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ABSTRACT

Indonesia achieved remarkable growth during the first 25 years of its series of Five Year Development Plans, which started in 1968. However, growth has not been well distributed across the regions, in part this is as a result of the Indonesian government development policy of a growth centre approach which has benefited 'Western Indonesia' (Kawasan Barat Indonesia, KBI) more than 'Eastern Indonesia' (Kawasan Timur Indonesia, KTI). Prosperity needs to be spread across Indonesian regions and needs to be more equitably shared.

The thesis argues that government needs to search for other ways to overcome the imbalance by accelerating KTI development, to reduce this region's resentment, which may increase the risk of disintegration.

The central aim of this research is to describe and critically evaluate the potential usefulness of Public-Private Partnerships (PPPs) as a means to address the regional imbalance in economic development. It aims to make a contribution by:

1. **Describing** in detail the ways government decision-makers see the situation, in other words giving the viewpoints of the state;
2. **Providing** detailed transcriptions of the interpretations and opinions expressed by powerful decision makers in the public and private sectors;
3. **Demonstrating** how the public, private and non-government sectors operate;
4. **Making** the realistic point that the links across these sectors leads to both positive and negative outcomes; including
5. **Illustrating** through examples how corruption spreads from the public to the other sectors.

This study examines the contributing factors to regional imbalance in Indonesia between KBI and KTI by means of a case study of policy and management challenges in KTI. It examines the current strategy used for accelerating the economic development of

KTI and considers whether a new strategy of Public Private Partnerships would have relevance and can be developed and implemented to accelerate the development.

Current strategies especially formulated for accelerating KTI economic development include:

(i) The Policy and Strategy of the Eastern Indonesia Development Council

(ii) The Program of the Ministry for Acceleration of Eastern Indonesian Development; and

(iii) The Integrated Economic Development Zone program

However, one of the weaknesses of these policies is the lack of cooperation across government and the private sector.

This study has found that the government strategies and policies have neither matched local needs nor the implementation of economic development. The study, based on both interviews and secondary data, demonstrates that the causes of the economic imbalance are systemic and multiple. They span not only government policies contributing to the imbalance directly and indirectly but also other factors, such as:

(i) Systemic corruption across the public, private and non-government sectors;

(ii) Lack of willingness to address the issues, lack of capital, lack of capable human resource and lack of infrastructure, lack of domestic and international market access, lack of communication and coordination and lack of cooperation.

To overcome these problems, the Indonesian government together with business and the watchful eye of diverse civil society organizations need to change policies, systems, and visions for developing this region.

Public Private Partnerships through a mutual partnership program could be one way of accelerating the development in KTI. On the one hand there are some direct and positive consequences of this new vision, for example, the private sector sharing their knowledge, skills, funds, management and enhanced utilisation of market mechanisms to support the government in the development process. On the other hand there are many limitations to the approach such as government often accepts greater risk than is warranted, dangers of corruption and cronyism which may attend more intensive in long-

term relationship and contracted services resulted in corruption and secret business influence in government. According to Transparency International, Indonesia remains one of the most corrupt nations internationally. Unless strategies are put in place to address systemic and endemic corruption and Public Private Partnerships are well managed, then the model for Public Private Partnership will only serve to exacerbate the problem. Systemic corruption also effects trust amongst stakeholders, which needs to be hand-in-hand with strategies to address ‘demoralisation’ for developing prosperity.

Government is becoming more responsive to the private sector’s needs by providing a conducive environment for investment, entrepreneurship and innovation. Public Private Partnerships could be a means to balance power between public, non-government and private sectors if there is more capacity building to enhance the competency and responsibility of the players.

No development solution can come about by working with only the public or the private or the community sectors or just non-government organizations. This study makes a strong case that the ‘*solutions need to be found in Partnerships*’. However, in exploring the complexity of the social capital of trust-based networks between people (but which also unfortunately exclude others) which are important for partnerships and, correspondingly, with partnerships being important for social capital, the researcher finds that there is no neat or simplistic partnership that can produce miraculous results. Some partnerships can be corrupt, some can lead to better life chances for local citizens, but the merits of each case need to be considered contextually. Widespread change is only likely when there is systemic change across governance arenas (public, private and non-government) and with consideration of social, cultural, political, economic and environmental factors. Instead of blaming development problems on insufficient participation or the lack of capacity of the ordinary people, the problems lie equally with the state, big business and non-government organizations. More effective managerial skills and efficient processes are needed in the governance of all these organizations while the role played by civil society is essential in making this governance accountable. Better partnerships can provide models that could inspire others to follow.

Overall this study describes the complex problems created by poor policy making from above. The ‘gaze’ (in the sense used by Foucault)¹ is shifted from the ‘non-participating and incapable’ citizens to the ‘ineffective and inefficient’ powerful. Why are ordinary people so often studied to find answers to societal or systemic problems? The thesis argues that this is because they are easier to ask, more tolerant of the researcher, more resigned to answering a number of questions, or perhaps think it is easier to answer questioners in order to ‘get rid of them’.

