

# PRIVATIZATION POLICY IN THE IMPLEMENTATION OF PUBLIC SERVICE IN LOCAL GOVERNMENT: EVIDENCE FROM INDONESIA

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DOI: <https://doi.org/10.37178/ca-c.21.5.069>

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## Abstract

*The purpose of writing this article is to describe and provide concrete examples of privatization policies in the implementation of public services in local governments. The writing of this article uses a literature review method. The literature used comes from books and journals related to privatization policy. Privatization carried out by following the principles of managerial economic performance will provide dual benefits to the government and society at large. Therefore, a prudential approach is usually taken, before deciding privatization policy. Selection of affairs or areas of works that are appropriate and worthy of privatization must be performed through intensive study, or if necessary through comparative studies. Sensitivity analysis can be applied by determining alternatives so that each alternative is supported by strong reasoning and can be justified in theory and practice. Privatization policy should benefit local governments in terms of local revenues, quality improvement, and types of public services. Privatization that will create new problems and burdens must be avoided. Hence, hastiness in making decisions about privatization should not occur.*

**Keywords:** Aprivatized duties, Approach, Privatization model, Privatization mechanism, Advantages, Risks.

## Introduction

The philosophical consideration that encourages the government to launch a privatization policy is affected by the need for the government to do business affairs if the object is not related to the lives of many people. The existence of provisions in the constitution that provide the basis for the implementation of production branches that are important for the state and which affect the livelihood of the people must be controlled by the state, does not mean that it gives a clear signal that the economic system (Indonesia) only recognizes the existence of control by the state alone, but also recognizes control by cooperatives as well as by private businesses [1] Privatization

has become an economic policy in various developed and developing countries. The privatization policy of state-owned enterprises (BUMN) has become prevalent in various countries throughout the world today [2, 3]. These studies assumed that the government chooses its privatization policies before the entry of private enterprises [4]. This policy is implemented in the form of programs aimed at releasing government involvement in any commercial activity unless the involvement is deemed important for the implementation of government functions, such as making public services more efficient and effective. Economists claim that efficiency is the main idea of privatization because private companies are always more efficient than public companies [5, 6] (Naufal, 2021). [7] stated that privatization policy is one of the policies carried out by the government to transfer part or all of the assets owned by the state to the private sector. The transfer of assets can be interpreted as the transfer of management authority from the government to the private sector. Privatization is a shift in management by the state to the private sector, this is very reasonable because this effort is considered to produce significant improvements related to increasing the efficiency of state enterprises that are considered less efficient than private companies [6].

Relating to the city government, several areas of works are much more efficient and effective if they are carried out by the private sector than by Regional Owned Enterprises (ROE/BUMD, *Badan Usaha Milik Daerah*) or by the agency, especially those related to public services. If previously the privatization policy has been handled by ROEs, and it does not show good performance (optimal, efficient, and profitable), then it will be more appropriately taken in this field before the burden of government becomes even heavier. The nature of entrepreneurship in BUMD management is generally less developed [8]. Privatization carried out by following the principles of managerial economic performance will provide dual benefits to the government and society at large. Therefore, a prudential approach is usually taken, before privatization policy is decided. Everyone who is in charge of managing an investment for the benefit of another party must always act carefully and in his mind feels morally bound to the other party [2, 9, 10]. In general, privatization has four objectives, namely (i) improving allocative and allocation efficiency; (ii) strengthening the role of the private sector in the economy (facilitating role); (iii) improve the financial health of the public sector; (iv) focus the allocation of government funds on activities where the government mandate is established such as the provision of merit goods, public goods or poverty reduction and other social goals [11, 12]. Privatization is the act of reducing the role of government, or increasing the role of the private sector, informasi an activity or informasi the ownership of assets [13, 14].

Privatization resulted in the need for adjustments in the public service system that had been adopted so far. This privatization is a model for promoting economic growth in third world countries and the most important targets are (1) for the public sector to function more effectively (2) Realizing budget savings (3) Increasing the role of market mechanisms and (4) Improving the welfare of consumers and product users [15, 16]. The role and scope of privatization have increased dramatically in the last ten years both in the form of contracting out of public services and in the outright purchase of government enterprises by the private sector on the national and international levels [1, 9, 10, 17].

