy. The study included inter-regional cooperations in Barlingmascakeb RM and Jonjok Batur RM. To help us better analyzed the problems, field visits were conducted to the three regency that were members of the the regional cooperations. They were regency of Banyumas, Purbalingga and West Lombok. It is important to note that the study findings did not necessarily represent the general conditions of all regional cooperations across the country. However, we do hope that the findings may serve as a reference to what other regions did and assessed the tendency of this practice as well as provided input to the formulation of policy on the establishment of cooperation among the regions in Indonesia.

II. REFERENCES REVIEW

2.1. Definition, Principle and Strategic Issues of Regional Cooperation

Both theoretically and empirically, there are several prerequisites for activities / economic development to be considered to achieve its optimal level when it is done within the context of specific economics of scale and economics of scope. To achieve the level (or scale) of economic and cost efficiency, performance development, and the optimal level of wealth distribution within the decentralization policy framework, the local government first of all needs to set its optimal size for the delivery of public services and development output. The result of the study conducted by Department of Economy, Universitas Indonesia (2006) showed that the size of economic scale of sub-national government, both provincial and regency levels, in Indonesia is relatively smaller compared to its optimal size. Hence, regional cooperation may help them take advantage from economies of scales.

Inter-regional cooperation is a relationship framework for two or more regions. They all have balance and mutual position to achieve their common goal of improving people's welfare¹. Patterson (2008) in Warsono (2009)² defines the inter-regional cooperation

(intergovernmental cooperation) as an arrangement of two or more governments for accomplishing common goals, providing a service or solving a mutual problem. It implies that there are common interests that drive several local governments to jointly deliver the service or solve the problems they are facing. It is clear from above definition that cooperation reflected a common interest that encourages two or more local governments to provide joint services or solve problems together.

There are three basic elements that must exist when they build partnership: involving at least parties, interaction and common goals. The elements of two or more parties form a set of interests that influence each other that result in interaction among them to achieve their common goal. When particular interactions are intended to meet the interests of single party only, it can not be considered as a partnership. There must be a balance for each of participating local government. This cooperation should enable various parties to interact each other in a position of balance, harmony and harmonious manner so that they all can meet the common interests without being negatively affected³.

Referring to the Government Regulation 50 Year 2007, we can draw 11 principles of cooperation that must be addressed. They are efficiency, effectiveness, synergy, mutual benefit, mutual agreement, good faith, in line with the interest of national priority and territorial integrity of the Unitary Republic of Indonesia (NKRI), equal position, transparency, fairness, and legal certainty.

And to be able to successfully implement the cooperation, guiding principles are set and they are in line with the principles of good governance⁴. These include (1) Transparency, (2) accountability, (3) participatory, (4) efficiency, (5) Effectiveness, (6) consensus, and (7) Mutual benefit.

The scope of cooperation based on the urgency of having the cooperation established have been linked to a commitment to improve public service delivery, cross border, spatial issue, potential disasters and conflict handling, increasing the role of the provincial, regional proliferation poverty issues and reduction of regional disparities⁵.

In addition to the issues that have been discussed earlier, the regions also establish a trade cooperation program to enable them to address issues of local economic development, poverty alleviation and the

1. Pamudji, S.1985. Kerjasama Antar Daerah dalam rangka Pembinaan Wilayah: Suatu Tinjauan dari Segi Administrasi Negara. Jakarta: Bina Aksara
2. Warsono, Hadi, 2009, Regionalisasi Dan Manajemen Kerjasama Antar Daerah (Studi Kasus Dinamika Kerjasama Antar Daerah Yang Berdekatan di Jawa Tengah), [Disertasi] Program Doktor Ilmu Administrasi Negara, Yogyakarta, Universitas Gadjah Mada.
3. Pamudji, S. 1985.
4. Edralin, J.S. 1997. The new local governance and capacity building: A strategic approach – excerpted from Regional Development Studies, Vol. 3
5. Tarigan, Antonius. *Meningkatkan Daya Saing Wilayah*. Buletin Tata Ruang, Maret-April 2009

reduction of the disparities between regions. The quality of capacity and resources that vary from across the regions has resulted in the regional disparities and poverty (social inequality). A regional cooperation therefore is expected to increase local capacity in the use of resources in a more optimal manner and accelerate local economic development that is required to reduce poverty and improve regional disparities. This can be aimed at, among others, joint activities in marketing their product marketing and further enhancing their trade cooperation to increase the scale of their regional economy and increase its competitiveness.

2.2. The Importance of Interregional Cooperation

Being participating in the cooperation, the regional will benefit from the following:⁶

1. **Regional Conflict Management** which will serve a forum for communication and dialogue among the regional major stakeholders. The forum will help members enhance their understanding and tolerance level. Hence together they can anticipate possible conflicts between the regions.
2. **Efficiency and Standardization of Public Service.** The forum can be used to develop and implement collective action. On public service, the forum will further encourage the regency to deliver its efficiency and standardized service across regions.
3. **Economic Development.** The forum will provide opportunity to the disadvantaged regions to promote their economy. Many experiences showed that these regions could not expand due to the limited market they have.
4. **Environmental Management.** The forum will facilitate the environment management by all participating regency. An environmental disaster such as forest fires, flood or landside that occurs in one regency may also harm other neighbouring regency. The cooperation will help them identify joint solution and manage anticipated measure, which will encourage cooperation among regional environmental management is the problem together. Without such cooperation, the handling will not run a synergistic environment that is potentially causing environmental problems, not only for the region, but also for other areas that are geographically close, such as forest fires, floods, and landslides.

2.3. Institutional Model of Inter-Regional Cooperation in Indonesia (*Kerjasama Antar Daerah – KAD*)

Through the provisions of the Law no. 32 of 2004 on Local Government, the government encouraged local governments to establish regional cooperation with other local governments as well as the private sector. It aims to accelerate the local development. Article 196 of the law stated that the coordination and synergy among regions - through KAD program – is needed to help local governments handle the cross-regions affairs such as public service facilities including roads, transportation, Watershed (DAS), health, education, etc. The inter-regional cooperation will enable them to improve the efficiency and effectiveness of the available resources hence each of local governments will gain mutual benefit and profit.

Learning from “best practices” cooperation in other countries, forms of cooperation may vary from one place to another, depends on the reason behind the establishment of the forum. At larger level, we recognize the existence of Major Cities of Europe (MCE) that consists of the major cities in Europe. MCE is merely information networks (coordination forum). Another example is partnership forum in Germany which consists of large number of cities in the country including Berlin which in partnership works her neighboring regions on joint infrastructure development. Meanwhile, in Indonesia we also have some institutional models of KAD such as as Inter-Regional Cooperation Agency or *Badan Kerjasama Antar Daerah* (BKAD / BKSAD), Joint Secretariat or *Sekretariat Bersama* and Regional Management (RM). Here are some institutional models that have been practiced in Indonesia.

1) Inter-Regional Cooperation Agency or *Badan Kerjasama Antar Daerah* (BKAD/BKSAD)

The article 196 of Law No. 32 Year 2004 and chapter 24 of Government Regulations (PP) No 50 Year 2007 stipulated that in the implementation of local development, the head of local governments can work together with other regency to establish cooperation agency (BKAD). The cooperation agency referred here should not necessarily be part of their structural organization (SKPD) but the managers may come from head of related government technical agency (SKPD). Under the BKAD institutional model, each manager has duties and responsibilities that have been agreed upon that bind them. The funding of BKAD may be allocated from local budgets, profit gained and contribution from private members who also participate in the project. The focus of the cooperation is commonly associated with the provision of public services. However, from many practices, this model has not effectively worked as expected. As a bureaucrat, many of these managers are already occupied with their internal duties and responsibilities and hence they lack of commitment to focus on works required by the forum.

6. Pratikno, et.al. 2004. *Mengelola Dinamika Politik dan Sumberdaya Daerah*, Yogyakarta: PLOD Departemen Dalam Negeri.

One example of this model is BKPS Jabodetabekjur consists of Jakarta, Bogor, Depok, Tangerang, Bekasi, and Cianjur (Jabodetabekjur). BKPS Jabodetabekjur focused on provision of public service provision including environment, clean water, waste management, etc. In practice, it is more about coordinating forum rather than actual delivering the public service regardless the commitments between heads of the participating regency. Many of its decisions are considered to be very general (macro) hence the implementation is considerably challenging to implement.