Instead this thesis probes the viewpoints of the powerful. Researcher who is interested in understanding how the state operates in Eastern Indonesia could ‘trawl through this material’ in order to develop a greater understanding of the dynamics of power.

To conclude, the researcher is first and foremost a practical person, who wishes to find solutions by creating the conditions for better partnership arrangements. Instead, she found that the decision makers are part of the problem. For transformation in governance to occur, stronger civil society cooperation through ‘communities of practice’ is needed. This would be in the interests of all sectors of society if a regionally more balanced sustainable future is to be achieved.

¹ Foucault and Gordon (1980)

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DECLARATION

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made to the text.

Date:

Mardiah Thamrin

SUPERVISORS' DECLARATION

I believe that this thesis is properly presented, conforms to the specification for the thesis, and is of sufficient standard to be, prima facie, worthy of examination.

Date:

Date:

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CHAPTER ONE

OUTLINE OF THE RESEARCH

1.1. Introduction

The focus of this thesis is to address the following research questions:

- What are the factors that contribute to the imbalance between Western Indonesia (Kawasan Barat Indonesia, KBI) and Eastern Indonesia (Kawasan Timur Indonesia, KTI)?
- Does the current economic development policy used by the government redress the imbalance?
- What are the existing and potential policy initiatives that could address the imbalance between KBI and KTI?
- What contribution might be made to overcome the imbalance by Public Private Partnerships?

The study aims to determine the potential usefulness of Public Private Partnerships in addressing the imbalance of economic development across the Indonesian regions. But the thesis makes the point right at the outset that the increase in development income would need to be carefully distributed if poverty is to address. For this to occur corruption will need to be a focus of the discussion. The two phenomena of **changes in government administrative reform** and in the global context are also relevant.

Firstly, in the early 1980's, administrative reform of government began in several developed countries such as UK, USA, Canada and Australia. The consequences of some of the problems in government such as overly-big organizations, budget deficits and more complex government problems had lead to recognitions of ineffectiveness, inefficiency, lack of accountability and unresponsiveness. As a result, these countries reformed their 'public administration' to 'public management', adopting several management principles from the private sector to apply to public institutions.

Secondly, changes in the world economic environment of a trend to globalisation and increases in competition in world markets demanded that a country's government, private sector and the people together develop economic competitiveness in order to

survive in the international market. Globalisation and changes in its social, politic and economic domestic environment made the Indonesian government, like others, face significant pressure for restructuring economic development. There were many stakeholders (include international donors such as the World Bank, UNDP and the IMF) that made the change in structure become the focus of Indonesian economic discussion. ‘Structural change’ commonly refers to the change in basic components of the economy such as the movement from import orientation to export of non-oil products. However, as mentioned by Prawiro (1998) the most significant structural change in the economy is the change of the role of the government and private sector. According to Tjokroamidjojo (2000: 23), the World Bank Report 1997 and 1998:

described the important shift of dominant role of the government through economic planning, to economic benefit and market mechanism as the basis to make government policy and economic decision (transaction) by the people themselves. There is a movement in the government role from the agent of development to the community role, especially private sector, in development activities. It is defined as development from ‘Public Sector Led’ to ‘Private Sector Led’. There is progress in development management where in the early stage strategy and policy lead the socioeconomic development done by the government moving to a direction where private sector development activity is based on market mechanism through being market growth driven.

Tjokroamidjojo added “the changing also occurs in the same time with the changing in policy focus from inward looking to management of an outward looking economy, from import substitution policy to exporting to international markets”.

The Indonesian government does not have any choice apart from joining the world economy, which is very competitive, especially with the ratification of several international agreements by Indonesia such as AFTA (Asian Free Trade Area) in 2003, APEC (Asia Pacific Economic Cooperation) for 2010, and WTO (World Trade Organization) for 2020.

As a result of considering the government and market failures, the researcher believes that Public Private Partnerships is an appropriate approach for economic

development because it mixes aspects of 'market-driven development' with 'state-led development'. This approach tries to balance the role between public and private sector. Public Private Partnerships refer to a work relationship between the public and private sectors where they share the tasks, risks, and responsibilities based on their relative strengths and weaknesses for a better solution in economic development.

