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# An Assessment of Regional Bureaucratic Capacity in Implementing Inclusive Economic Development Policies

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**Abstract:** This study evaluates the capacity of regional bureaucracy in implementing inclusive economic development policies in Indonesia. Through an evaluative-qualitative approach, the research examines four dimensions of bureaucratic capacity: institutional, human resources, operational-procedural, and relational-coordinative in case studies across three regions with different typologies. The research findings indicate significant gaps between the required bureaucratic capacity and the actual capacity in the field. Relational-coordinative capacity emerges as a critical factor determining the success of inclusive economic policy implementation, supported by adaptive leadership and collaborative approaches. The study recommends institutional reforms emphasizing collaborative capacity development, decentralized decision-making, and enhanced inclusive economic literacy among the bureaucracy. These findings contribute to the bureaucratic capacity literature by identifying interconnections between capacity dimensions in the context of inclusive economic policy implementation.

**Keywords:** Bureaucratic capacity, Inclusive economy, Institutional reform, Policy implementation, Regional government.

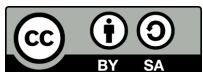
## 1. Introduction

The dynamics of Indonesia's economic development post-decentralization are characterized by persistent inter-regional growth disparities and concerning socio-economic inequality expansion. Central Statistics Agency (2023) data shows that 40% of regions with the highest GRDP contribution account for more than 78% of the national economy, while the Gini Index remains stagnant at around 0.38-0.41 over the past decade. These statistics reflect the failure of conventional economic growth models to create inclusivity—a condition where economic development benefits can be accessed and enjoyed by all layers of society. Recognizing these limitations, the Indonesian government through Presidential Regulation No. 59 of 2017 on the Implementation of Sustainable Development Goals Achievement has adopted an inclusive economic development paradigm, marked by the establishment of more comprehensive development indicators, including access to basic services, economic participation of marginal groups, and equal opportunities.

At the regional level, this paradigm is translated into various sectoral policies ranging from MSME empowerment, creative economy development, to inclusive financial programs designed to expand access to economic opportunities.

However, implementing inclusive economic policies at the regional level faces significant challenges related to bureaucratic capacity. A study by the Ministry of National Development Planning/Bappenas (2022) identified that implementing inclusive economic policies in 60% of regions still falls below expected effectiveness standards. This phenomenon raises critical questions regarding regional bureaucratic capacity to translate the inclusive economic paradigm into operational reality. As institutions serving as the spearhead of policy

Received: April 11, 2025  
Revised: May 16, 2025  
Accepted: June 20, 2025  
Published: June 23, 2025  
Curr. Ver.: June 23, 2025



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implementation, regional bureaucracy faces demands for adaptation to a relatively new and complex development paradigm.

Bureaucratic capacity—the ability to translate policies into outputs and outcomes aligned with objectives—becomes a crucial variable in implementing inclusive economic policies. In this context, capacity refers to quantitative aspects such as resource quantity and qualitative dimensions encompassing value systems, organizational practices, and relational dynamics. Adequate bureaucratic capacity becomes a prerequisite for transforming the inclusive economic paradigm from conceptual to operational levels.

#### Problem Formulation

Based on this background, this research seeks to answer the following questions:

1. How is the institutional capacity of regional bureaucracy in adopting and adapting inclusive economic principles into policy and program frameworks?
2. To what extent is the human resource capacity of regional bureaucracy in understanding, internalizing, and operationalizing inclusive economic concepts?
3. How is the operational-procedural capacity of regional bureaucracy in implementing inclusive economic policies, particularly regarding planning, budgeting, and evaluation systems?
4. How is the relational-coordinative capacity of regional bureaucracy in building multi-stakeholder synergy and cross-sectoral integration in implementing inclusive economic policies?
5. What are the theoretical and practical implications of regional bureaucratic capacity gaps on the effectiveness of inclusive economic policy implementation?

## 2. Literature Review

### Concepts and Dimensions of Bureaucratic Capacity

Bureaucratic capacity has become a growing focus in public administration discourse and development studies. Lodge & Wegrich (2014) define bureaucratic capacity as "the ability of public sector organizations to perform predetermined functions effectively, efficiently, and sustainably." This definition emphasizes the functional and performance aspects of bureaucracy as policy implementation institutions.

Meanwhile, Wu et al. (2018) develop a more comprehensive conceptual framework by dividing bureaucratic capacity into three levels of analysis: individual, organizational, and systemic. At the individual level, capacity refers to knowledge, skills, and competencies possessed by bureaucratic apparatus. At the organizational level, capacity includes structure, processes, resources, and organizational culture. At the systemic level, capacity encompasses inter-organizational relationships, regulatory frameworks, and broader socio-political contexts.

Recent developments in bureaucratic capacity studies show a shift from "resource-centric" approaches emphasizing input quantity toward "capability-centric" approaches focusing on bureaucracy's transformative capabilities (Andrews et al., 2017). In this perspective, bureaucratic capacity is not merely a function of resource magnitude but the ability to organize, utilize, and adapt these resources when facing change and complexity.