2) Joint Secretary (*Sekretariat Bersama - Sekber*)

Slightly different from the BKAD institutional model, the joint Secretariat (Sekretariat Bersama) is a model of inter-regional cooperation that is managed jointly by the local government and the professionals. This model introduced the distribution of role between the government officials and professional. The first should focus on the main agenda and the latter - selected by the head of the regional members through feasibility test (fit and proper test involved) – facilitate and monitor the works of local governments. The sekber is institutionally administered by the Regional Secretary, Assistant I, Tatapraja, Governance Unit and Planning Agency. The main function of this model is to provide coordination, facilitation, mediation, monitoring and evaluation and operational implementation as already agreed upon together. It usually focus the works on the provision of basic infrastructure and product development as well as tourism (depending on local needs). The funding source is derived from grant, program activities under each of relevant SKPD, donors and profit earned from from different projects.

An example of this institutional model is Sekber Kertamantul consists of Yogyakarta, Sleman and Bantul (Kertamantul). As to date, the focus of the forum is on provision of clean water, roads, transport, drainage, wastewater and solid waste as well as spatial. In the implementation, this model also has constraints similar to BKAD model since it is largely implemented by relevant SKPD, making it less flexible in practice and at times caused distrust among them.

3) Regional Management (RM)

In comparison with the two institutional models discussed previously, RM model which was adopted from Germany was considered more appropriate and better accommodating the purpose of having inter-regional cooperation. This model involved Top Management (Head of Regency) of each of participating government, Bappeda, and relevant SKPD as well as the professionals as the executor.

Institutionally, RM structure consists of 3 components:

- » Regional Forum that consists of the members of the Regent;
- » Executive Board which consists of Bappeda; and

- » Regional Manager consists of selected professionals.

Regional Forum is treated as the owner of cooperation and therefore they are responsible to formulate policy and develop programs to be implemented as well as provide guidance to executive board. The Executive Board serves as a steering committee for the forum and responsible to translate the policy into a strategic program. They are also responsible for the internal organization in order to further strengthen inter-regional cooperation in more effectively and efficiently. The Regional Manager is a daily executive (operations) that carry out programs and activities that RM has been programmed by both regional and executive board. The funding sources of this forum may come from membership dues government and donor assistance.

The focus of RM cooperation is intended to conduct regional marketing through development of program synergy (policy) aimed at utilizing and developing the potential of each region. With the development of synergies policy implementation between regional, it is expected they can improve the efficiency and effectiveness of resource utilization. Barlingmascakeb RM model KAD in Central Java and Jonjok Batur RMLombok Island serve as an example of this model. Through the RM institutional, division of tasks and responsibilities among managers has been well incorporated in the existing structure. Each of senior officials who participated in this forum will meet to discuss potential areas of cooperation. It will be submitted to Bappeda who are members of the executive council who then formulate strategic program that has been agreed upon at the regional forums. The regional manager will execute all strategic programs that have been prepared by the Executive Board. However, the lack of coordination between the Executive Board and RM managers has eventually caused some problems at implementation level.

2.4. Auction Market as the Instrument of Joint Marketing

Shrinking of economic scale lead to inefficiencies in trading activity in the region. This conditions encourage the regions to conduct inter regional cooperation through the joint marketing. One of activity that conducted through inter regional marketing is the joint auction market. This activity has implemented in some regions including RM Barlingmascakeb and NTB Province. By joint auction market, the region has an opportunity to promote their potential product:

One form of inter-regional trade cooperation is the auction market. Auction market is a media that connects the seller / farmer producers and buyers /

traders / manufacturers directly and the price they use is set transparently and free from any pressure. According to the characteristics and needs, auction market was developed into two forms:

- a. Spot Market Auction, where the sellers directly display their commodity at the auction market. It has the advantage to reduce distribution because they can directly meet with the buyers. The two parties will have equal opportunity to agree on the price.
- b. Forward Auction Market for display only. Final transaction will only be completed later. With this auction, the seller will only provide sample of their products. It was considered as physical market since the sellers were binded to provide the items offered based on the agreement on quality, price and time delivery under purchase contract.

With this form, the final price would be determined within the set period of time. With the certainty of price, quantity and quality as well as terms of delivery, the producers could better plan their crops so they could meet the conditions set under the the forward contract.

In general, the implementation of the auction market could provide benefits to all parties involved in the following ways:

- The farmer producers will have certainty on selling schedule. This will give them opportunity to better plan their cropping and cultivation timeframework. Hence, they can concentrate on improving the quality and productivity.
- The processing industry will benefit from a guaranteed supply of raw materials that will supoprt their capacity and production plans.
- The traders/exporters will not have problem with the delivery because they have guarantee in supply.
- The bank will have more assurance to approve application for financing and lending as the potential lenders will be able to provide them with collateral from the the purchasing.

2.5. Agglomeration Economies

Cooperation is believed to be an effective way of taking advantage from scales of economies. For example, purchases or joint-purchase for larger volume will be more efficient when it is done as one package. It will reduce the overhead costs compare to a smaller package which probably will come with the same amount of operating costcosts. Another example is investment sharing to provide facilities

and equipment, or the appointment of specialists and administrators will certainly guarantee a more satisfactory outcome. Cooperation can also improve quality of service at cheaper price. The cost of expensive service facilities such as recreation centers, adult education, transportation, etc can be shared and enjoyed together. Thus cooperation among areas that are jointly agreed upon will help them achieve a more efficient and better quality of service.

Within the context of economic geography, the concept of agglomeration is related to the spatial concentration of population and economic activities⁷. As proposed by Montgomery in Kuncoro⁸, they said an agglomeration is a spatial concentration of economic activity in urban areas but closed to each others (economies of proximity). In many cases, they were sometimes associated with determined clusters of firms, workers and consumers within particular spatial planning.

The advantages of having spatial concentration as a result of economies of scale are defined as agglomeration economies⁹. The meaning of agglomeration economies may also be associated with geographic proximity of the economic activities. The agglomeration economy is a form of positive externalities in production that has led to the economic growth. Hence, the agglomeration economy can also be defined as a reduction to production costs because the economic activities are located in the same place. This idea is developed based on conceptual contribution of Alfred Marshall who created the term "localized industry" to replace the term of agglomeration economies¹⁰.

The economist, Hoover, further classified economic agglomeration into three 3 types (Isard, 1979): the large scale of economy which was defined as corporate profits because the growing scale of the company's production at particular location; the localization of economy which provided benefits for all companies in the same industry located in the same areas and; the urbanization of econom which gives an advantage to all industries located in the same area as a consequence of the growing economies (population, income, output or prosperity).

In contrast, according to other economist, O'Sullivan¹¹, agglomeration economies were categorized into two different types: localization of economy and urbanization of economy. He meant to explain that the agglomeration economies are positive externalities because it helps reduce their internal production cost due to increasing production cost on of other

7. Malmberg A. and Maskell P. 2001. Toward and Explanation of Industry Agglomeration and Regional Spezialitation. European Planning Studies, Vol.5, P. 25-41.

8. Kuncoro, M. 2002. Analisis Spasial dan Regional, Studi Aglomerasi dan Kluster Industri Indonesia. UPP AMP YKPN. Yogyakarta

9. Mills, Edwin and Bruce W. 1989. Urban Economic. Harper Collin. 4th edition.

10. Bradley, Rebecca and Gans, Joshua. 1996. Growth in Australia Cities, the Economic Recors, the Economic Society of Australia, Vol.74.

11..O' Sullivan, Arthur, 1996. Urban Economic, Third Edition, Irwin, United States of America.

companies.

On trade, agglomeration could provide benefits to the merchants and the buyers (consumers). With the centralization of trade in one place, there would be efficiency of costs for both consumer and seller at time when they accessed the market. With this convergence, consumers would benefit from a rich assortment of products, with a variety of quality, allowing the consumers to choose for better product. For the sellers, the concentration would also be advantageous to them because they would meet a lot of buyers, thus they gained from the efficiency in cost of transporting goods.

III. LOGICAL FRAMEWORK

The unfit of the policy design of autonomy caused some problem in the implementation of regional autonomy in Indonesia especially in the policy framework that will be implemented in the regions. The problem had indirectly reduced the capacity of local economic development as the foundation of development. With regional autonomy, the potential of natural and human resources in the region had been “distributed” across regency / cities. In addition, self-centered regionalism had also resulted in the emergence of the territories of smaller economies. This had implications on phasing out the regional economic development and increased inefficiency. One attempt to overcome this problem was to work with other regency that were more particularly closed locations to each others. The cooperation between regions was started with a common need, a regional comparative advantage, proximity and socio-cultural influence as well as the lack of infrastructure. The challenges, included such as uncertainty rules and policies, institutional structures, funding agencies and local self-centered, were always there. But it was also evident that the partnership could work well if

all the partnership members really felt benefits from the cooperations.