Privatization policy in the implementation of public servants is still state of the art so that will be described as follows: (1) areas of privatized duties, (2) the approach used, (3) the privatization model, (4) the privatization mechanism, and (5) the advantages and risks. The purpose of writing this article is to describe and provide concrete examples of privatization policies in the implementation of public services in local governments.

**Literature Review**

Privatization has two meanings in a narrow sense and in a broad sense. Ikhwan (2014) suggests privatization (in a narrow sense) is also known as denationalization, meaning divesting assets or shares of state companies into private parties, while privatization (in a broader sense) places denationalization as one element. Another element is the transfer of functions from the public sector to the private sector. After the process of divesting assets / shares of state companies to the private sector, it is certainly followed by the process of transferring roles in the company's management structure. That means in this context, the two elements become one unity in the concept of privatization. [18, 19] claimed the concept of privatization as follows:

Table 1: Privatization Concepts

Concept	Author	Description
Assets Optimization	Jones & Mygind, 2000	Privatization can increase efficiency efisiensi
	Megginson, Nash and Randenborgh (1994)	
Competitive	Doh. J 2000	Privatization can increase the company's competitive
	Fahy, 2000	Privatization is a strategy in achieving the competitive advantage of the company in a sustainable manner

Source : Widjayanti (2011)

[4, 20, 21] stated that privatization has a broad and complex meaning, more than just a reduction in the role of the government or an increase in the role of the private sector in the economic sector. In line with this opinion [14] suggested privatization is the act of reducing the role of government, or increasing the role of private sector, in activity or in the ownership of assets. Kay and [5, 7] argued that privatization was terminology that included changing relations between the government and the private sector. [6, 10, 22] argued in another sense, privatization means the transition of economic activities from the public sector to the private sector, with or without any change of ownership.

In addition, [17, 23, 24] argued that privatization has a broader meaning than outlining the role of government and increasing the role of the private sector in the economy. According to [11, 12, 16, 23]), privatization is "Privatization means more than the sale of ailing public companies at fire sale prices. Privatization can be defined broadly as the transfer or sale of any asset, organization, function, or activity from the public to private sector. As such in addition to the sale of publicly owned assets, the term 'privatization' also applies to joint public-private ventures, concessions, leases, management contracts, as well as to some specialized instruments, such as build-own operate and transfer (BOOT) agreements." [2, 3] suggested that privatization can also be interpreted as a policy implemented by the government by providing various facilities that facilitate the private sector in taking over state-owned companies. In other

words, privatization is closely related to the provision of the widest opportunities to the private sector to manage the mining sector. Furthermore [25] privatization policy is put in the context of the recovery of national economic life and efforts to healthy state-owned companies. The policy tipping point is closely related to efforts to realize good corporate governance in the context of business ethics. By privatizing, in addition to generating cost-conscious behavior, it also fosters public scrutiny, especially for companies that sell shares through the capital market. Privatization Policy is regulated in Government Regulation of the Republic of Indonesia Number 33 year 2005 concerning Procedures for Privatization of The Company (Persero) is that the state does not own all shares. In this case, the share ownership will be adjusted to the regulation of the Law of the Republic of Indonesia Number 19 Year 2003 concerning SOEs, but must also pay attention to aspects of agreements and or agreements with other shareholders. This means that the government cannot unilaterally decide the number of shares that are right, even if the number of shares owned by the government is at least 51%.

### ***Methodology***

The writing of this article uses a literature review method. The literature used comes from books and journals related to privatization policy. Which data is the data between the latest word and the berndo article. Literature reviews can be simple reviews of sources, but organization patterns and syntheses combine. In the reconstruction of the review literature, regional researchers have a variety of skills, such as how to explore, obtain the right literature, analyze, and synthesize the writing data in (Ramdhani, et al., 2014). The description and study of literary review literature hopes to give an overview of the policy of location in local government which includes: (1) areas of privatized duties, (2) the approach used, (3) the privatization model, (4) the privatization mechanism, and (5) the advantages and risks.