1.2. Background to the Study

It has been widely suggested that the first 25 years of the Indonesian Five Year Development Plans (Rencana Pembangunan Lima Tahun, Repelita) (1968/1969 – 1993/1994) was quite remarkable, with many improvements achieved. According to the World Bank (1993), from 1985 through 1995, the GDP rose at an average rate of 7.1 % per annum. Furthermore, Hamsworth (Jacquand, 1999) asserted that economic growth was accompanied by a spectacular reduction in the percentage of the population living under the poverty line. From an estimated level of 55 % in 1978 the poverty line declined to the official level of 11.3 % in 1996. In 1984, Indonesia was awarded by the FAO for its success in providing food and agriculture programs. In addition, Indonesia was declared to be part of the East Asian Miracle, as reported by the World Bank (1993, p.1):

East Asia has a remarkable record of high and sustained economic growth. From 1965 to 1990 the twenty-three economies of East Asia grew faster than all other regions of the world. Most of this achievement is attributable to seemingly miraculous growth in just eight economies: Japan; the “Four Tigers”: Hong Kong, the Republic of Korea, Singapore, and Taiwan, China; and the three newly industrializing economies (NIEs) of Southeast Asia, Indonesia, Malaysia and Thailand.

However, during this era, growth and development in Indonesia were becoming increasingly imbalanced across its regions. While satisfactory growth was recorded in its so-called Western Region, the performance of the Eastern Region left a lot to be desired. From the government point of view, based on consideration of budget allocation, the Western Region (KBI) is the fourteen provinces of Java, Sumatra and Bali, with all provinces in the other islands became known as the Eastern Indonesia (KTI) (BAPPENAS, 1999). However, according to Setia Hadi (1997), there are still different

opinions about the basis of the division. If we take the Wallace Line as a basis, KBI covers Kalimantan, Java and Sumatra island and KTI covers Sulawesi, Bali, Nusa Tenggara, Maluku and Irian island, but if based on recent development data on accessibility and regional development growth, KBI covers only Sumatra, Java and Bali while KTI covers the remaining areas, including Kalimantan. Nevertheless, the Eastern Indonesia Development Council (EIDC, 1997) used the standard government division in stating that KBI consisted of the fourteen provinces on the islands of Sumatra, Java and Bali, while KTI included the thirteen provinces in Kalimantan, Sulawesi, Irian and other islands.

In this thesis, researcher will employ the terms and definitions that are not only formal and standard in government offices, but also relevant to aggregate development accessibility statistics. Thus, KBI (Region of Western Indonesia) comprises the now sixteen provinces in Sumatra, Java and Bali island and KTI (Region of Eastern Indonesia) is all the rest, the fifteen provinces in Kalimantan, Sulawesi, Irian island, and the other smaller islands¹ (see Map 1 below).

¹ Since the late 1990s there have been several changes in provinces, made by Presidential Decree, with corresponding changes in the provincial composition of KBI and KTI (but not in the division between them). During 2000, in KBI Bangka Belitung was split off South Sumatra, and Banten off Java Barat; in KTI Gorontalo was split off Sulawesi and Maluku Utara off Maluku. Timor Timur (East Timor) was given independence in 1999. Irian Jaya has since been split into three provinces. In 2004, the new province of West Sulawesi was formed.

Map 1.1 : The Regions of Eastern and Western Indonesia (KBI and KTI)



Siagian (1993) pointed out that during the previous 25 years, Indonesian economic developments had been mainly in KBI, with few and limited developments in KTI, which had always been seen as an economically much weaker region. As an undeveloped region it would not have been able to improve its economic performance without outside assistance and support. However, in the Sixth Five-Year Development Plan (REPELITA VI), it was clear in the structure of the List of Indonesia Development Projects (DIPs) that KBI had been given twenty years of more accelerated development than had KTI, which had a far smaller portion of the projects.

With regard to infrastructure for example, this policy was implemented in such a way that it led to making disparities between KBI and KTI much worse. It happened because historically KBI already had better infrastructure so when KBI's DIP provided large funds for maintaining, improving or built new infrastructure facilities, KBI could become even more developed. Meanwhile, KTI had poor infrastructure but received only a small portion for building or maintaining infrastructure facilities so remained largely unchanged.

Siagian's assessment that public policy in fact increased the gap between regions was supported by Harris (1994: 39-40, my emphasis) who claimed this was due to three characteristics of government policy over the twenty years:

- i) **Centralising**, with almost no opportunities for initiatives or creativity from below;
- ii) **Homogenizing**, without providing for any geographic, demographic, natural resource or other objective differences;
- iii) **Sectoralising**, with planning and administration dividing decision-making and responsibility between sectoral departments at national and local levels of government.

Since long ago, not only experts but also National Economic Planners themselves had realized that government development policies focus more on sectors. The policies were dominated by a centralistic approach (Kasiyanto, 1991; Riyadi, 1991; Amin, 1993; Harris, 1994). The Indonesian economy deteriorated when the Asian financial crisis hit in early 1997, the World Bank (1998: 1.1.) described the condition as follows:

Today the Indonesian Economy is near collapse. Foreign exchange markets have singled Indonesia out from other South East Asian economies for special punishment. External creditors have withdrawn. Weaknesses in the corporate and banking sectors have been magnified into fatal flaws. Urban unemployment has climbed to unprecedented levels. Increasing rural poverty, lowering rural incomes, declines in food production have added to Indonesia's woes.