Trade was one of the very crucial issues under inter-regional cooperation. This was experienced by inter-regional cooperation in Barlingmascakeb and Jonjok Batur RMs. The trade cooperation therefore existed to provide access to both producers and consumers to trade. Furthermore, the trade cooperation could contribute to healthy competition and efficient logistics costs since they were borned by all regency. In the end, the program could improve the scale of economy of the participating regency. The following figure explains the logical framework of this study.

IV. RESEARCH METHOD

4.1. Research Approach

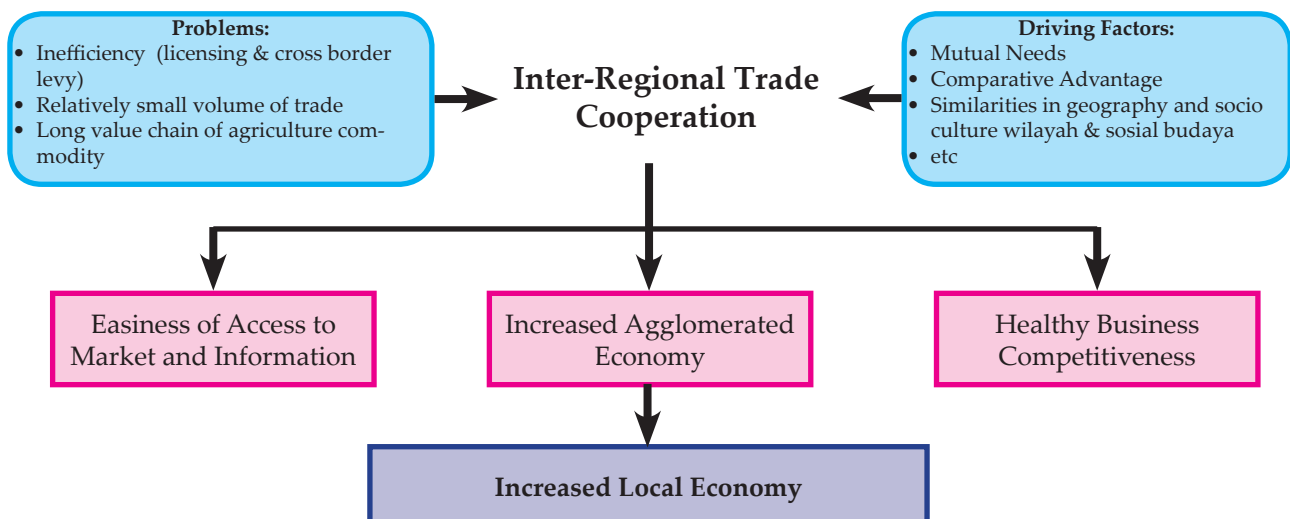
To find out more about the inter-regional trade cooperation, we conducted a qualitative study through in-depth interviews with relevant stakeholders in two selected locations: KAD Barlingmascakeb RM and Jonjok Batur RM. A further analysis on cooperation programs between regions was also carried out to obtain a clearer picture of the role of local government in the inter-regional cooperation. Finally, the study conducted a regulatory review of several national regulations.

4.2. Type and Source of Data

The data used in this study consists of primary and secondary data.

- a. **Primary Data:** to be collected through in-depth interview with following resource persons:
 - 1) Government
 - » Office of Industry, Trade and Cooperative in Regency of Kebumen, Purbalingga and

Figure 1. Logical Framework



- West Lombok.
 - » The Planning Agency in Regency of Kebumen, Purbalingga and West Lombok.
- 2) Regional Management
 - » The Executive Director of Barlingmascakeb and Jonjok Batur RMs.
- 3) Business Operators
 - » Commodity Supplier
 - » Association of Traditional Vendors

b. Secondary Data:

1. Data on trade through auction market;
2. Data of Gross Domestic Regional Product (PDRB), and Data of local revenue (APBD);
3. Local regulations on regional cooperation in Barlingmascakeb and Jonjok Batur; etc.

V. THE FINDINGS

5.1. Results of Literature Overview of Factors Promoting Inter-Regional Cooperation

To support the realization of development efforts in particular an area, a regency needed a support from other regency in order to optimize the use of existing resources. The support from other areas could be pursued through program synergy and coordination carried out intensively with the supports of others. The coordination could be intensively aimed at an inter-regional cooperation forum either formally institutionalized by establishing joint agreements through a “pact of cooperation” or other mechanisms which were customized to the mutual needs of the regions.

Among the institutional models practiced in Indonesia, the study further discussed cooperation on trade-related practices that had been implemented by Barlingmascakeb and Jonjok Batur RMs. Here are their profiles.

1. Barlingmascakeb RM

Barlingmascakeb is an inter-regional cooperation covering regency of Banjarnegara, Purbalingga, Banyumas, Cilacap and Kebumen. This forum was adopted through the signing of the Joint Decree (SKB), Decree # No.130 A Year 2003 on June 28, 2003 on the Establishment of Regional Cooperation Management (RM) of Barlingmascakeb which was signed by the Regents of Banjarnegara, Purbalingga, Banyumas, Cilacap and Kebumen.

The Background

Barlingmascakeb was initiated by the Regent of Purbalingga who saw the investment constraints that discouraged investors to come invest while at the same time there were approximately 50 companies located in Barlingmascakeb had done export to

various countries in Asia, America and Europe. The investment constraints, complaints addressed by investors, lack of infrastructure, lack of Minimum Service Standards on Licensing, barriers to the movement of goods and services between regions and inconsistent regulatory framework between regions, included business licenses, were among the issues he addressed when the forum was initiated. It has been focused on regional marketing and aimed to improve the bargaining position of the region through the improvement of their regency. This was done with the help of one regency complement the shortages that other regency had available natural resources and human resources needs. KAD was also used to promote their excellent products.

The Choice of Institutional Model

The selection of RM format was intended to ensure all commitments required from the participating regency were well-met and therefore the programs or activities that had been agreed together could be implemented and later gave benefits to the community. They also considered that to be effective it had to be operated by the professional who had experience and extensive business network. This was very important to facilitate the promotion and marketing activities on trade, investment and tourism. The management was delegated to professional to allow them to develop variety of innovations in the implementation without being hindered by bureaucratic barriers.

As explained in the previous section, the organizational structure of Barlingmascakeb RM consisted of three components: the Regional Forum, the Executive Board and the Regional Manager. Each component had a duty and responsibility. To carry out daily operations and management, the forum appointed a regional manager. RM manager was assisted by a team of experts, consisting of economic analyst, legal analyst, and regulatory and marketing analyst. The organizational structure of Barlingmascakeb RM can be seen in Figure 2 beside.

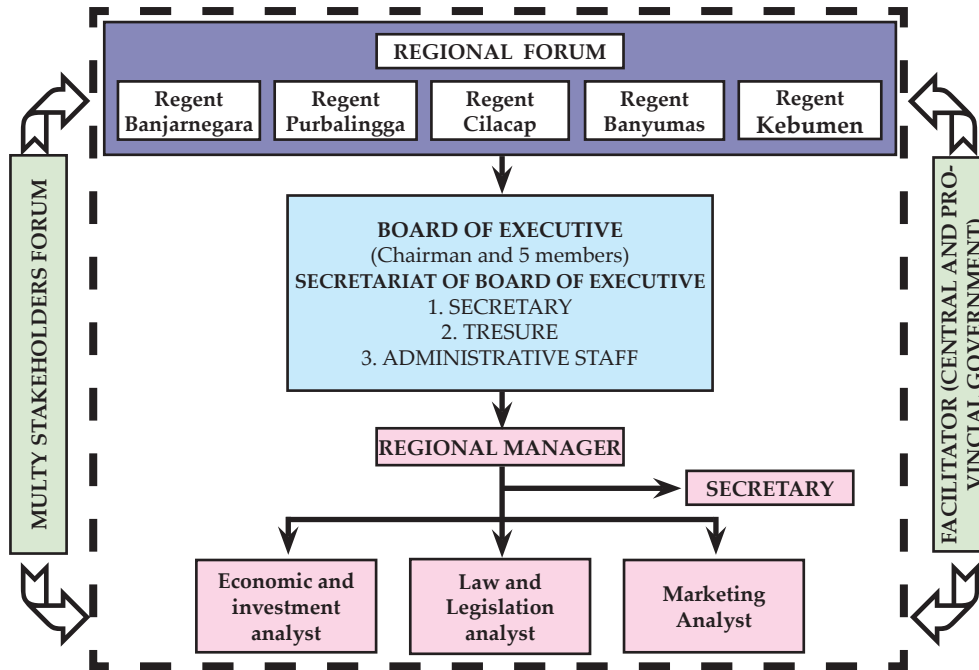
Funding Source

The main source of funding was derived from cost-sharing from the members which mainly came from local budget under “grant” post. Each regency contributed Rp 100.00 million in 2004 and Rp 150.00 million in the following years. Later, it was found out that this was considered illegal by ministerial decree on Grants and Social Assistance. Consequently, in 2011 it was decided to suspend operations of Barlingmascakeb RM and suggested a need to restructure the organization in order to find best solutions related to the funding of future activities.