### ***Discussion***

#### **Areas of Privatized Duties**

Several areas of works in local government, which are closely related to public services or the wider community, cannot be immediately privatized despite the losses and burdens of the regional finances, such as clean water services, local taxes and levies, city buses, firefighters, police duties, judicial institutions, and correctional institutions. Although the aforementioned last three areas are the central authority in the context of the Republic of Indonesia.

Clean water services cannot be privatized because the source of raw water is entirely within state power. The position of water as a social object that controls the lives of many people must be controlled by the state and used for the greatest prosperity of the people [3] The private sector cannot exploit water, whether groundwater to a certain depth, water from springs, or water from lakes and rivers without permission from the government. The granting of this permit is very selective because it has to go through considerations from competent agencies in terms of environmental geology in order to not cause an impact on the reduction of environmental carrying capacity.

The processing of raw water into clean water and the management of its services to the community are parts of clean water services that can be privatized. In this case, the partnership between the government and the private sector can be implemented with the aim of (1) providing clean water continuously at any time, (2) optimizing the range of services, (3) and obtaining benefits to ensure the continuity of service.

Regional taxes and levies cannot be privatized or distributed to private entities such as cleaning services because it is related to the credibility of the government, for example, when the TV levy was "wasted" on the private sector whose results were

uncertain. The integrity and credibility of government officials towards the public are proven by the establishment of regulations, including regulations that oblige every citizen who has met the requirements of taxpayers to comply with tax payments as well as the regional levy.

Even though the government has to bear the losses, city buses (managed by DAMRI in Bandung City) are one of the modes of transportation in the city in which their procurement is the responsibility of the city government. Damri bus transportation in the city of Bandung is provided to serve the needs of the movement of the people of the city of Bandung and in general it also aims to support the transportation system of the city of Bandung to become a good urban transportation system [17, 20, 21]. The city's mode of transportation consists of only three transportations, namely trains, including subway; city bus; and taxi. MRT (mass rapid transportation) is classified in the first two categories. Thus, *angkot* (shared taxi) is not included in any group, which are in accordance with the provisions stipulated in the Law of the Republic of Indonesia No. 22 of 2009 concerning Traffic and Road Transport. However, since the private sector can operate bus city business with a business license from the government, so that city buses are not a government monopoly.

Firefighters are the instrument of city government at the forefront that goes directly to the community when a fire occurs. Firefighters, Branwir, PMK, or Damkar are officers or services trained and assigned to deal with fires [8, 17, 26, 27]. In every corner of the city in developed countries, there must be a pool of fire fighting vehicles and their operators, whereas in every multi-story building and also residents' houses are required by regulations to provide fire extinguishers that are compatible with the environment. At every 500 meters, there is always a grand tap water channel (a type of faucet) that can be used by the fire department to distribute water to extinguish fires, even though it does not have water.

Areas of works that can be privatized are cleanliness (garbage and wastewater); city parks; motorized vehicles parking; towing and junkyards, ROEs, besides the Local Water Supply Utility (PDAM, *Perusahaan Daerah Air Minum*); and management of public transportation station. These areas of works is explained as follows:

Cleanliness (garbage and wastewater) is more efficient and effectively managed by the selected private sector in a fair tender, compared to be managed by the Department of Environment and Sanitation of Bandung City. Garbage trucks with red plates with the words "BERHIBER (*Bersih, Indah, dan Berbunga* – Clean, Beautiful and Flowering)" is an ironic depiction of Bandung, which is known as *Parijs van Java* or the flower city. The garbage levy should not be attached to PLN accounts but through RT/RW and Sub-Districts. The benefit is that RT/RW and Sub-Districts receive additional cash from the levy fee, which is controlled by the company companies that receive this waste and wastewater management contract. The company also manages the cleanliness of all Bandung Government Offices, thus its performance can be directly monitored by the public and government officials.

City parks, both the development and maintenance, are handed over to three or five companies located nearby based on public advertisement contract agreements for a certain period, and thereafter it can be extended with a new agreement. The Government of Bandung City does not need to feel the loss of the source of the Original Local Government Revenue (PAD) from advertising, because the calculation will be equal to the investment expended to build and maintain the park.