Based on literature synthesis, this research operationalizes bureaucratic capacity in four main dimensions:

1. **Institutional Capacity:** Refers to institutional design, organizational structure, coordination mechanisms, and incentive systems that promote or hinder inclusive economic policy implementation.
2. **Human Resource Capacity:** Encompasses knowledge, skills, attitudes, and motivation of bureaucratic apparatus in internalizing and operationalizing the inclusive economic paradigm.
3. **Operational-Procedural Capacity:** Includes systems, procedures, and technical instruments in planning, budgeting, implementing, monitoring, and evaluating inclusive economic policies.
4. **Relational-Coordorative Capacity:** Refers to the ability to build and maintain collaborative networks with various stakeholders and integrate cross-sectoral initiatives.

### **Inclusive Economy: Concepts and Policy Implications**

The concept of inclusive economy represents a critical response to conventional economic growth paradigms that often fail to create equitable distribution of development benefits.

According to OECD (2018), inclusive economy is defined as "economic growth that creates opportunities for all population segments and distributes growth dividends—both monetary and non-monetary—fairly across society."

Ali & Son (2007) offer an operational framework for measuring economic inclusivity through two main parameters: (1) accessibility, referring to the extent individuals or groups can access economic opportunities; and (2) benefits received, measuring the proportion of advantages gained from participating in economic activities. In this framework, inclusive economic policies seek to expand accessibility and maximize benefits for previously marginalized groups.

At the policy level, the inclusive economic paradigm is translated into various intervention instruments. Gupta et al. (2015) identify three main clusters of inclusive economic policies:

1. Redistribution Policies: Include social safety net programs, progressive tax reform, and asset redistribution to reduce inequality.
2. Access Policies: Cover interventions to expand access to education, health, infrastructure, financial services, and markets for marginal groups.
3. Structural Transformation Policies: Include institutional reforms, economic diversification, and informal sector transformation to create inherently more inclusive economic structures.

In the Indonesian context, inclusive economic policies have become part of the development narrative, especially post-adoption of Sustainable Development Goals (SDGs) into the national planning framework. At the regional level, implementing inclusive economic policies is influenced by factors such as political commitment, fiscal capacity, and socio-economic characteristics of each region (Miranti et al., 2013).

### **Policy Implementation and Bureaucratic Role**

Policy implementation studies have undergone significant evolution, moving from top-down models emphasizing compliance and control (Pressman & Wildavsky, 1973), toward bottom-up models recognizing the discretionary role of local implementers (Lipsky, 1980), to hybrid approaches integrating both perspectives (Matland, 1995).

In the context of inclusive economic policy implementation, the hybrid perspective becomes relevant given the complexity and multidimensionality of issues faced. On one hand, implementation requires a coherent national framework; on the other hand, local contextualization and adaptation become crucial to accommodate diversity in socio-economic conditions and regional capacities.

Bureaucracy, as an institution bridging formulation with policy implementation, plays a central role in translating inclusive economic concepts into concrete programs and activities. Meier & O'Toole (2006) emphasize that policy implementation effectiveness heavily depends on bureaucratic capacity to overcome three main challenges: (1) technical complexity, (2) political resistance, and (3) resource limitations.

In implementing inclusive economic policies, bureaucracy faces additional challenges in the form of a "business unusual" paradigm demanding mindset change from compartmentalized sectoral approaches toward holistic and integrated perspectives. Agranoff & McGuire (2004) call this phenomenon the transition from "government" to "governance"—where bureaucracy no longer operates as the dominant actor but as a facilitator of multi-stakeholder collaborative networks.

### **Empirical Studies on Bureaucratic Capacity in Development Policy Implementation**

Various empirical studies have investigated the relationship between bureaucratic capacity and development policy implementation effectiveness. In developing countries, Grindle (2004) identifies that bureaucratic capacity limitations often become "bottlenecks" hindering transformation of conceptually innovative policies into effective field practices.

Evans & Rauch's (1999) study of 35 developing countries found positive correlation between Weberian bureaucratic characteristics (meritocracy, clear career structure, and professionalism) and economic growth. Subsequently, Fukuyama (2013) expanded the analysis by emphasizing the importance of balance between bureaucratic capacity and autonomy in determining policy implementation effectiveness.

In the context of inclusive policies, Andrews & Bategeka (2013) examined poverty alleviation program implementation in Uganda and found that bureaucratic capacity limitations at the local level became the main factor in gaps between policy design and outcomes. Similar findings were revealed by Sharma (2015) in her study of women's empowerment program implementation in India, where adaptive and coordinative bureaucratic capacity became key determinants of program success.

In Indonesia, Nasution's (2016) study on fiscal decentralization policy implementation identified bureaucratic capacity gaps between regions with implications for development performance variations. Meanwhile, Sutiyo & Maharjan (2017) analyzed village development program implementation and found that local bureaucratic relational capacity—especially in building collaboration with communities—became a crucial variable explaining outcome differences between villages.