Scope of Cooperation

The scope of the cooperation of Barlingmascakeb RM includes the synergized planning and implementation of regional development particularly in their borders as well as synergized utilization,

Figure 2. Organizational Structure of the Barlingmascakeb RM



promotion and marketing the potential of the region. The activities include forward auction market, investment promotion, and tourism promotion through the development of integrated tourism. Barlingmascakeb RM has gained several achievement including the establishment of institutional working group (WG) to build the public network such as trade and investment, agriculture, tourism, infrastructure working groups. Through agro commodities market forward auctions, the trade has recorded as much as 19 times number of transactions amounting to Rp 321.00 billion. Through the business meeting, the RM has expanded of the SMEs’ access to market.

At implementation level, inter-regional cooperation also face challenges such as a cumbersome and countproductive central regulations related grants to finance local RM, lack of commitment by local leaders and the lack of coordination between the RM, the Executive Board as well as with related local government offices. All of these have an impact on less optimum empowerment aactivities for farmers and entrepreneurs as well as direct beneficiaries of the KAD.

2. Jonjok Batur RM

Jonjok Batur RM is an institution of regional cooperation initiated by Regency of West Lombok, Central Lombok and East Lombok. Later on, regency of North Lombok joined-in in 2012. The forum was legalized through the Joint Decree No. 07 Year 2006 on Establishment of Inter Regional Cooperation Management of West Lombok, Central Lombok and East Lombok.

The Background

The forum was initiated by the Regional Development and Planning Board (Bappeda) of the three initiating regions. They all acknowledged imbalance competition in economic development in these regency. The imbalance competition might be due to the lack of coordination among them while eventually they all possess the same potential. Another reason behind the formation of this co-operation is the fact that all of them did not have adequate infrastructure. Infrastructure constraints are often claimed to be the reason for the lack of investment particularly on their leading sector (agriculture and tourism). A dialogue was then held in 2005 and attended by their regents. They all had mutual agreement to establish inter-regional cooperation.

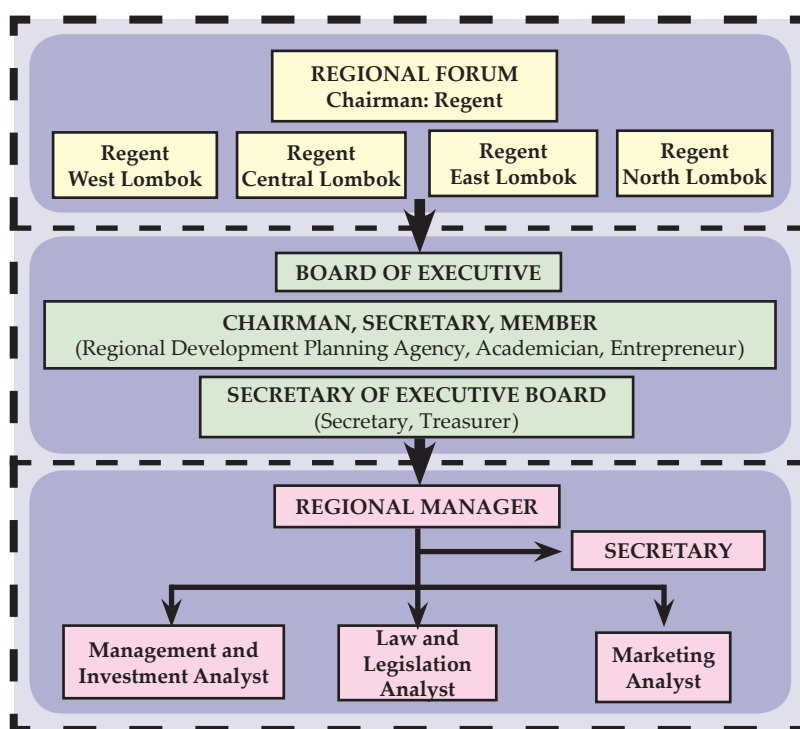
The Choice of Institutional Model

Like the Barlingmascakeb RM, the organizational structure of the Jonjok Batur RM also consists of three components: the regional forum, the executive board and regional manager. A manager, assisted by a team doing investment and management analysis, legal and regulatory analysis and marketing analysis, is in charge of the RM daily operation. Here is the organizational structure of the Jonjok Batur RM.

Funding Source

The sources of funding of this cooperation institution were derived from fund sharing of each district, funding supports/assistances from the central and the provincial governments and finance support from other parties [Private Institutions/Non-Governmental Organizations – NGO]. Fund Sharing was carried out at the beginning of the establishment of the Jonjok Batur RM. Subsequently, funding of this RM was

Figure 3. Organizational Structure of the Jonjok Batur RM



Source: Regional Development and Planning Board of Central Lombok

supported by various donors, the Central Government (the Ministry of the Development of the Left-Behind Areas, the Ministry of Cooperative), the Government of the West Nusa Tenggara (NTB) and other parties.

Scope of Cooperation

The scope of cooperation Jonjok Batur RM covers cooperation in infrastructure, development and commodity trading, bordering villages handling and other issues as they emerged during the implementation of the cooperation. They also did activities such as promoting their prominent products to investors, tourism, and empowered tobacco farmers.

During its implementation, this form of inter-regional cooperation also faced challenges such as lack of understanding of the regents resulted in low level of commitment. There was also lack of coordination between the RM and the Regional Forum, as well as very strong political overtone in the implementation of RM. Nevertheless, it also made some progressive output such as an expanding access to tobacco market for the farmers in Lombok, maize farming in Central Lombok was planted jointly, and the formation of Lombok Tobacco Growers Association or *Himpunan Petani Tembakau Lombok* (Hipetal).

The following section discusses the overview as well as the findings from the field visits conducted to these two institutions: Barlingmascakeb RM and Jonjok Batur RM.

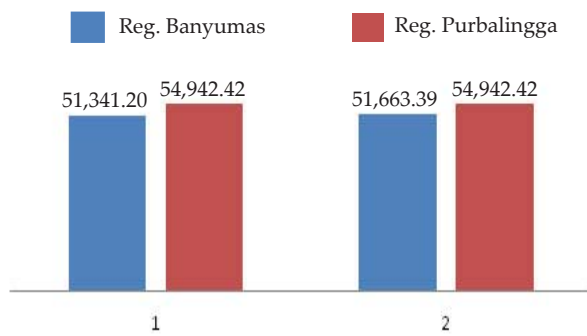
1. KAD is Intended to Fulfill the Market Volume

In order to minimize the obstacles and address the challenges that one particular regency has, it has to build a cooperation with other regency to enable it extend its economic scale. One example, Barlingmascakeb set up a pilot project to meet the monthly demand from PT. Suba Indah for 5,000 tons maize hybrid. The pilot considered the specification that is set by the buyer. The pilot demonstration was jointly led by the RM and the Agricultural office from each member. Having the pilot undertaken under synergized utilization of the resources, followed by series of joint promotion and marketing the potential of the region, they then can meet the volume demand from the market more effectively and efficiently.

The Figure 4 below presents another example of how the cooperation has helped the members overcome the gap between the demand and the regional production levels. From Barlingmascakeb RM, it is evident that sugar from Cilongok in regency of Banyumas has become prominent commodity. However, the volume of its sugar production can not meet the market demand. The forum facilitated and coordinated the production of sugar from other places in participating regency. They label it with "Sugar Cilongok" for all sugar produced in all regency which Barlingmascakeb. From this exercise, it shows that all members contribute to supply the required volume, involve in the production process and recycle the unused materials such as coconut fiber to make local handicrafts.

From the above illustration, we learn that all participating regency have gained mutual benefit from this cooperation. For Banyumas, it helps to

Figure 4. Sugar Production Data in Banyumas and Purbalingga in 2009 and 2010 (in ton)



Source: Bureau of Statistics of Banyumas and Purbalingga

increase volume of production, product marketing conducted efficiently, reduced production cost, expansion of access to market, and for Purbalingga, it can increase employment creation because many new business are established and to an increased income.