Parking of motorized vehicles is no longer allowed to use the roadside unless there is a parking meter. Private contractors and administrators of motorized vehicle parking must build a parking lot. If contractors and administrators are not able to build it, they do need to be contacted again because there are still many other investors who can manage this field. If the parking meter is operated, then the Public Order Enforcers (Satpol PP, *Satuan Polisi Pamong Praja*) of Bandung City is needed to control the operation of the parking meter. However, the amount of retribution does not meet



expectations economically compared to the price of equipment and the salaries of the Satpol PP. Therefore, the construction and widening of roads carried out by the government are not intended for parking (for example, Jl. Soekarno-Hatta). Traffic congestion factors occur due to the behavior of parking attendants who control the maneuvers of the vehicle at random regardless of the long queue of vehicles that stop and cause congestion in the queue.

Towing and junkyards are needed to be privatized now. The Department of Transportation is too extravagant to handle this kind of work. The requirement for the private sector to obtain authority in this area of works is to have a junkyard, a tow vehicle to move vehicles that break down on public roads for more than 30 minutes to another place. This company can charge a tow fee and parking at junkyard by which the Department of Transportation can also receive income these costs as a source of the Original Local Government Revenue of Bandung City.

In addition to PDAM, ROEs, such as market banks, Bandung Milk Center (BMC), etc., are much more efficient and effective if they are privatized. The Market Office should be transformed into *Perusahaan Daerah Pasar Bermartabat* (PD Pasar, The Local Company of Dignified Market) so that its operational performance is more felt by the local government and the community. The market levy is very potential for the local government treasury. However, like the public transportation levy collection points that collect fresh money, leaks can be estimated at no less than 30% every day by the market office. By changing the market office to local company, then the motivation of routine work turns into business work motivation. Therefore, the Government of Bandung City can set a target of receipts every fiscal year for the Local Government Budget.

The Department of Transportation has arranged the management of stations. These officers are difficult to find on congested roads, but they are often found in public transport stations, such as in cities, intercity within provinces, and interprovincial. Many stations are built by the City Government (Pemkot, *Pemerintah Kota*), but because the management does not implement the general principle of economic transportation, public transportation stations become mismanaged and turn into a slum, for example, intercity public transportation stations in the province and interprovincial public transportation stations in Bandung City, such as Kebon Kalapa, Cicaheum, and Leuwipanjang. It is time to think about local government-private partnerships in station management, in order to function effectively for the improvement of the Local Government Budget and services to the community, while the station conditions are also maintained, not turned into slums.

### ***The Approach Used***

Several strategies can be chosen, including public offering, private sale, new private investment, sale of assets, fragmentation, management/employee buy out, management contract, asset contract/lease, or liquidation [5, 6] Privatization policy can be taken with three approaches, namely (1) fully privatizing an area of works of public service, such as cleanliness, parking, parks, office cleaning and maintenance, and towing and junkyards, (2) government-private partnerships, such as raw water treatment into clean water, market banks, local company of markets and (3) management contracts [20] such as management of public transport stations, cargo terminals (emplacement) or containers and the like by which assets and authority exist in the government but management is contracted to a bonafide private company.

Fully privatizing means selling assets and contracting operational authority for the procurement of facilities & infrastructure and management to the selected private through a fair tender. Local governments charge local taxes and revenue sharing based on agreed contracts, both the amount and time. In general, the contract is agreed to have a long term, especially when the private sector has to provide the infrastructure, for example for parking, dump trucks, garden renovations, providing

open space for vehicles that have been towed, and vehicles wrecked or on permanently broken down. Therefore, it is necessary to establish Regional Regulations governing the initial privatization, partnership, and management contracts.

The partnership between the government and the private sector can be applied to businesses that had previously been carried out through a kind of ROEs but the results are not optimal because the effort requires the disbursement of fresh funds that can burden the government's finances. Businesses, such as raw water treatment into clean water, management of market banks, management of local companies of markets, can be offered to the private sector to partner with the local government based on a fruit-share contract.