Although these studies provide valuable insights, there remains a gap in literature regarding bureaucratic capacity in the specific context of inclusive economic policy implementation. Most studies focus on sectoral programs or specific policies, with little attention to paradigmatic transformation needed to comprehensively implement inclusive economic approaches. This research seeks to fill this gap through multidimensional analysis of regional bureaucratic capacity in implementing inclusive economic policies.

### **Analytical Framework**

Based on literature synthesis, this research develops an analytical framework integrating bureaucratic capacity concepts with inclusive economic policy implementation dimensions. This framework connects four bureaucratic capacity dimensions (institutional, HR, operational-procedural, and relational-coordinative) with three levels of inclusive economic policy implementation: (1) conceptual adoption and adaptation, (2) programmatic operationalization, and (3) systemic institutionalization.

In this framework, bureaucratic capacity is not viewed as a static variable but as dynamic and contextual capabilities. Analysis focuses on gaps between required capacity for effective inclusive economic policy implementation and actual capacity possessed by regional bureaucracy.

This framework also considers contextual factors influencing bureaucratic capacity, such as regional socio-economic characteristics, fiscal capacity, political leadership, and central-regional relationship dynamics. Thus, analysis is not only evaluative but also explanatory in explaining capacity and implementation performance variations across regions.

## **3. Research Methodology**

### **Research Approach**

This research adopts an evaluative-qualitative approach that enables in-depth exploration of complex phenomena such as bureaucratic capacity and policy implementation. This approach not only focuses on identifying "what" happens but also investigates "why" and "how" these phenomena occur in specific contexts (Patton, 2015).

Qualitative evaluation was chosen for several considerations: (1) enables holistic analysis of complex interactions between bureaucratic capacity dimensions; (2) provides space for exploring subjective meanings attached by bureaucratic actors to inclusive economic concepts; and (3) is sensitive to specific contexts influencing policy implementation in each region.

Operationally, the research uses a comparative case study strategy comparing regional bureaucratic capacity in implementing inclusive economic policies across three locations with different typologies. This strategy enables identification of general patterns while recognizing contextual uniqueness in the studied phenomena.

### Research Location and Subjects

The research was conducted in three regions purposively selected to represent variations in socio-economic characteristics and fiscal capacity:

Surabaya City: Represents regions with high fiscal capacity and urban-industrial economic characteristics.

Banyuwangi Regency: Represents regions with medium fiscal capacity and mixed agro-industrial and tourism economic characteristics.

East Sumba Regency: Represents regions with low fiscal capacity and rural-agrarian economic characteristics.

Selecting locations with different typologies enables comparative analysis of how contextual factors interact with bureaucratic capacity in implementing inclusive economic policies.

Research subjects include regional bureaucratic components involved in implementing inclusive economic policies, particularly from agencies/bodies related to development planning, community empowerment, MSMEs, and other economic sectors. Additionally, the research involves informants from non-bureaucratic circles such as academics, civil society organizations, business actors, and program beneficiaries to obtain comprehensive perspectives.

### Data Collection

Data collection uses method triangulation to ensure information validity and reliability:

In-depth Interviews: Conducted with 45 key informants consisting of bureaucratic officials (30 people) and non-bureaucratic stakeholders (15 people). Interviews focus on informants' experiences, perspectives, and reflections regarding bureaucratic capacity and inclusive economic policy implementation.

Focus Group Discussions (FGD): Three FGD sessions conducted in each region with participant composition representing various related agencies and external stakeholders. FGDs aim to identify interaction patterns and collaborative dynamics among actors in policy implementation.

Participatory Observation: Conducted by attending coordination meetings, planning forums, and program implementation activities to directly observe bureaucratic practices and interactions with stakeholders.

Document Analysis: Includes examination of planning documents (RPJMD, Renstra, RKA), performance reports, regional regulations, and other policy documents relevant to inclusive economy.

### Data Analysis

Data analysis uses the thematic approach developed by Braun & Clarke (2006), with the following stages:

Data Familiarization: Transcription and repeated reading of data to build familiarity.

Initial Coding: Identification and coding of meaningful segments in data relevant to research questions.

Theme Identification: Grouping codes into potential themes reflecting patterns in data.

Theme Review: Re-examining themes to ensure internal coherence and external distinctiveness.

Theme Definition and Naming: Determining the essence of each theme and providing representative labels.

Report Production: Connecting themes with research questions and relevant literature.

Data analysis also involves constant comparison processes across research locations to identify similarities, differences, and patterns emerging in inclusive economic policy implementation across various contexts.

### Validity and Reliability

To ensure research trustworthiness, several strategies are applied:

Triangulation: Using multiple data sources and collection methods to confirm and enrich findings.

Member Checking: Involving key informants in verifying initial interpretations to ensure accurate representation of their perspectives.

Peer Debriefing: Discussion with peer researchers not directly involved in the research to test interpretations and conclusions.