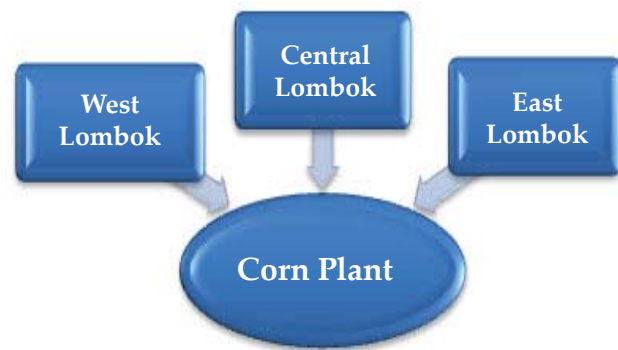
2. KAD is Intended to Create Agglomeration Economies Aimed at Joint Marketing

One of the implications of the implementation of decentralization, was the regions were divided into several administrative areas with different policies. So, in the efforts to accelerate development in the areas, various joint efforts with other areas in order to boost the regional economic scale. o increase economic scale of the areas could be made through joint marketing activities of the products produced by each area so as to create efficiency and effectiveness in trading activities of the local areas.

This is shown in the findings of the field study of the Jonjok Batur RM, the province of NTB, which identifies that one of the motives of the regions to conduct inter-regional cooperation was the limitation of the local infrastructures to provide a means of processing and storage for the local products, in this case the corn plant to accommodate agricultural products. Some constraints faced by the farmers in the area are generally limited market access, low bargaining power of farmers, and the absence of strong farmer institutional in the effort to empower farmers to increase local value-added products. Some constraints reduce farmers’ income and make the low value of the local products. Eventually, the limitations that occurred drove all the three regions to conduct cooperation to build a joint plant to the manufacture corns.

By building joint corn processing plant, farmers can directly sell their products to processing plants without going through middlemen. Then, the supply chain became increasingly shorter and the prices received by farmers were better. In addition, the building of joint corn processing plant constitutes the form of agglomeration economies that can encourage

Figure 5. Establishment of Joint Corn Plant



the creation of trade efficiency. The presence of the corn plant has led to the concentration of economic activities in a particular place and is able to improve the marketing of corn products and the creation of value-added corn products. The impact of the corn plant as a means of concentration of economic activities are the growing of production scale of semi-finished corn processing in Lombok and increase trading activity in the area.

5.2. KAD Practice Picture of Trade in Local Regions

5.2.1. Forward Auction Market as a Marketing Instrument of Superior Products of Member of Local Region

Based on the findings of the study, it is noted that one of the factors that motivates local regions to undertake inter-regional cooperation is the effort to minimization the bottleneck in the field of trade in terms of the small volume of trade, expansion of market access for farmers as well as efforts to increase farmers’ income.

With the inter-regional cooperation in trade, trade barriers can be minimized through the synergy and coordination of regional development policy among the related regions. Based on the field research in RM Jonjok Batur, the synergy and coordination of regional development program through the joint corn plant can minimize the operational cost of the businesses, and the supply chain became shorter so that the trading activity become more efficient. Other findings during the study showed, inter-regional cooperation in the field of trade, can be implemented through joint marketing activities by conducting joint market auction, for instance joint auction market Barlingmascakeb RM and provincial government of West Nusa Tenggara (Nusa Tenggara Barat - NTB).

Generally, there is no difference between the market auction conducted by the Barlingmascakeb RM and the West Nusa Tenggara (Nusa Tenggara Barat - NTB)

Province either in the actors of the organizers or in the mechanism of the implementation of the auction market. Shown in Figure 6 below is the mechanism of the implementation of the auction market.

From the side of human resources of the organizers, there was a mechanism of separation of duties between the RM as the daily executor and the related agencies from the member regions. The RM as the daily executor was in charge of preparing everything related to the process of the auction market, especially in identifying and facilitating prospective buyers who came from various regions in Indonesia. While the identification of potential vendors was the responsibility of the related Local Government Working Unit [the related SKPD], in this case *Disperindag*. Basically, with the existence of such delegations would make it easier for each party to focus on each duties and responsibilities, but in its implementation in the field, the lack of coordination between the RM and the related SKPD in identifying potential buyers and traders caused incompatibility criteria between prospective buyers invited by the RM to and the needs of the traders brought by the related SKPD.

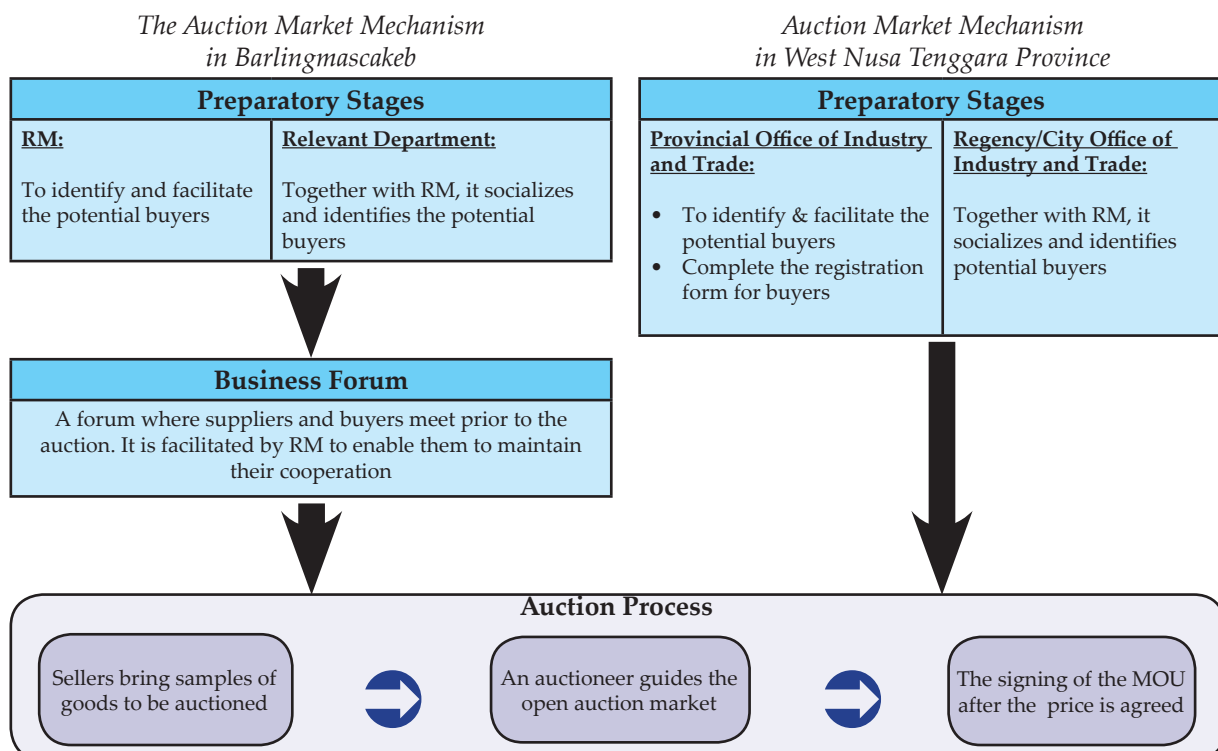
Not much different from the implementation of the auction market conducted by the Barlingmascakeb the RM, market auction conducted by the Province was wholly conducted by the Provincial Office of Industry and Trade assisted by each SKPD region, especially in identifying prospective sellers and buyers who would be involved in the auction market. In this case, the Jonjok Batur RM was involved in the

process of forward auction markets due to the limited resources of both in funding and human resources, and that the Jonjok Batur RM only made proposal of this auction market activities and simultaneously presented the implementation to the Province.

Seen from the financing side, the implementation of market auction conducted by the Barlingmascakeb RM whose funds came from membership fees through grant funds of APBD of each member region, and assistance from *Bappepti (Ministry of Commerce)*. While the province auction market, the source of funding came from the provincial APBD funding and assistance from Bappepti. Based on the funding structure, it clear that implementation of market auction conducted by the Province had more stable source of financing for the funds were already allocated in the provincial APBD and the funds were deconcentration of the Ministry of Trade, while funding from the RM was unstable because it was not allocated in the APBD of each region member on a regular basis but came from the post of grants currently constrained by No. Permendagri. 32 of 2011 on the use of grant funds.