Management contracts are assets and authority that are entirely in the government, but management is contracted to the selected private through fair tenders due to the lack of efficiency, effectiveness, and profit if the government manages it. In management contracts, the selected private receive a management fee of 40% of the net income, while the government receives a management fee of 60% because due to the responsibility to keep and maintain its assets from depreciating, apart from the need to include the Original Local Government Revenue. Management contracts become the best-considered alternative because in the future all assets and authority of the government cannot be realized in tangible results only by relying on government officials, especially if the purposes need the authorities to have certain skills (professions).

These approaches can be selectively applied to various areas of works of the government related to public services at large, thus it can provide optimum satisfaction to both parties, namely the government and the community. The reduction in public complaints has made the concentration of the work of all city government officials more focused on substantial field tasks that can raise the image of the region, and in the end, public participation will move independently without having to be mobilized or artificial. In this case, if it is designed and running normally, other programs such as sister city, sports coaching, arts development, and other similar activities will further strengthen the growing sense of belonging of Bandung citizens towards the city and its government.

### ***The Privatization Model***

Privatization has a specific model if the activity were previously authorized by the government. State-owned enterprises in our country were initiated when the incessant struggle to return West Irian to the bosom of the Republic of Indonesia with the launching of Trikora in 1961, followed by the nationalization of ex-Dutch companies into various community service businesses at the national level and *pinda mamin, kerta yasa* in West Java. Previously, the state-owned enterprise was not recognized by the Government of the Republic of Indonesia so that then the number of corporate bankruptcies is considered reasonable due to a lack of experts in running a business. Until now, the legal basis of local companies is the Law of the Republic of Indonesia No. 5 of 1962 which was repealed is not, otherwise validation is still not clear. These issues are caused by a lack of knowledge in business from government officials because they are more competent in the government sector, not in the business sector. The broad privatisation policy has involved three main areas: 1. de-nationalisation - by the sale of publically owned assets and equity (shares) to the private sector. e.g. British Rail Hotels, British Telecom, British Gas. 2. Contracting-out subcontracting the provision of government finances goods and services to private contractors, e.g. refuse collection, hospital cleaning. 3. de-regulation - removing inhibitions and regulatory restrictions on enterprise and competition, e.g. the opticians dispensing monopoly, coach transport regulations[1, 16]

The wave of privatization began to hit the walls of state-owned enterprises (SOEs) in Indonesia in the mid-1980s at a time when the rise of Indonesia's macroeconomic

reforms towards a more market-oriented economy. Since then deregulation and debureaucratization have been the main triggers for Indonesia's economic growth rate along with privatization that has been put forward as an alternative to overcome mismanagement of SOEs/ROEs and even cooperatives.

Initially, deregulation was defined as an easing of regulations, and debureaucratization was defined as cutting pathways that created a high-cost economy. In subsequent developments, deregulation is also the basis of privatization, as well as debureaucratization. Privatization based on deregulation is stipulated by the Presidential Decree No. 38 of 1991 concerning Self-Funding Units and Procedures for Financial Management, such as Government Hospitals can open inpatient pavilions with quality of service and costs equivalent to private hospitals. Since 1 June 1999, The Railway Public Company (Perumka, *Perusahaan Umum Kereta Api*) began to show its openness and changed to PT Kereta Api (Persero) (PT KA). In May 2010, PT KA changed its name to PT Kereta Api Indonesia (Persero) (PT KAI) ("Kereta Api Indonesia", 2020). Meanwhile, debureaucratization has expanded its meaning to releasing technical matters to be managed in a business manner by forming SOEs (in all its features) or ROEs. Therefore, the Regional Office can be liquidated, and Local Company can be established, either with a full capital investment of local government or sharing shares with the private sector, as long as it is considered more efficient and effective for the implementation of the function of the service for the community.

In addition to trimming the lines and layers that give rise to a high-cost economy, or liquidating the agency or agency into a company, debureaucratization can also turn SOEs/ROEs into fully private companies because it has been sold by the government. For example, there were 296 Government-owned or controlled corporations in the Philippines whose existence is only a burden on state finances (U.P. School of Labor and Industrial Relations and the Friederich Ebert Stiftung, Teodosio, 1988). Thus, *ruislag* in Indonesia may become a mode, because of the spirit of deregulation and debureaucratization. A government asset, which is valuable but considered idle or does not provide maximum benefits, is decided to be exchanged for a wider or better one and can be functioned even though the location is very far from its origin.