Thick Description: Providing rich contextual descriptions to enable transferability of findings.

Reflexivity: Considering how researcher positionality affects the research process and data interpretation.

## 4. Results and Discussion

### Regional Profiles and Context of Inclusive Economic Policy Implementation

Surabaya City as the economic center of East Java has the highest GRDP per capita among the three research locations (Rp 124.7 million per year). The economic structure is dominated by services (62.3%), manufacturing (21.7%), and trade (15.4%). Fiscal capacity is classified as high with Regional Original Revenue (PAD) reaching 64.2% of total regional revenue.

Implementing inclusive economic policies in Surabaya is translated into flagship programs such as Economic Heroes (women's empowerment in MSMEs), Thematic Villages (community-based economic revitalization), and Surabaya Single Window (integrated licensing services). These programs share common characteristics: (1) multisectoral integration, (2) technology-based approaches, and (3) penta-helix collaboration with academics, business, community, government, and media.

#### 1. Banyuwangi Regency: Agro-Industrial and Tourism with Medium Fiscal Capacity

Banyuwangi Regency has a GRDP per capita of Rp 48.3 million per year, with an economic structure dominated by agriculture (24.6%), tourism and services (22.8%), and trade (19.3%). Fiscal capacity is classified as medium with PAD reaching 28.5% of total regional revenue.

Implementing inclusive economic policies in Banyuwangi is realized through initiatives such as Smart Village (integrated public services at village level), Banyuwangi Festival (tourism and creative economy branding), and BUMDES Center (village economic strengthening). The applied approach is characterized by: (1) optimizing local wisdom potential, (2) strengthening digital connectivity to overcome spatial gaps, and (3) mainstreaming social inclusion in tourism economic development.

#### 2. East Sumba Regency: Rural-Agrarian with Low Fiscal Capacity

East Sumba Regency has the lowest GRDP per capita (Rp 19.6 million per year), with an economy heavily dependent on agriculture (41.2%), followed by government administration (18.3%), and construction (14.5%). Fiscal capacity is classified as low with PAD only reaching 8.7% of total regional revenue and heavily dependent on transfer funds from central government.

Implementing inclusive economic policies in East Sumba focuses on basic programs such as Food Self-Sufficient Villages, Integrated Agricultural Development, and Ikat Weaving Program as cultural heritage. The developed approach is characterized by: (1) meeting basic needs, (2) strengthening subsistence economy toward limited market economy, and (3) adapting national programs according to local contexts.

Comparison of implementation contexts across the three regions shows that inclusive economic policies cannot be approached with a "one-size-fits-all" approach. Variations in socio-economic characteristics and fiscal capacity result in significant differences in priorities, approaches, and implementation scales of policies.

### Institutional Capacity of Regional Bureaucracy

#### 1. Institutional Design and Organizational Structure

Analysis of institutional design shows significant variations across regions in accommodating the inclusive economic paradigm. In Surabaya City, institutional innovation occurs through the formation of the "Inclusive Economy Synergy Team" which is cross-Regional Work Unit (OPD) and coordinated directly by the Regional Secretary. This model enables effective program and budget integration, although operating outside formal structures.

In Banyuwangi Regency, the approach taken is more reformative with restructuring existing OPDs to integrate functions relevant to inclusive economy. For example, forming the Office of Community Empowerment, Villages, Women and Child Protection that integrates economic empowerment functions with social inclusion.

Meanwhile, in East Sumba Regency, institutional structure remains conventional with clear separation between sectoral OPDs and minimal cross-sector coordination mechanisms. This condition creates fragmentation in implementing inclusive economic programs that are essentially multi-dimensional.

This finding indicates that institutional transformation is an important prerequisite in implementing inclusive economic policies. Regions with more adaptive and integrative institutional designs show better ability to translate inclusive economic concepts into coherent and synergistic programs.

## **2. Coordination Mechanisms and Decision Making**

Coordination mechanisms are crucial aspects in implementing multi-sector policies like inclusive economy. In Surabaya City, coordination is strengthened through implementing integrated information systems enabling real-time monitoring of cross-OPD program implementation. This system is supported by regular coordination meetings at three levels: strategic (led by Mayor), tactical (Regional Secretary), and operational (OPD Heads).

In Banyuwangi Regency, coordination is facilitated through the "Government Innovation Circle" forum involving OPDs and external stakeholders in issue identification, program planning, and result evaluation. This forum is semi-formal and flexible, enabling more dynamic information exchange and inter-actor learning.

In contrast to the previous two regions, East Sumba Regency still relies on formal hierarchy-based coordination mechanisms that tend to be rigid and time-consuming. Decision-making processes are concentrated at OPD leadership levels with limited space for initiative and discretion at implementer levels.

Comparative analysis reveals that coordination effectiveness is not solely determined by mechanism formality but also by flexibility, communication intensity, and collaborative culture developing within bureaucracy. Regions with more adaptive and responsive coordination mechanisms show better ability to overcome inclusive economic policy implementation complexity.