Seen from the side of authority, the implementation of market auction conducted by the province to had more authority to impose sanctions on parties who were in default of the purchase agreement, while the RM had functions as a mediator and did not have full authority to impose sanctions. So when defaults occurred, the RM could not take further action. From the view of authority, it is clear that as a representative of the central government, province had strong role

Figure 6. Forward Auction Market Mechanism facilitated by Regional Management



in making cross-regional coordination of the Regency / City.

Seen from the mechanism of its implementation, Figure. 6 above show that although the organizers of the auction markets are different, but the mechanism of its implementation is almost the same. The process of conducting the auction market is guided by an auctioneer who will guide the course of the auction market until the agreed price is achieved. After the price and quantity have been agreed, the MoUs between sellers with buyers are signed. A bit difference from the process of auction market conducted by Barlingmascakeb RM is that Barlingmascakeb RM conducts business meeting one day prior to the auction market is conducted. Substantially, this business meeting forum constitutes good practices undertaken by RM Barlingmascakeb, where the business meeting is a forum discussion media between sellers and buyers to discuss problems as well as to find solutions with trade-related activities are conducted. But unfortunately, the implementation in the field, the existence of this forum was used more to create closed agreement between the traders and the buyers before the implementation of an open auction the next day. This practice becomes one of the weaknesses of the joint auction market, so that in the future it is necessary to strengthen the auction market institution in order to minimize the bottleneck

5.2.2. Development of Transaction Value of Forward Auctions Market the Barlingmascakeb RM

Institutionally, the unit responsible for the auction market of Barlingmascakeb RM is the Office of Industry and Trade (Industrial and Trade) of the Central Java Province. At the beginning of its implementation, Barlingmascakeb auction market received assistance from the Industrial and Trade of Central Java as much as 247 million for the implementation of 2 times auction markets. Funds were withdrawn after the report on such activities was submitted to the Industrial and Trade of Central Java Province. In addition to assistance in the form of funding, Industrial and Trade Central Java Province also provided assistance to strengthen market auction institution conducted by Barlingmascakeb RM. In the following years, after Barlingmascakeb is considered to have been able to carry out its activities independently, funding the implementation of the forward auction market depends on dues of its member regions. In implementation of the forward auction market, the auction committee was formed covering the field of commodities consisting of forestry and plantations and field of auction and membership consists of representatives from the Industrial and Trade of all Barlingmascakeb Regencies.

The existence of the auction committee is helpful in guiding the auction process. Through an auction mechanism guided the auctioneer, where the price

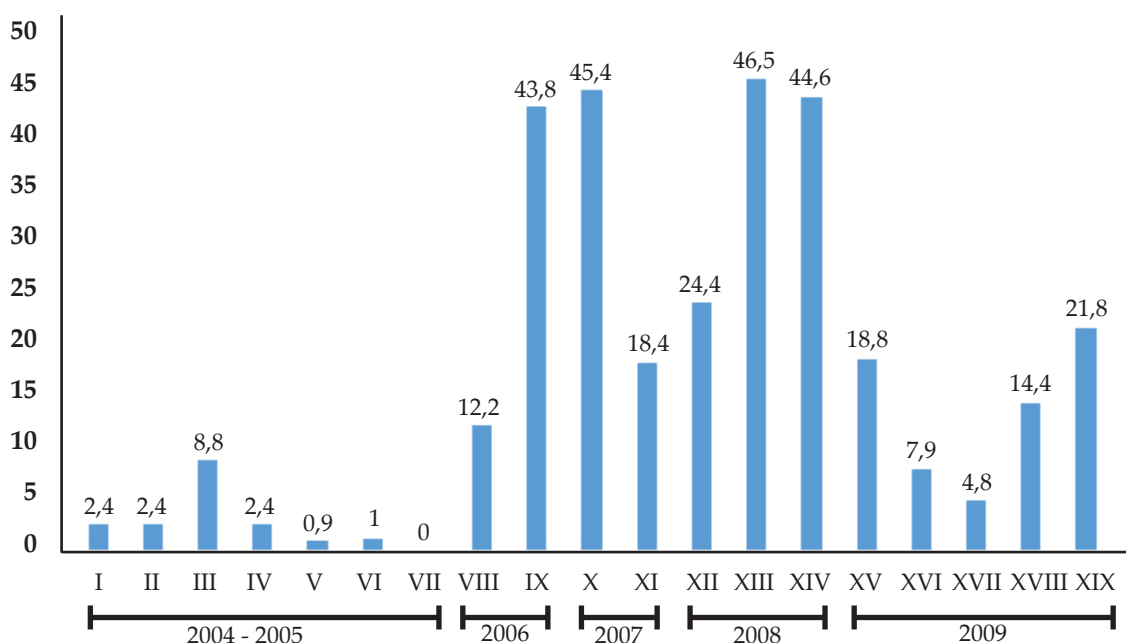
agreement is done openly by traders from various areas will be able to push the price formation process transparently and open and that the optimal prices are achieved. The creation of transparency of price formation will be able to minimize practices of unfair competition due to mastery of prices and commodity by one particular party.

Agro commodity market auction conducted by the Barlingmascakeb RM from 2004 aims to increase the volume of trade between sellers and buyers in Barlingmascakeb region with buyers from within and outside the Barlingmascakeb region, so as to trigger the regional economy. In addition, forward auction market also provides special benefits to farmers with transparency in the formation of fair and efficient price as well as expansion of market access. For buyers, this activity also provides the guarantee of commodity supply required by the buyers. With such big benefits resulted in, Barlingmascakeb RM routinely conducts forward auction market activity with RM as the organizer. RM and the related KPD conduct forward auction market almost 2-3 x a year taking places movable around member region of Barlingmascakeb. One of the purposes is to promote the related region.

Shown in the Figure 7 below, agro commodity auction market had been conducted 19 x by the Barlingmascakeb RM since 2004 until 2009, realizing transaction of 321 billionaires. Transaction value for the periods of I-VII (2004-2005) was still small, achieving only +/- Rp 18 billionaires. That is because the leadership is still in the transition period (improvement of the RM organizational structure), limited socialization activities carried out by the organizers that the numbers of sellers and buyers involved were still small, and trading volume being traded was still small. But in subsequent periods, the implementation of the auction market continued to develop in an effort to help farmers promoting commodities produced.

Substantially, the basic idea of the development of auction markets is to empower farmers through joint marketing activities of agricultural commodities produced. Therefore, in the future the implementation of auction markets should involve more farmers directly as a participants. Education and socialization of the importance of forward auction market of agro commodities as hedging efforts and avoid the risk of falling prices during the harvest season should be made to farmers. This education, in addition to the one implemented by the government (related agencies), should also be carried out by the private sectors organizing auction market. In the future, is also expected the farmers directly participate the auction market, not just traders and brokers. Thus, the prices established in the auction market price constitute point of equilibrium resulted in by perfect market mechanism that is not vulnerable to price

Figure 7. The Progress of Transaction Volume in Forward Auction Market in Barlingmascakeb during the Periods of I-XIX



Source: the Barlingmascakeb RM , processed

fluctuations in the future.

In the effort to attract more buyers and traders to engage in forward auction market, the RM and the related Local Government Working Unit (SKPD) disseminate the benefits of the auction market. In addition, the RM attended auction market undertaken by the Central Java Province, located in Soropadan, Temanggung regencys, in order to identify potential buyers for Barlingmascakeb region.

From 2006, following the RM management restructure and more mature preparation of the implementation from the side of means infrastructure and human resources of the organizers, transaction values increase fluctuatively although it decreased in the year 2008-2009. Shown in the graph below, a significant increase occurred in the period of IX (2008) with a transaction value of 45.4 billionaires. The increase of this transaction value shows the more increasing volume of trade in the member regions of Barlingmascakeb. With the increase in trading volume, it can be interpreted there is an increase in trading activity in the member regions of Barlingmascakeb. The more variety of traders and buyers involved in the auction market reflects the increasing numbers of products being traded both in terms of volume and quality of the product and that prospective buyers will have the guarantee of supply of required commodities with the desired quality and the price formed would be optimal. Following is the development of forward auction transactions of Barlingmascakeb RM.