The challenging social, economic and environmental circumstances that Indonesia has faced in the past few years has also constrained and impeded governmental intervention in efforts to improve the more balanced development of Indonesia. Financing development is now much more difficult than before the crisis. Oil and timber exports as well as foreign loans have become increasingly scarce. On one hand, oil has become a less reliable source of revenue for the government. Even though the world prices are high, oil supply has decreased markedly because of more disruption of production and development, while the Indonesian government is having problems providing oil for domestic consumption. The provision of foreign loans, previously used

to cover budget deficits (especially as a major resource for development expenditures), is now more difficult and complicated because of international and political pressures. So, in such a severe economic and political quagmire, it is imperative that Indonesia searches for a new strategy of development, especially for KTI. The imbalance between regions is a significant problem that the Indonesian government needs to consider. Economic imbalance contributes to regional dissatisfaction; especially the fact that the proceeds from exploitation of KTI's natural resources have largely flowed directly to central government and KBI has benefited more. This imbalance needs to be addressed by the Indonesian government to improve the economy of KTI and to reduce if not eliminate its influence as a disintegrative factor. The need to change policies, systems and vision to develop the country after the crisis is tremendous, especially to develop KTI in the near future.

The question needs to be asked: are there other approaches that can complement, extend or change current approaches to help overcome the imbalance that has occurred as a result of the current and past economic development approaches?

The Indonesian government remains 'shackled' (terbelenggu) by the old approach to development with a growth bias and development pattern that tends to be centralistic and without due regard for redistribution leads to regional disparities between KBI and KTI. Moreover, the lack of cooperation between government and private make the condition worse, such as with business companies with more stress on short-term profitability and infrastructure facilities choosing to concentrate their investments in KBI. On the other hand, the government paid less attention toward development based on local natural resources potential and did not involve private sector optimally. Especially, lack of cooperation between government and business on planning and managing exploitation of forest resources creates extensive illegal logging. KTI's forest resources are not only important for local, Indonesian, use but for the whole world. They are one of the largest forest areas in the world, capable of absorbing 30% of world carbon dioxide pollution.

Not only is there a lack of cooperation between government and business, but also a lack of cooperation between government and other stakeholders including NGOs (Non Government Organizations) and the community. One of the factors that contribute to lack of cooperation between government and private sectors is the dominating role of

government in economic development. Government officials plan and manage development by themselves, not considering other stakeholders' possible roles. As a result the implementation of government policy is not effective because it does not reflect peoples' need.

The dominating role of the government has not only been supported by the military but also the military has been actively and directly involved in the government either in executive, legislative or judicial teams. This caused extensive corruption in government management (see later discussion in 2.3.). The government's dominance has been not only in economic but also in almost all community activities. Interaction between government and community cause corruption in government to spread to the whole community. In another word, corruption is not only done by government and military officials but also is also widespread in the general community, and can be described as a 'culture of corruption' (see discussion in 5.5.3.). Unsurprisingly, it is well known that Indonesian is one of the worst corrupt countries in the world. For many years the Indonesian economy has had constraints because of corruption. By using a Public Private Partnership approach, corruption may increase unless well managed. As elsewhere in Indonesia, minimizing corruption is one of the important actions for accelerating development of KTI, according to Kuntjoro Jakti (1990) who addressed the then socio-economic challenges in KTI and stressed their systemic nature or interconnectedness.

Besides the government policy itself, there are many factors that contributed to KTI's less-than-favourable economic progress. These included such factors as lack of willingness to address the issues, lack of capital, lack of effective managerial skill, lack of access to domestic and international markets, lack of information and technology, lack of efficient ways as well as lack of infrastructure. Considering this, there are some obvious advantages in a private sector with such as capable human resources, good management, high investment, appropriate technology and enhanced utilisation of market mechanisms, getting as significant a role in local economic development as government.

In my opinion, Public Private Partnership through a mutual partnership program is one way to accelerate development in KTI. The important role of Public Private Partnerships in local development is realized by Bennet and Krebs (1991: 158):

We argue that local economic development on any significant scale must be seen as multi-faceted requiring a range of the key economic actors to work together. 'Working together' we have termed as requiring a close co-operation or partnership. Partnership is the concept that is used to argue that not only the factors of production, but also the actors involved in managing each factor, have to be brought together to ensure successful and sustained local economic development. Public Private Partnership focus on co-operation between actors and each fulfils its responsibility in the economic development process, therefore, we argue to be the necessary condition for significant local economic development.