Nowadays, the Government of Bandung City is needed to do an inventory of regional assets, both factual and potential, to be assessed by appraisal consulting services and recommended its utilization. The Government of Bandung City will exchange land (*ruislag*) with the Ministry of Religious Affairs of the Republic of Indonesia (Kemenag RI, *Kementrian Agama Republik Indonesia*). The exchange agreement is outlined in the text of a joint agreement between the Government of Bandung City and the Ministry of Finance of the Republic of Indonesia at the Office of the Ministry of Religious Affairs of the Republic of Indonesia in Jakarta, on 21 June 2016. The signing of the agreement was done directly by The Mayor of Bandung, Ridwan Kamil, and the Minister of Religious Affairs, Lukman Hakim Saifuddin. In the agreement, the Ministry of Religious Affairs of Indonesia granted an area of 100 thousand square meters to the Government of Bandung City, which was taken from the certificate with Number 2 of 2011 in Gede Bage District, Cimencrang Sub-Districts. Meanwhile, the Government of Bandung City had granted an area of 20 thousand square meters or two hectares next to the Campus of UIN Bandung at Jalan A.H Nasution, three units of educational buildings every 3000 square meters for three faculties, as well as a plot of land covering an area of 2700 square meters on at Jalan Pelajar Pejuang 45 Bandung by which it stands a hotel building. The agreement related to the *ruislag* was carried out in line with the Government of Bandung City's plan to develop and transfer the central government to the East Bandung area. In addition to the center of government, the East Bandung area will also be the second city center of Bandung [26]

Since there is no public service carried out by the local government through cooperatives and foundations, then both of them do not need to discuss the



privatization model because both cooperatives and foundations are private so that the business style is still affected by *beamtenherrschaft millieau* [23]

### The Privatization Mechanism

There are two models of privatization mechanism, which are also called government asset divestment, that are commonly applied, namely (1) selling shares to the private sector, which is distinguished over (1a) retained some shares so that management is still in the government, (1b) retained preferred shares so that the veto is still in the government, and (2) selling all physical assets so that the government does not have any liabilities (U.P. School of Labor and Industrial Relations and the Friederich Ebert Stiftung, Teodosio, 1988).

Model 1a seems futile unless it is in transition even though the privatization process must be final. Model 1b can be justified if management will impede the interests of the government. Both models 1a and 1b must be considered that if the business entity operates unsatisfactorily, it must first be made attractive to various groups of investors who have already withdrawn their investment capabilities and to those who are ready to take over management responsibilities.

If Model 2 is applied, it means that a new company starts. Generally, this includes the problem of several employees who need distribution. It should be noted in this relationship, i.e. if a government-owned company (central and regional government) is privatized by following Model 2, the presence of new owners who will run the company is allowed to hire old employees (during SOEs/ROEs) for consideration of their abilities and experience, although the qualifications may be assessed differently by the new management.

The privatization model has always been an intensive study of managerial economists because the initial owners of a company are reluctant to release it to other parties due to the difficulties and threat of bankruptcy. This situation causes a dilemma in choosing the right model for making decisions because it requires a lot of information and the ability to analyze information.

According to [20] there are five situations of privatization that cannot be realized in order to present the most efficient public service system, namely:

1. The existence of a natural monopoly

It indicates that there is no duplication of production on something, for example, clean water is only managed by PDAM only.

2. The increase in production associated with a decrease in costs

It indicates that the efficiency of a productive business is measured based on the ratio of costs to expenses. For that input, it can be increased by increasing by enlarging the scale of production. Therefore, it can also increase efficiency.

3. The existence of externalities that are substantial and not reflected in the calculations of private suppliers

It indicates that when buyers and sellers exchange goods and services, it can create externalities (costs and benefits) for people who are not directly involved in the exchange. For example, the presence of some factories that causes water and air pollution for the community (cost), and from the tax, it can be built roads, bridges, parks (benefits). Therefore, the involvement of the government to impose taxes, setting rules on wastewater treatment plants can suppress the negative consequences of the presence of factories.