## **3. Incentive and Accountability Systems**

Incentive and accountability systems significantly influence bureaucratic organizational behavior in policy implementation. In Surabaya City, a performance assessment system is developed that explicitly includes economic inclusivity indicators in OPD and official evaluations. This system is supported by transparent reward and punishment mechanisms and public recognition for innovation in implementing inclusive programs.

In Banyuwangi Regency, incentives are more reputational and career-oriented, where success in implementing inclusive economic programs becomes consideration in job promotion and "Banyuwangi Innovator" awards. Although not highly structured, this approach is quite effective in motivating bureaucracy to adopt inclusive approaches.

Meanwhile, in East Sumba Regency, the incentive system still focuses on procedural compliance rather than outcome achievement. Performance evaluation tends to be formalistic and less sensitive to inclusivity aspects. This condition creates disincentives for bureaucracy to adopt innovative approaches in implementing inclusive economic policies.

This finding shows that alignment between incentive systems and inclusive economic policy objectives becomes an important factor in building bureaucratic motivation and commitment. Regions successfully integrating inclusivity aspects into performance assessment systems show more consistent and substantive policy implementation.

## **Human Resource Capacity of Bureaucracy**

### **1. Knowledge and Conceptual Understanding**

Understanding of inclusive economic concepts among bureaucracy shows significant variations, not only across regions but also across bureaucratic levels. In Surabaya City, middle-upper level officials generally have comprehensive understanding of inclusive economy as an approach integrating growth with equity. However, at staff levels, understanding is more operational and limited to specific programs.

In Banyuwangi Regency, conceptual understanding is concentrated in "enclaves of excellence"—specific units directly involved in innovative programs. Outside these enclaves, inclusive economy is often reduced to merely social assistance programs or conventional empowerment.

A sharper contrast is seen in East Sumba Regency, where understanding of inclusive economy generally remains at superficial levels. This concept is often equated with traditional poverty alleviation programs, with emphasis on charity rather than enablement.

Interestingly, analysis shows that cognitive distance toward inclusive economic concepts relates to educational background, exposure to best practices, and intensity of interaction with external networks. Regions with bureaucracy having more comprehensive conceptual understanding show higher creativity in contextualizing inclusive economic policies according to local conditions.

## 2. Technical and Managerial Skills

Implementing inclusive economic policies requires specific combinations of technical and managerial skills. In Surabaya City, there is significant investment in bureaucratic capacity development through targeted training in skills such as data analysis, participatory planning, and collaborative management. This program is supported by partnerships with local universities and international institutions.

In Banyuwangi Regency, skill development focuses more on learning-by-doing through involvement in innovative programs and exposure to best practices in other regions. This approach enables skill adaptation according to specific program needs, although coverage is limited to certain bureaucratic groups.

Meanwhile, in East Sumba Regency, HR capacity development remains general and less directed toward specific skills needed for implementing inclusive economic policies. The most significant skill gaps are seen in data analytics, multi-stakeholder facilitation, and policy impact evaluation areas.

Findings show that combinations of formal (training, education) and informal (mentoring, experiential learning) approaches in HR capacity development yield optimal results. Regions successfully developing a "critical mass" of bureaucrats with relevant skills show more innovative and adaptive inclusive economic policy implementation.

## 3. Attitudes and Organizational Values

The dimension of attitudes and organizational values is a "soft" aspect often overlooked but significantly affects policy implementation. In Surabaya City, a "can-do attitude" culture and strong problem-solving orientation are identified among bureaucracy. This culture is developed through transformative leadership and reward systems for innovative initiatives.

In Banyuwangi Regency, a "reform mindset" is formed driven by renewal narratives and regional branding as an "innovative district." This value becomes a driver for bureaucracy to adopt new approaches in public service, including implementing inclusive economic policies.

Contrast is seen in East Sumba Regency, where "compliance-oriented" culture still dominates, emphasizing adherence to formal procedures rather than outcome achievement. This risk-averse attitude becomes a significant barrier to innovation in implementing inclusive economic policies that essentially require experimentation and failure tolerance.

This finding indicates that transforming organizational values and culture is a fundamental aspect in developing bureaucratic capacity. "Competency-based" approaches focusing only on knowledge and skills are insufficient without accompanying mindset and attitude changes toward innovation.

## Operational-Procedural Capacity of Bureaucracy

### 1. Planning and Budgeting Systems

Planning and budgeting systems are key instruments in operationalizing inclusive economic policies. In Surabaya City, a "thematic budgeting" approach is developed enabling cross-OPD program and budget integration under strategic inclusive economic themes. This approach is supported by e-planning systems facilitating program synchronization and real-time achievement monitoring.

In Banyuwangi Regency, innovation is implemented through applying "participatory planning plus" integrating conventional musrenbang mechanisms with digital platforms to expand participation and strengthen accountability. However, this transformation is still limited to planning stages, while budgeting systems remain sectoral and rigid.