Furthermore, they argue that capacity building is about forming networks at the local level and building these across the community. This thesis, however, focuses on the powerful decision makers in KTI. It draws attention to the extent to which they create opportunities and the extent to which they are unwilling to work together, are corrupt or are lacking the necessary skills

The legal context needs to be considered, such as the Laws Nos. 22 and 25 of February 1999, which should provide the right momentum and be a positive factor for implementing Public Private Partnership in KTI. These laws emphasis the 'bottom up' approach, both are representative of the effort to manage local development based on local conditions and also to develop local capabilities to respond to and address issues locally. The Indonesian government has had an interest in the private sector getting involved in development process even before the 1997 Crisis. For example, through its National Development Planning Agency (BAPPENAS) and the World Bank, the government organized the Ministerial Level International Conference on 'The Frontiers of the Public Private Interface in Infrastructure' in 1996 (see Juoro et al, 1997).

1.3. Methodology

To achieve the aim of this study, two sets of data were collected and analysed. The first set consisted of government documents; reports, economic and policy studies that related to economic development. The second set comprised interviews. The major

focus of analysis was on qualitative analysis of the interview material, with quantitative analyses of the documents used to support this (see Chapter III).

1.4. Significance of the Study and its Contribution to Public Policy and Management

As mentioned above, if the imbalance continues and the gap between the regions increases, less developed regions will protest and this may increase disintegration risk. Hopefully this study finds part of the answer for combating the imbalance of development across the regions in Indonesia, especially KTI, and may contribute to making the government and business more accountable.

Although many countries have implemented this kind of approach, especially for their infrastructure development, research in this area is still scarce. The study materials could be used by other researchers to enhance their understanding of the situation from the point of view of the state and business. The researcher was able to access the informants because of her official position and the trust that the informants invested in her. The thesis develops an argument based only on how those in power see the situation and thus it could provide a useful basis for much needed research into how those at the receiving end of these development decisions see the situation.

A significant contribution that this thesis makes is that the researcher, an Indonesian government official and citizen, has carefully interviewed many powerful decision makers and drawn on her own experience of working in development bureaucracy. This study has recorded how *the state sees the situation* (Scott, 1998).

Moreover, there is an unintended outcome of Public Private Partnerships in KTI. Partnerships between government and private sectors on planning and managing forest resources could eliminate or at least minimize extensive illegal logging

1.5. Scope and Limitation of the Study

- To examine the extent of the imbalance of economic development between KBI and KTI, this study investigated the regional disparities profile of all provinces and analysed the interview data.

- To analyse the current strategy used for accelerating the economic development of KTI, this study discussed government regional development strategies in general such as the Transmigration and INPRES (Instruksi Presiden/Presidential Instruction) programs, and regional development strategies formulated specifically for KTI, such as: i) the Policy and Strategy of the Eastern Indonesia Development Council (EIDC, or the Council for Integrated Regional Development, Dewan Pengembangan Kawasan Terpadu), ii) The Integrated Economic Development Zone program (KAPET or Kawasan Pengembangan Ekonomi Terpadu program) and iii) the Program of the Ministry for Acceleration of Eastern Indonesian Development (Ministry for AEID). To examine whether Public Private Partnership can be developed and implemented to accelerate the economic development of KTI, this study investigated two provinces as case studies, East Kalimantan and South Sulawesi. Furthermore, as this study focuses on local economic development, it focussed more on government and business, as the key players in economic activities, than other local stakeholders.

A limitation of the study is that it did not address the point of view of ordinary citizens. This is an area that obviously needs to be addressed, but was outside the scope of this thesis. Beside a view from above, this thesis only addresses the point of view of some community observers from study centers, local journalists and NGOs.

1.6. The Structure of the Study

- *Chapter 2* is the Conceptual Framework that discusses economic development, imbalance and the possible impacts of Public Private Partnership on economic development. It reviews literature and concepts relevant to Public Private Partnerships and describes models of Public Private Partnerships that already exist.
- *Chapter 3* describes the process of data creation and collection, participants and methods of data analysis.

- *Chapter 4* refers to implementation issues in development focussing on economic aspects, especially on the imbalance in economic development between Western Indonesia (KBI) and the Eastern Indonesia (KTI). To get a clear picture about the imbalance between KBI and KTI this chapter critically and systematically explains and discusses the general and the KTI-specific government policies and strategies on economic planning and implementation in regional economic development. It also discusses some significant economic indicators for regional economic growth such as Regional Gross Domestic Product (RGDP), RGDP by Sectors and RGDP Per Capita, Government Investment and Private Sector Investment. Moreover, this chapter discusses the relevant interview data in terms of existing theories to clarify the contributing factors that were reported as impacting on and contributing to the imbalance. Together with secondary data, the result of this analysis, based on 60 interviews with local stakeholders from 8 regencies/municipalities and central governments, is used to show that the causes of economic imbalance are systemic and span both policies and practices.
- *Chapter 5* presents and discusses themes that emerged from analysing the fieldwork interview material, such as willingness, mutual trust and confidence, and other related themes to see whether local actors have opportunity and capability to develop or implement Public Private Partnerships. Fieldwork locations included three in East Kalimantan Province (Samarinda, Kutai Kertanegara and Balikpapan) and five regencies/municipalities in South Sulawesi Province (Barru, Parepare, Sindrap, Pinrang, and Enrekang).
- *Chapter 6*, based on grounded theory, aims to develop principles on how to develop Public Private Partnerships in the KTI context. Grounded theory is used in order to develop new concepts and theories. Furthermore, a suggested Model of Public Private Partnerships is proposed for implementation in KTI and, where possible, the role of local stakeholders identified in such partnerships.
- *Chapter 7* concludes the report of the study by summing up the contributions made in the thesis to addressing the strengths and weaknesses of local partnerships in KTI.