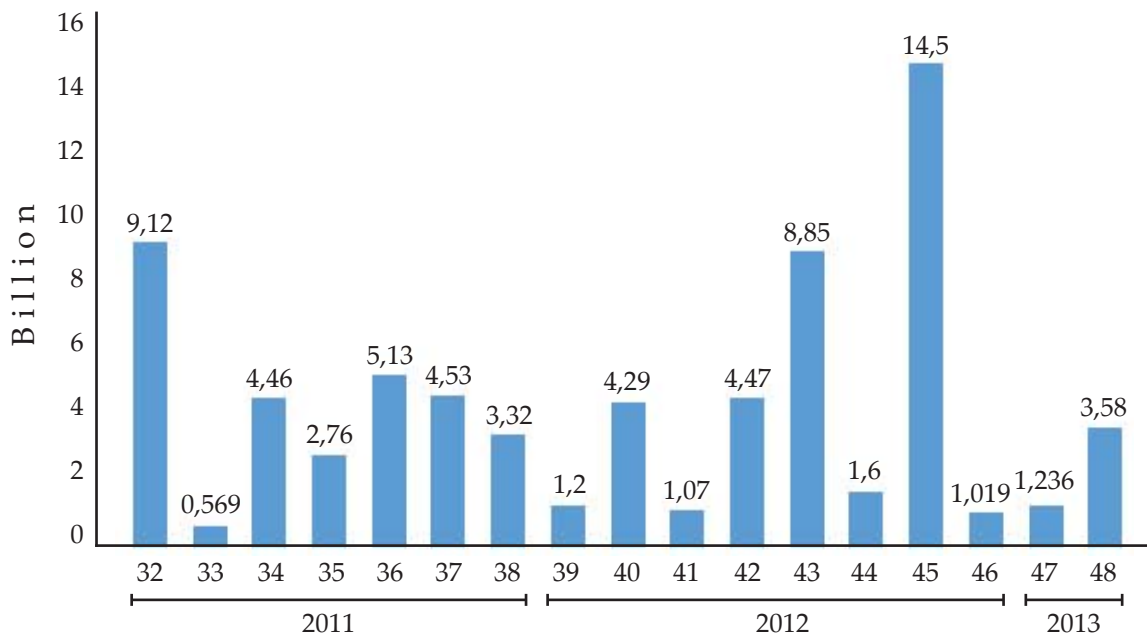
Shown in Figure 7 above, after the value transactions increased significantly in the period of XIII-XIV, but the transaction value decreased in the year of 2009. The decreased caused by the schedule of the auction market didn't match with the harvest time, so that the volume of trade were small. Besides, during the year of 2009, the auction market was conducted more intensively than the previous, so that the volume of commodities has not been collected optimally. From this problem, we took the lesson that to optimize the implementation of joint auction market system, we have to strengthening the organization of auction market including the managerial system, the capacity of the implementor and the policy framework.

5.2.3. The Progress of Transaction Value of Auction Market in West Nusa Tenggara (Nusa Tenggara Barat) Province

Since its establishment in 2005, the market auction for agrocommodity has been held 48 times. This auction is intended to provide the farmers with incentive to produce superior products and also expand their access to market. Held every 3 months, the Auction market is also intended to achieve trading efficiency aimed at shortening the marketing chain and setting the optimum price that can serve as a price reference.

The figure 8 below confirms the value of transaction is considerably fluctuative. An increase in the transaction value was only happening at the very late of the calendar year and stopped at the beginning of the following year. This implies a season for harvest

Figure 8. Transaction Value of Forward Auction Market West Nusa Tenggara Province: 2011-2013



Source: Office of Industry and Trade of West Nusa Tenggara Province

and hence the production volume is increased. Soon after that, the value of transactions started to decline but slowly increase again. Both farmers and buyers at the auction market eventually benefit from this cycle. The farmers can better plan on planting their crops. Hence the price of their product is well appreciated. For the buyers, they will have certainty on getting their desired commodity with acceptable quality and agreed quantity. Last but not least, the cycle helps buyers to plan their internal inventory and manage the demand they must meet and maintain competitive price. Following is the progress on the transaction value of Auction Market in NTB Province.

In the effort to optimize the implementation of auction markets, the strengthening coordination between the related to SKPDs and the organizers of the auction market become very important. Good coordination between the two is required more particularly in setting the standards quality and quality of the products traded, provision of guarantee to the bidders for the risk of price fluctuations, as well as providing a clear and decisive sanction to the seller or the buyer that violated the sale contract agreed. Strict regulations governing these three aspects would make the auction market as a safe-marketing tools for sellers and buyers. With good coordination among the various related organizing parties, at least it could minimize the constraints that had occurred in the implementation of the forward auction market.

5.2.4. The Weaknesses of the Forward Auction Market

As an effort to increase the income of farmers and the promotion of superior products, forward auction market mechanism was one of the alternative policies

that could accelerate regional economic growth and have been considered as an effective way to develop inter-regional trade cooperation. However, since its implementation in 2004, the implementation of this forward auction market still develops some weaknesses that could reduce the effectiveness and efficiency of trading activities undertaken.

All these weaknesses became major factors that caused the failure of transactions carried in the forward auction market. This was reflected by the level of realization of transactions that did not reach 100 per cent of the total value of the transaction being target. These weaknesses are all found in both Barlingmascakeb RM and NTB Forward Auction Market.

The absence of the provision governing the criteria for prospective traders and buyers included in the auction market led to the lack of effective implementation of the auction market. From the visit to Barlingmascakeb, the lack of coordination between the RM in identifying prospective buyers and the related SKPD as the party responsible for identifying prospective traders caused discrepancies among traders who were invited to the buyers who came and that the transactions were not running optimally. RM looked less selective in selecting buyers who came. Buyers invited tend to be the same persons (less varied). Some of them were even realtor, not potential buyers, resulting in transaction failures due to differences in the quality of a product. Due to the absence of strict rules related to the criteria in the process of identifying the buyers and trader also had an impact on the price formation process that was less optimal. The auction mechanism should also be able to establish prices at the point of equilibrium that could be used later as a reference

price by other markets. The weakness constituted one of the reasons that made traders reluctant to get involved in the auction market. Based on interviews with Disperindag of Barlingmascakeb party member, traders were reluctant to get involved in the auction market because the prices established in the auction market were higher than the prices on the spot market.

The mechanisms of direct face to face auction system caused inefficient implementation of inter-regional cooperation practices in trade. Facing the fast growing of information and technology by this time, the auction market system should take this advantage by implementing the auction market electronic system. Through the electronic system, the auction market process will be more efficient. In the implementation of forward auction market conducted by both RM and the province, the organizers facilitated prospective buyers and traders participating in the auction market. Accommodation and transport expenses spent by the organizers became very high. Based on the findings of the study, the implementation of the NTB auction market, the costs incurred by the organizers for each implementation reached 25 million/activity. For the province, the cost of implementation was not a constraint because the financing post had been included in the budget of Provincial APBD. Different practice was shown by Barlingmascakeb RM, where the costs of conducting the auction market were funded by contributions of members from the post grant of each region.

Dependency of funding of the auction market activity on the APBD funds threatened the sustainability of implementation of the auction markets. Unlike the NTB Province auction market whose sources of funding had been routinely allocated in Province APBD, the implementation of the Barlingmascakeb forward market auction was sourced from funds derived from membership dues of post grant. In line with the issuance of the new Permendagri No.32 of 2011 concerning grants and social assistance, funding source mechanisms derived from the grant could not be used again to finance the auction market. The existence of such Permendagri did no longer allow the grant funds used that exceeded administrative activities of the related regions. Constraints in the funding source caused ineffectiveness on the on going activities of the Barlingmascakeb auction market and other RM activities.

Transaction failure either due to fail to deliver or fail to pay indicated the ineffectiveness of the sale contract agreed in the forward auction market. During the implementation of the Barlingmascakeb auction market it was considered good enough that reached 60-70% realized value, however, there were still transaction failures caused by the ineffectiveness of the Memorandum of Understanding signed by both parties. RM acted only as a mediator and facilitator, however, it did not have greater authority

in determining sanctions for the parties who were in default. In terms of the application of sanctions, the auction market conducted by the provinces had high authority as the representative of the central government to set tougher sanctions on persons who were in default, for example, through the establishment of the blacklist so that related parties could no longer participate in the auction markets all over Indonesia.

5.3. Observation on the Regulatory Review Results that Becomes Law Umbrella of Inter-Regional Cooperation Implementation in Indonesia

In an effort to improve efficiency and effectiveness in local governance and efforts to accelerate economic development in the regions, the government encouraged the regions to carry out cooperation in particular in the provision of local public services. The government support was reflected by some regulations issued either by the relevant ministries or through local government regulations as the supreme law umbrella in the administration of regional governance. However, the issuance of Permendagri. No. 32 of 2012 on social assistance grants became a bottleneck in the sustainability of KAD program that had been running well so far (over the past years).