Meanwhile, in East Sumba Regency, planning and budgeting systems remain conventional with incremental and silo-based approaches. Budget fragmentation across OPDs becomes a significant barrier to implementing cross-sectoral inclusive economic programs.

Comparative analysis shows that planning and budgeting system reforms need to be prioritized to enable effective inclusive economic policy implementation. Adaptive, integrated, and outcome-based systems prove more capable of accommodating inclusive economic policy complexity compared to conventional rigid and sectoral systems.

### 2. Data Management and Information Systems

Availability of reliable data and information systems becomes an important enabler in implementing evidence-based policies. In Surabaya City, an "Integrated Social-Economic Database" is developed integrating data from various sources for target group identification, intervention monitoring, and inclusive program impact evaluation.



In Banyuwangi Regency, innovation is implemented through "Village Information System" collecting socio-economic data to village/sub-district levels. Although not fully integrated, this system enables more precise targeting and program adaptation according to area characteristics.

A different situation is found in East Sumba Regency, where data management remains manual and fragmented across OPDs. Limited digital infrastructure and HR capacity in data analytics become serious barriers to data utilization in implementing inclusive economic policies.

This finding shows strong correlation between information system maturity and inclusive economic policy implementation effectiveness. Regions with higher data analytics capacity show better ability in targeting, program customization, and policy impact monitoring.

### **3. Monitoring and Evaluation Systems**

Capacity to monitor implementation and evaluate program impacts becomes an important determinant for learning and continuous improvement. In Surabaya City, an "outcome-based M&E" approach is developed focusing on substantive program impacts on inclusive economic targets. This system is supported by multi-stakeholder feedback mechanisms and data analysis utilization for program adaptation.

In Banyuwangi Regency, innovation is implemented through "digital dashboard" visualizing program implementation progress and key indicator achievements. Although focus remains dominant on outputs rather than outcomes, this approach increases implementation transparency and accountability.

Meanwhile, in East Sumba Regency, M&E systems remain compliance-oriented with emphasis on budget absorption and activity implementation. Program impact evaluation on economic inclusivity is rarely conducted systematically, hindering policy learning and improvement.

This finding indicates the importance of transitioning from administrative monitoring toward substantive evaluation focusing on actual policy impacts on economic inclusivity. Regions with more mature M&E systems show better adaptation ability in responding to changing conditions and learning from implementation.

## **Relational-Coordinative Capacity of Bureaucracy**

### **1. Horizontal Coordination among OPDs**

Research identifies that horizontal coordination among OPDs becomes one of the biggest challenges in implementing inclusive economic policies. In Surabaya City, this challenge is addressed through combinations of formal (Integrated Coordination Team) and informal (leadership networking) mechanisms. The existence of "boundary spanners"—officials with capacity to bridge various sectoral interests—becomes a key factor in coordination success.

In Banyuwangi Regency, coordination is strengthened through "thematic working group" approaches grouping OPDs based on strategic development themes. This approach is quite effective in reducing sectoral ego, although resistance from OPDs with "strong institutional identity" is still found.

More problematic situations are found in East Sumba Regency, where silo mentality remains strong and inter-OPD coordination is often ad-hoc. The absence of incentive mechanisms for collaboration and dominance of zero-sum perspectives in resource allocation become significant barriers to inclusive economic program synergy.

This finding confirms that coordinative capacity cannot be developed only through formal structural changes but requires transformation in interaction norms and development of "collaborative culture" among bureaucracy. This relational-coordinative dimension becomes an intervening variable determining how other capacity dimensions are translated into effective implementation.

### **2. Collaboration with Non-Government Actors**

Implementing inclusive economic policies inherently requires multi-stakeholder involvement. In Surabaya City, collaboration with non-government actors is facilitated through platforms such as "Surabaya Development Forum" and formal partnerships with universities, business associations, and civil society organizations. These partnerships are not merely consultative but involve co-production in program design and implementation.

In Banyuwangi Regency, collaboration is developed especially with business sectors and local communities through "shared value creation" approaches. Models such as 'Tourism Villages and MSME Villages are examples of how bureaucracy acts as facilitators rather than sole implementers of inclusive economic programs.

Meanwhile, in East Sumba Regency, interaction with non-government actors is more transactional and limited to government program implementation. Bureaucratic capacity to build trust and organize substantial collaboration remains limited, resulting in minimal resource and innovation contributions from non-government actors.

Comparative analysis shows that collaboration effectiveness is not determined by mechanism formality but by bureaucratic capacity to operate as "network enablers" facilitating resource and knowledge exchange among actors. Regions with bureaucracy more open to external input and willing to share authority show inclusive economic policy implementation more responsive to local needs.

### **3. Vertical Coordination with Central and Provincial Governments**

Central-regional relationship dynamics become important dimensions in implementing inclusive economic policies. In Surabaya City, bureaucracy shows high capacity in utilizing central programs as leverage for local initiatives. "Strategic alignment" approaches enable synergy between national policies and regional development priorities.