CHAPTER TWO

THE CONCEPTUAL FRAMEWORK:

THE IMPACT OF PUBLIC PRIVATE PARTNERSHIPS ON ECONOMIC DEVELOPMENT

2.1. Introduction

To understand regional disparities in Indonesia and how Public Private Partnership could contribute to finding answers, this study will begin with a description of economic development and equity. It will briefly describe economic development and equity with a progression through three schools of thought, the classical, neoclassical and Keynesian that influences the theory of economic development. The pattern of economic development in Indonesia is also related to the changes in development in western countries, especially influenced by the neoclassical and Keynesian schools. What happened in KTI is one piece of evidence in the argument about U theory, the trickle-down effect that in reality did not work. The Indonesian government focused more on KBI development for years, expecting that KBI growth would spread among the other regions. In reality the imbalance of economic development between KBI and KTI continues, not only as an early stage of economic growth.

An explanation of one of the approaches in economic development that hopefully could contribute to redressing the imbalance between KBI and KTI is Public Private Partnerships. This study will discuss the relationship between Public Private Partnership and economic development. First, it will explain the Indonesian government's role in economic development and why government needs to encourage the private sector to be involved in local economic development. Also, it will discuss some issues such as attitude, management style, supporting conditions/positive factors and conditions for success to examine the potential and opportunity to implement Public Private Partnership in KTI. This chapter will present some models of Public Private Partnership being used in

other countries and the model that is promoted in this study, with predictions of contributions and expected outcomes of Public Private Partnership in KTI Economic Development. The chapter will be closed by discussion of some criticisms of Public Private Partnership.

2.2. Economic Development and Inequality

Development theory was first introduced in the early 18th century in the Classical Economics promoted by Adam Smith with his 1776 book *An Inquiry into the Nature and Cause of the Wealth of Nations*. The Classical Economic school of thought believes that market power is very important in generating economic growth, but is pessimistic towards the prospect of long-term economic development as it predicts that over the long term economic growth will reach saturation level and stop because of limitations of natural resources. Supporting this argument, Robert Malthus, in his 1798 *An Essay on the Principle of Population*, argued that increases in population were geometrical progressions, while the increases in food were arithmetical progressions therefore inevitably creating problems because growth in population is much faster than growth in natural resources.

This Classical school of thought was followed by the Neo-classical, which was a development of it, and it is used more widely. The ideas of the Neo-classical Economic School have had a great influence on the study of economic development in general, at least as practiced in the Western countries, and on development policy. According to Thee Kian Wie (1994: 9) this theoretical influence on development policy has manifested itself in three ways:

- i) By development economics preferring policy prescriptions of marginal adjustments, as ‘natural’ economic development is assumed to be gradual and continuous;
- ii) By the belief in and advocacy of reliance on ‘automatic equilibrating mechanisms’ which will remedy disequilibrating tendencies in the economy, as the process of economic development is assumed to be harmonious and cumulative;

- iii) By a reliance on the spread and trickle-down effects of economic growth, with an underlying optimism about the possibilities and widespread benefits of economic growth.

However, neither Classical nor Neo-Classical schools of thought could solve many economic problems in Western countries after World War I and the world depression in the 1930s. As mentioned by North (Thee Kian Wie, 1994), there are two weaknesses of application of Neo-Classical economic theory in i) not being able to analyse *long-run* economic change and ii) providing only limited answers for the context of the problem to be analysed.

Keynesian thought, described in John Maynard Keynes' 1936 *The General Theory of Employment, Interest and Money*, was promoted to try to find the solution to the economic problems in these western countries. One of the new ideas of Keynesian was that market mechanisms need government's intervention. The Keynesian theory of economic development was further developed by Kuznet with the theory of economic growth and income distribution, and then further enriched by Chenery, and Syrquin.

Thus there has been a shift of thought about the role of market and government in economic development and about economic growth and income distribution. The thinking about development in Indonesia is not independent from the shift in thinking about development in the western countries. The Indonesian development approach came to be that not only did the government need to intervene in the market mechanism, but it also needed to lead economic development.