The government encourages the regions to conduct inter-regional cooperation in order to improve efficiency and effectiveness of governance. Main provisions on the administration of Local Government mentioned in the provisions of Articles 195 and 196 of Law No.32 of 2004 on local government stipulates that in order to improve the welfare of communities the regions can carry out cooperation with other regions based on considerations of efficiency and effectiveness of public services, synergy and mutually benefit. In the provisions of next article it is stipulated that the KAD that burdens the APBD and the interests of the community as well as the funding has not been provided in the APBD of the current year, then the funding must obtain approval from DPRD. The provision reflected that the financing of KAD implementation could be financed by the APBD and other posts as long as it is approved by the DPRD (Local Parliament).

The Issuance of the Government Regulation (PP) No. 50 Year 2007 on the Procedures for Inter-Regional Cooperation was notable to solve the problems that occurred in the administration of KAD in Indonesia. The PP No.50 of 2007 regulates more normatively the process of establishment of inter-regional cooperation. The provision of Article 2 of this Regulation states that the implementation of KAD must apply the principles of good governance, such as efficiency, effectiveness, synergy, mutually benefit, mutual agreement, good faith, priority of national interests and integrity of the Republic of Indonesia, justice, equality, transparency, and legal

certainty. Related to the source of funds of KAD implementation, the PP refers to the Law.No. 32 of 2004 which allows the use of budget and non-budget funds for the implementation of KAD as along it has been approved by the Local Parliament.

Disharmony of Central Regulation related to the funding mechanism actually (in fact) hampered the development of KAD in some regions. The sustainability of KAD depends very much on its funding pattern. However, inconsistency of the central regulation on KAD funding became factors inhibiting the development of KAD in some regions. Based on interviews with the Barlingmascakeb initiator, it explained that the lack of clarity in regulation related to the KAD funding mechanism caused Barlingmascakeb KAD activities did not sustain. Provision of Article 8 of Permendagri No. 22/2009 on Technical Guidance of Regional Cooperation states that KAD can be funded from the APBD through local parliament approval. Subsequently, in point 3 of Permendagri No.37/2010 on Guidelines for Preparation of the APBD of 2011 FY states that KAD in the form of entity can be funded by the grant regions. However, the issuance of Permendagri No. 32/2011 on Guidelines for Grant Giving and Social Assistance (Article 7) states that grants may not be given for the purposes outside the regions administrative area. The grant funds can only be given to the people or institutions domiciled in the administration area. The disharmony of this central regulation that hindered the development of KAD in some regions.

Lack of clear regulatory support related to KAD funding mechanism caused decline in spirit of the regions to conduct the practice of inter-regional cooperation. Funding was crucial for the sustainability of KAD institution to finance day-to-day operational activities. Example in this regard was the source of the RM Barlingmascakeb funding that depended its source of fund on the membership fees of each region. With the lack of such regulations, it lost the spirit of Barlingmascakeb member regions to pay membership dues that was previously derived from post grant. Some regions still paid, but many chose not to pay for fear of snagging a matter of law in the future. Beside, the lack of incentive system for the regions which organized KAD also caused the regions were not interested in implementing KAD.

Development and Supervision Efforts to local regions implementing KAD had not been implemented optimally by the Ministry of Home Affairs and the Province through Inter-Regional Cooperation Coordination Team (TKKSAD). In the provisions of Regulation of the Ministry of Home Affairs [Permendagri] No.23 of 2009 on the Development and Control of KAD, Ministry of Home Affairs through the Directorate General of Public Administration (PUM) will supervise and provide guidance to the KAD conducted by the Province, while the province

has the responsibility for developing and supervising the KAD practices conducted by local District / City. Under the provisions of this Regulation of the Ministry of Home Affairs it is explained that the Development and Supervision conducted by the Ministry of Home Affairs are in the exploratory stage, negotiating, signing, and the implementation and termination. Similar to the authority of Ministry of Home Affairs, Province also plays a role in providing information to the local governments on the related laws and regulations, funding mechanisms and procedures for obtaining fund. With these provisions, the Province and Ministry of Home Affairs should be able to provide clear information, guidance and the right solutions the funding mechanism problems faced by the Barlingmascakeb RM.

The implementation of inter-regional cooperation practices depend very much on the mode of funding agreed by the members of each region. The funding sources are also adjusted to the institutional form and focus areas of cooperation agreed in advance, for example, it can be through membership dues (Barlingmascakeb), the profit generated by the project in joint cooperation (Kertamantul), ministries and private donors (RM Jonjok Batur). As long as the region has not been able to provide KAD operational funding independently, it will be difficult for the KAD institution to run its program sustainably. Therefore, the central government is expected able to make an explicit provision through regulation regarding KAD funding mechanism, besides the presence of incentive mechanism is expected to encourage more local governments to implement KAD in governance practices in the regional areas. In addition to the central government, the province has the authority to regulate and coordinate policies across the district/city which runs on its territory is expected to facilitate and mediate in the formation and development of the practice of KAD as stated in the provisions of Permendagri No. 23 of 2009.

VI. CONCLUSION

Inter-Regional cooperation in trading constitutes one alternative to increase the scale of the regional economy. The synergy of policy program, policy harmonization and coordination conducted intensively in the regional administration will be able to improve efficiency and effectiveness and the resources expended in the fulfillment of public service facilities and improve the welfare of the people in the regional area. The less local economic scale, the emergence of various inefficiencies in the practice of trade in the regional areas and the increasing of the issue complexity of regional development, encourage some regions for cooperation in the field of trade:

Following are some factors driving the formation of

KAD in Indonesia.

1. Inter-Regional cooperation is formed as an effort to meet the demand volume desired by the markets. Through the cooperation of adjacent areas and have similar products has been proved able to increase the capacity, sharing of information, technology, and production, thereby increasing scale of economy.
2. KAD was formed as an effort to create economic agglomeration through concentration of economic activity in certain regions to generate mutual benefits, shortening the supply chain, increase incomes, and the creation of trade efficiency. For instance, by constructing the joint corn mills at Jonjok Batur RM and the development of hybrid maize demonstration plots in RM Barlingmascakeb.

Beside a number of shown successful achievements, there were some remarks that needed to be improved in the practice of the inter-regional cooperation in the two study areas.

1. Lack of involvement and the role of business associations in an effort to empower entrepreneur in of the inter-regional cooperation in the economic field. The involvement of business associations is crucial to be able to equalize the empowerment program to all businesses and assist local governments in implementing the guidance and supervision to entrepreneurs.
2. To ensure the implementation of sustainable KAD trading, in addition to focusing on strengthening areas of cooperation, the factors that can promote the sustainability of the program and the effectiveness of inter-regional cooperation especially in field of trading is the clarity and independence of KAD funding agencies. Without financial independence and clarity of source of funding, it will be difficult for the agency to operate inter-regional cooperation activities that have been agreed, for instance, (a case in this regard is) the constraints faced by the Barlingmascakeb RM.

Although during the implementation of joint auction market faced some of problem that caused the value of transaction is up and down but from the point of view of businesses, inter-regional cooperation in the field of trade in the form of joint auction market has proved to open the opportunity more wider for the business to get access to the market and reduce the asymmetry of information so that can improve the efficiency of trade activity in the region. To be more

optimal, the implementation needs to be improved in several ways:

1. Reinforce the implementation of the rules related to the implementation mechanism of the auction market, in particular the provisions related to criteria of buyers and sellers involved in the auction market.
2. To provide/supply price references that can be used as a benchmark for the prevailing price in every market so that more traders will be interested in trading in the market auction.
3. To ensure and provide the availability of information easily and open.
4. To increase the quality standards and exchange rates of the traded products.

The government support through regulatory firmness for the operations of KAD activities in the area is still needed, so that the regions have clear legal frameworks without having to worry about criminal matters in the future.

VII. RECOMMENDATIONS

I. Central Government

- » It is necessary the clarity and firmness of regulations governing KAD funding sources and the necessity of incentive mechanisms to encourage more districts to conduct KAD.

II. Local Government

- » It is necessary for harmonization and joint regulations governing the program implementation in the field of trade as the optimization of the implementation of the conducted KAD.
- » It is necessary the involvement of every related agency to the field of cooperation. As an example for cooperation activities in the form of auction market together, need to involve farmers and business associations.

III. Regional Management (RM)

- » It is necessary to strengthen the Regional Management institution, especially by seeking guarantee and funding support in the early stage of the RM operations before the RM can be independent.
- » To strengthen coordination between the RM managers and the SKPDs involved in the institutional structure of the RM as an effort to sinergize the programs that will be implemented.





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