In Banyuwangi Regency, bureaucracy develops "adaptive compliance" approaches enabling contextualization of national programs according to local needs without violating formal provisions. Capacity to "navigate bureaucracy" at central levels becomes a key factor in accessing resources and policy support.

Different situations are found in East Sumba Regency, where relations with central government are more dependency-oriented. Limited negotiation capacity and local interest articulation result in dominance of "one-size-fits-all" approaches in implementing national programs, which are not always relevant to local contexts.

This finding indicates that vertical coordination effectiveness is not only determined by formal regulatory frameworks but also by regional bureaucratic capacity to articulate local interests and conduct strategic negotiations with higher authorities. This relational-coordinative dimension becomes a key variable determining how regions utilize national resources and policies to support local inclusive economic agendas.

## **Capacity Gaps and Their Implications**

### **1. Identifying Critical Capacity Gaps**

Comparative analysis of four bureaucratic capacity dimensions identifies several critical gaps with significant implications for inclusive economic policy implementation:

- a. Conceptual-Operational Gap: Gaps between conceptual understanding of inclusive economy and ability to translate it into operational programs. This gap is most significant in East Sumba Regency, moderate in Banyuwangi Regency, and relatively small in Surabaya City.
- b. Coordination-Implementation Gap: Gaps between formal coordination plans and actual implementation capacity in the field. This gap is identified in all research locations, although with different characteristics: procedural in Surabaya, structural in Banyuwangi, and fundamental in East Sumba.
- c. Intention-Capability Gap: Gaps between normative commitment to inclusive economy and technical capability to implement it. This gap is seen in limitations of policy instruments, analysis methods, and monitoring capacity to operationalize inclusive approaches.
- d. Innovation-Institutionalization Gap: Gaps between episodic innovative initiatives and ability to institutionalize them into standard practices. This gap results in program sustainability often depending on individual leadership or champions rather than established systems.
- e. Relational-Transformational Gap: Gaps between capacity to build collaborative relations and ability to transform these relations into substantive changes. This gap is seen in many formal collaborative forums that do not produce concrete and transformative actions.
- f. Identifying these gaps shows that bureaucratic capacity is not a monolithic entity but a complex configuration of various interacting capacity dimensions. Gaps in one dimension can neutralize strengths in other dimensions, resulting in suboptimal policy implementation.

## 2. Implications for Implementation Effectiveness

Bureaucratic capacity gaps have significant implications for inclusive economic policy implementation effectiveness in all three research regions:

- a. Policy Dilution: "Dilution" of inclusive economic concepts occurs during implementation processes, where policies designed with transformative perspectives are often reduced to conventional programs with inclusive "labeling." This phenomenon is most prominent in regions with large conceptual-operational gaps.
- b. Implementation Deficit: Systematic gaps exist between formal plans and actual field implementation. In East Sumba Regency, implementation deficit reaches 47% of planned inclusive economic programs, while in Banyuwangi 28%, and in Surabaya 18%.
- c. Targeting Inefficiency: Limited capacity in data analysis and targeting results in resource allocation inefficiency, where programs often do not reach groups most in need. In East Sumba Regency, analysis shows that 36% of program recipients are not included in priority target groups.
- d. Program Fragmentation: Limited coordinative capacity results in cross-sector program fragmentation reducing aggregate impact of inclusive economic policies. In all three regions, program duplication, coverage gaps, and approach inconsistencies are found hindering objective achievement.
- e. Sustainability Challenges: Dependence on individual champions and minimal innovation institutionalization create sustainability challenges, where innovative programs often do not survive beyond certain leadership periods.

These implications show that bureaucratic capacity not only affects procedural aspects of implementation but also policy substance and outcomes. Regions with larger capacity gaps show more limited impacts from inclusive economic policies on economic structure transformation and marginal group access improvement.

## 3. Variations in Bureaucratic Adaptation and Resilience

Interestingly, research identifies significant variations in bureaucratic adaptation strategies facing capacity limitations:

- a. In Surabaya City, bureaucracy shows high adaptive capacity through developing innovative "workaround solutions" to overcome structural barriers. For example, budget flexibility limitations are addressed through private sector collaboration and cost-sharing model development.
- b. In Banyuwangi Regency, bureaucracy develops "pilot and scale" strategies, where innovative initiatives are tested in limited scales before expansion. This incremental approach enables gradual learning and adaptation without creating systemic risks.
- c. In East Sumba Regency, bureaucratic adaptation is more reactive and ad-hoc, with dominance of "muddling through" approaches focusing on short-term problem solving without structural changes.

These variations show that bureaucratic resilience—defined as the ability to maintain essential functions amid limitations—is an important dimension complementing capacity concepts. Bureaucracy with high resilience can produce relatively effective implementation despite facing capacity limitations in certain dimensions.

## Factors Influencing Bureaucratic Capacity

### 1. Leadership and Political Will

Research identifies leadership as a crucial factor influencing bureaucratic capacity development. In Surabaya City, sustained transformative mayoral leadership (through three different periods) creates consistent and accumulative reform momentum. This leadership is characterized by clear vision articulation, high performance standard formation, and innovation support.