For accelerating economic development the Indonesian government formulated a model of Guidance Development with a basic pattern of 'Growth with Distribution of Wealth' in which the central government was dominant and a leading actor in economic development. This pattern was used from 1950 and was finished because of spiralling inflation at the same time as the overthrow of the Soekarno ('Old Order') government at the end of 1965. Under the New Order, Indonesia under Soeharto's government used the planned economy model following the Rostow development model with a pattern of 'Growth First then Distribution of Wealth'. This planned economy involved six Repelita (5 Five Year Development Plans) where the fifth finished in 1993/4 (Tarumingkeng,

2001). 1998 was the final year of the sixth Repelita in a second stage categorised as a stage of 'free takeoff'. However, it turned out that Indonesia not only failed to 'takeoff' but fell to the ground in the economic crisis already discussed in Chapter I.

Officially, Indonesian development has three objectives, known as the Trilogy of Development (Trilogi Pembangunan) and stated in the Republic's State Guidelines (Garis-garis Besar Haluan Negara, GBHN):

- a. To obtain sufficiently high economic growth (Growth);
- b. To obtain an equitable distribution of development benefits (Equal Distribution);and
- c. To maintain national stability (Stabilization)

Even though the second objective of equality is often mentioned in government policies as the main priority, in practice the government has focused more on the first and third, socio-political stability and economic growth. To achieve economic growth, the government tended to utilise the growth centre concept. As mentioned by Hadi (1997), since Repelita II (Second Five Year Development Plan, 1974-1979), the Indonesian government has used this concept for regional development planning. According to Keban and Subarsono (1998), even much earlier than Repelita I (1969-1974), the government used this growth strategy for improving capital manufacturing industry. This was based on the assumption that through improvement in the aggregate supply of the economy/capital works programs, national economic growth would eventually be achieved and consequently, the mechanism of trickle-down would take affect on the national scale, thereby reducing regional disparities. This expectation followed Neoclassical regional theory, as argued by Armstrong and Taylor (cited in Keban 1998) who assert that human resources and capital tend to move in regionally opposite directions. They claim that the relationship between wages and return on investment (ROI) will pull labour into high wage regions but capital will move out because of the resultant lower ROI thus reducing labour demand and, consequently, wages. The capital will move to be invested in lower wage regions to obtain higher ROI, which will increase regional revenue, and labour demands thus wages there. Over time the processes will

tend to and equilibrium as they equalize relative capital returns and wages between regions.

Like many economic development experts, the Indonesian government tends to believe that inequality between regions is a natural consequence of a first stage of development. This belief is known as the U Theory (Kutznets, 1955), which states that the economic growth increases regional inequality in the early stages of development and reaches a peak then, after the development reaches a mature stage, the inequality will reduce. This argument is supported by some studies ² such as Adelman & Morris (1973) and Chenery & Syrquin (1975).

However, there is some evidence that U theory does not apply. Field (1980: 240-241) mentioned some examples such as:

The two fastest-growing countries-Taiwan and Costa Rica-experienced declining inequality, as did the two slowest-growing-Sri Lanka and India. Inequality increased in two countries with high growth rates-the Philippines and Brazil. A high aggregate growth rate is neither necessary nor sufficient for reducing absolute poverty; ...the outcome is clearly linked to public policy.

Moreover, in an earlier study Fei (et al 1978:17) concluded that:

The key question that is raised again and again is whether or not the beginnings of rapid growth in the developing economy must necessarily be associated with a worsening distribution of income. The careful examination of even one successful counter example to any such “historical necessity” should prove useful in its own right. But beyond that, a fuller understanding of some of the underlying causal relationships between the nature of the growth path followed and the pattern of income distribution that results will hopefully provide us with some policy-relevant conclusions concerning the precise conditions under which “things do not have to get worse before they can get better.

² more discussion see Field, 1980

Therefore, we can argue that inequality between regions does not have to get worse; it can become better even during the first stage of development, if it links to appropriate policies. Especially for KTI, which has already left behind more than twenty years, the waiting in the belief that inequality will peak and then decrease appears never-ending. KTI inequality needs to be studied more deeply and government needs to move forward and eliminate inequality between KTI and KBI. This study tries to find the factors that trigger inequality and try to use an additional approach to combat inequality.

2.3. The Role of Governance in Economic Development

The account above shows the shift in thinking about the role of market and government in economic development. The latest thought on economic development is governance. According to Tjokroamidjojo (2000: 22), “governance is the new development approach was promoted by international fund agencies such as World Bank and IMF”.

The World Bank (1992b: 52) defined “governance as the manner in which power is exercised in the management of a country’s economic and social resources for development”.