4. Difficulties in charging fees for a service or ignoring those who do not pay fees

It indicates that there are several services provided by the government, such as public order and security, street lighting, and radio broadcasts, in which if they are charged, it becomes very difficult to be implemented, or even ignored by the community because these things are considered "public goods", which is purely the

responsibility of the government whether the service is accepted/felt by the community or not.

5. The involvement of "merit goods" (goods of service value)

It indicates that goods and services considered by the public have special service value, but the availability may not be fulfilled if they are handed over to the private sector because of the large investment (such as rail transport services, electricity, and dams for irrigation). Since the public cannot be expected to voluntarily pay/buy merit goods, the government can waive the cost altogether, collect using other payments in which the public can subscribe, or subsidize merit goods provided by the private sector.

The aforementioned five situations do not allow the private sector to fully present goods and services to the public satisfactorily. But in Indonesia, several circumstances are suitable for the administration of government in the region (such as points 1, 3, and 5). For example, radio dues, TV dues, *plombir* or *peneng* for the bicycle tax, although it was difficult to collect, it still pursued ways. Meanwhile, point 2 is difficult to be implemented, because generally, ROEs still works not in the entrepreneurial spirit [28] In general, those who work at ROEs are bureaucrats who cannot fully apply economic principles, despite having a bachelor's degree in economics. This occurs because the company that is managed is not private property.

These situations can be considered for decision making, especially in case of determining an area of works in the local government related to public services that are needed to be privatized, stipulating profit sharing with the private sector, or choosing to maintain an area of works at the risk of burdening the local government budget. A careful study is needed to obtain a final decision, without making the performance of public services deteriorate.

### **The Advantages and Risks.**

Based on the aforementioned explanations, the cost and risk can be reduced if the scale of production is enlarged. On a larger scale, there are opportunities to use technical production instruments (such as computers, electric power, and automatic machines), whereas, on a small scale, their use in production will only suffer a loss. In large-scale production (for example, PDAM, local companies of markets, garbage, and wastewater), workers can specialize in more special activities and form professional expertise, and the inputs also can be purchased at low prices in large quantities. A danger of monopoly can be seen from large economies of scale while the process of producing can only support a few communities or one type of business. For example, the economic scale of PDAM is large, but it only serves settlements within a radius of less than 10 km from the jurisdiction of Bandung City, then maintaining the PDAM in the old format (monopoly of the city government) becomes dangerous. To avoid such dangers, PDAM of Bandung City must apply more proactive ways, methods, such as in each housing complex, it is prohibited to make well jet pumps by themselves, instead, there are one or two artesian wells within the PDAM authority that provide clean water services to every house in the residential area. Therefore, the work of the local companies of markets and cleaning (garbage and wastewater) should be proactive instead of being passive. For example, instead of installing the pavement and sewers, maintenance needs to be carried out regularly.

According to [24] the history of the development of cities in developing countries generally shows misdirection of its predecessors on a limited scale designed by the colonial government. The development shows that the gap between slums and elite areas is widening, and it ends with the application of the concept of "urban renewal", which sometimes takes place coercively. Actions that pose too high a risk, as well as privatization, can be seen from all aspects because the city government is faced with the task of "rearranging" various conditions in the physical and social environment that have been developing in a misguided direction. This work is too heavy when it is

measured in terms of regional financial capacity, thus the idea of the need for privatization in several areas of works emerges to achieve optimum performance.

The advantages of implementing privatization policies in organizing several local government household affairs related to public services are (1) easing the financial burden of local governments, (2) instilling a competitive work ethic among regional bureaucrats, (3) increasing local government revenue through the magnification of business scale, (4) using modern technology in various areas of works, (5) and paying more attention to the aesthetics of the city. The further explanation of each point is as follows:

1. Easing the financial burden of local government

By precisely determining the privatization model of certain areas of works and its mechanisms, the financial burden of local governments will be eased. Regular subsidies or allocations of the local government budget regularly for certain areas of works are shifted to other areas that are unlikely to be privatized. Therefore, the diversification of the field of works can widen and the availability of public services is varied.