In Banyuwangi Regency, leadership is entrepreneurial with emphasis on innovation, risk-taking, and result orientation. This model is effective in creating "quick wins" and catalyzing mindset changes, although challenges in institutionalizing changes remain.

Meanwhile, in East Sumba Regency, leadership is more transactional-administrative with focus on stability and procedural compliance. Although creating predictability, this approach less encourages innovation and adaptation needed for effective inclusive economic policy implementation.

This finding indicates that different leadership types catalyze development of different bureaucratic capacity dimensions. Transformative leadership is more effective in building long-term adaptive capacity, while entrepreneurial leadership creates strong short-term change momentum.

## **2. Socio-Economic Characteristics and Regional Fiscal Capacity**

Regional socio-economic characteristics and fiscal capacity form "opportunity structures" for bureaucratic capacity development. In Surabaya City, high fiscal capacity enables significant investment in HR development, digital infrastructure, and institutional innovation. Urban-industrial characteristics also create ecosystems conducive to collaboration with universities and private sectors.

In Banyuwangi Regency, position as an "emerging district" with above-average economic growth creates positive momentum and change expectations, although fiscal capacity limitations restrict intervention scales. Mixed agro-industrial and tourism characteristics create economic diversification opportunities supporting inclusive policy implementation.

Meanwhile, in East Sumba Regency, fiscal capacity limitations and rural-agrarian characteristics create structural challenges. High dependence on central transfer funds limits local discretion space, while geographical conditions and limited basic infrastructure hinder connectivity and service access.

This analysis shows that bureaucratic capacity development must consider specific regional contexts, with different approaches for different regional typologies. "One-size-fits-all approaches" in bureaucratic reform tend to ignore variations in starting points and opportunity structures across regions.

## **3. Local Governance Ecosystem Maturity**

Local governance ecosystem maturity—encompassing interaction quality among development actors outside bureaucracy—becomes an important factor influencing bureaucratic capacity. In Surabaya City, mature governance ecosystems are characterized by strong civil society, actively involved private sectors, and critical local media. This condition creates "constructive pressure" for bureaucracy to improve capacity and performance.

In Banyuwangi Regency, governance ecosystems are in development phases with progressive strengthening of community-based organizations and private sector engagement in tourism and creative economy. This condition supports experimentation of collaborative models in policy implementation.

Meanwhile, in East Sumba Regency, governance ecosystems are still in early formation stages with bureaucratic dominance as main actors and limited participation from non-government actors. This condition creates "comfort zones" that less encourage bureaucratic innovation and accountability.

This finding confirms that bureaucratic capacity does not develop in isolation but through dynamic interactions with broader governance ecosystems. Bureaucratic capacity development policies need to adopt ecosystem approaches that not only focus on internal reforms but also strengthen non-government actors and improve inter-actor interaction quality.

## **5. Conclusions**

This research has evaluated regional bureaucratic capacity in implementing inclusive economic development policies through comparative analysis across three regions with different typologies. Based on empirical findings, several conclusions can be drawn: **Multidimensionality of Bureaucratic Capacity:** Bureaucratic capacity in implementing inclusive economic policies is multidimensional, encompassing institutional, HR, operational-procedural, and relational-coordinative aspects. These dimensions interact to form unique capacity configurations in each region, with different implications for implementation effectiveness. **Systematic Capacity Gaps:** Systematic gaps are identified between capacity required for effective inclusive economic policy implementation and actual capacity possessed by regional bureaucracy. These gaps vary across regions and capacity dimensions, with the largest gaps in relational-coordinative dimensions and smallest in operational-procedural dimensions.

Relational Capacity as Critical Factor: Relational-coordinative capacity of bureaucracy—ability to build cross-sector synergy and multi-stakeholder collaboration—becomes a critical factor determining inclusive economic policy implementation effectiveness. Regions with high relational capacity show more adaptive and responsive implementation to local needs. Contextuality of Capacity: Bureaucratic capacity does not develop in a vacuum but is shaped by specific contexts such as regional leadership, socio-economic characteristics, fiscal capacity, and governance ecosystem maturity. Implications include that capacity development requires contextual approaches accommodating uniqueness of each region. Beyond Technical Solutions: Bureaucratic transformation to support inclusive economic policy implementation requires more than technical solutions. Mindset changes, organizational culture, and interaction norms become equally important as developing structures, systems, and technical competencies. Adaptive Leadership as Catalyst: Adaptive leadership capable of articulating vision, mobilizing resources, and facilitating collaboration becomes an important catalyst for bureaucratic capacity development. Different leadership types tend to strengthen different capacity dimensions. Collaborative Approach as Imperative: Inclusive economic policy complexity demands collaborative approaches involving various stakeholders. Bureaucracy successfully transforming from "sole implementer" to "network facilitator" shows more responsive and innovative policy implementation.

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