2. Instilling a competitive work ethic among regional bureaucrats

The work ethic of regional bureaucrats placed in the privatized regional technical implementation unit will grow with high competitiveness because a value of trust of superiors who pour them into a new work environment must be maintained. This is a transformation of entrepreneurial spirit into a bureaucratic environment that is useful in facing the era of global competition.

3. Increasing local government revenue through the magnification of business scale

Local government revenues must be improved through this privatization, while services to the community become more satisfactory. If these are not reached, the privatization can only become new diseases into the local government environment. Hence, the privatization should influence positively an increase in the local government revenue.

4. Using modern technology in various areas of works

The use of technology is inefficient if the scale of the work is too small, limited, or simple. With an increase in local government revenue as a positive influence of privatization, the scale of the work of various areas of works will be affected directly or indirectly. Therefore, it will experience a magnification of scale, including the level of complexity that is no longer possible to be handled conventionally.

5. Paying more attention to the aesthetics of the city

The aesthetics of the city get more attention because there are enough funds available for it. For example, lush and green is fine but the city does not let "long and shaggy" and waits to collapse by the storm. Another example is a city park with a "seuseut (coarse)" fountain and deflated flowers. Furthermore, the ATCS (Air Traffic Control System) is a new idea with a "poor" function. Cikapundung *anu ngabudah* (The Cikapundung River is overflowing). All of these issues will not receive serious attention if insufficient funds are available.

The risks that will be faced if privatization policies are implemented, namely (1) No money no service lead to its true meaning, (2) rivalry between regional bureaucrats, (3) collusion with tax officials, (4) decline of public accountability, and (5) change of partnership into kinship. The further explanation of each point is as follows:

1. No money no service lead to its true meaning

No money no service is a term used to indicate that all desired services will be sustainable and increase in quantity and quality if the supporting funds are available. However, on the other hand, if the funds that support it are not available, the service will be out of business later. Therefore, the meaning of "no money no service" is not "there is money, you will be served, there is no money, you will be reviled" because if this understanding is applied, it can be labeled as "gold diggers".

2. The rivalry between regional bureaucrats

Bureaucrats who are not assigned for business after privatization will feel envious of their colleagues who are assigned for business due to different incomes. This can be overcome by (a) creating a welfare fund set aside from the acquisition of privatization, (b) carrying out employee transfer in accordance with the rules of the assignment period, and (c) thickening *esprit de corp* (corporate spirit).

3. Collusion with tax officials

Acts of collusion in tax affairs may occur if the tax officer can be bribed by "businessmen" who were previously also bureaucrats. Therefore, supervision from third parties such as public accountants and inspectors must be effective, and law enforcement must be concrete.

4. The decline of public accountability

Public accountability will deteriorate if public officials turn into businessmen. In other words, they prioritize business interests rather than service. This is already related to the mentality. Therefore, the best solution is to register the wealth of certain echelon public officials and declare those who are taxable (e.g. land, houses, and motorized vehicles) and those who are exempt.

5. Change of partnership into kinship

A partnership between the government and the private sector should not undermine authority mutually, or turn into kinship because it is not the purpose of privatization policy. The government serves due to the legitimacy, while the private parties serve due to their managerial abilities. These driving sources of each activity should not be changed or replaced because it will decrease their credibility in public. Therefore, each party must be proportionate so that the objectives of privatization policy are more favorable than posing burdensome risks.

### **Conclusion**

Privatization is an option, and any decision on a choice must be preceded by careful and tested consideration. When an error is made by policy action, it is difficult to restore public confidence in policyholders.

Selection of appropriate and worthy affairs or areas of works must be conducted through an intensive study or a comparative study. Sensitivity analysis can be applied by determining alternatives so that each alternative is supported by strong reasoning and can be justified in theory and practice.

Certain ROEs are already manifestly unprofitable if they are currently maintained. In such cases, it is not necessary to conduct a study to decide whether the privatization policy should take place, but consideration is needed to choose the right privatization model.

However, privatization should benefit local governments in terms of local revenues, quality improvement, and types of public services. Privatization that will create new problems and burdens must be avoided. Hence, hastiness in making decisions about privatization should not occur.

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