2.3.1. World Bank’s Experience on Governance

In the report on the governance work in the last two years (1991 – 1993), World Bank focus on the contribution of public sector management, accountability, transparency and rule of law to social and economic development, especially sustainable poverty reduction in the developing countries. In the report, World Bank (1994a: xiii - xvii) mentioned that

...the volume of governance-related lending, ESW (Economic and Sector Work), and research by the Bank is substantial and growing. The intensity of governance work varies from country to country according to country circumstances and needs. In the past two years the most comprehensive governance work has been carried out in Latin America and the Caribbean and in Africa. However, in all regions, World Bank staffs have given prominence to

assisting borrowers in strengthening governance in their countries. Worldwide, countries are seeking to improve the performance of their governments. A substantial part of the governance work in which the World Bank currently engages includes traditional public sector management (PSM) categories such as civil service reform, public financial management, and public enterprise reform. Experience in all regions confirms that PSM is a key issue of development effectiveness. Renewed emphasis on PSM has been influenced by changing perceptions of the role of the state. The new model requires a smaller state equipped with a professional, accountable bureaucracy that can provide an 'enabling environment' for private sector-led growth, to discharge effectively core functions such as economic management, and to pursue sustained poverty reduction. With respect to civil service reform, work has focused not only on retrenchment and cost containment but also on performance improvement and human resource management. The World Bank has also made an effort in the last two years to help its borrowers, in a variety of ways, to improve the accountability of their Public sectors. Decentralization of government as a means to improve accountability has been a major focus of lending and ESW. Financial accountability has been strengthened through lending operations focused on improving accounting and auditing practices and promoting compliance with financial management standards. Financial accountability assessments, a new form of ESW, are beginning to be undertaken. Micro level accountability has been promoted by encouraging beneficiary participation in projects and, in some cases, competition in service delivery. Support for greater transparency and information has been closely linked to the Bank's work on accountability. Improvements in financial management and introduction of transparent budgeting systems have been a feature of a number of lending operations. *Country procurement assessment reviews* by Bank staff and the policy dialogue between Bank staff and governments have been used to raise the issue of public procurement systems with borrowing governments, and in many countries the Bank is assisting reform. Training programs for developing-country journalists have attempted to raise public awareness and

improve public debate on economic reform. Moreover, support for the legal framework for development has taken the form of Bank advice on new laws to establish a framework for economic activity in transition countries. For example, laws on property rights, companies (bankruptcy laws), banking, competition, foreign investment, and the establishment of regulatory bodies. In addition, the Bank has been providing assistance to a growing number of countries for legal training and judicial infrastructure. Several research programs on a variety of legal issues have supported the Bank's assistance in this area.

2.3.2. The Role of Indonesian Government in Economic Development

Good governance also needs participation not only from the government and private sector to manage economic and social development based on democracy and market mechanism. It also needs a partnership across the government, private sector, non-government organisations and civil society. This is very difficult to achieve in Indonesia for a number of reasons.

As mentioned, development patterns in Indonesia are not independent of the shift in the thinking about development in the western countries. One of the reasons for the government's involvement in development is based on the idea that the society cannot achieve optimal prosperity because of market failure. Market failure occurs as a result of an imperfect market mechanism when there isn't perfect competition.

Historically Indonesia has experience with capitalism and socialism, but both left a poor impression with capitalism associated with the era of Dutch colonialism, whereas socialism is perceived as Communism. The Public Private Partnership Approach could be an opportunity to balance between capitalist and socialist systems. Paul Baran with his *Political Economy of Growth* started the new development of theorising about capitalism and its problems in third world countries. According to Baran (Duto, 2001) European expansions were based on the accumulation of capital from trade, which benefited from other parts of the world.

Capitalism in Indonesia was brought by the Dutch through their Colonialism, implemented over the period of 350 years during which they occupied parts then finally

all of Indonesia. The Dutch colonial government also encouraged its private businesses to invest in big plantations, which exploited the Indonesians and their lands as cheap resources. Therefore, as Sadli (1997) said, it is not surprising that many perceived this policy as the best way to reach the highest profits compared to other forms of colonialism. As a consequence of this experience, the term 'Capitalism' in Indonesia usually is perceived to refer to individualism, market orientation, competitiveness and the exploitation of Indonesian economy by foreign countries.

Moreover, in the beginning of Indonesian Independence when the spirit of anti-colonialism was very strong, the idea of Socialism gained more support. This could be seen in every policy, such as in Paragraph 33, in Chapter XIV of the 1945 Constitution which stated:

i) The economy is arranged as a joint effort based on collective (kekeluargaan, familial) principles.

ii) All of branches of production which are important to the state and which affect the life of many people are controlled by the state.

(ii) Land, water and natural resources that are contained in the interior are controlled by the state and used for the greatest prosperity of the people.

In the early months of Independence, almost all the political leaders presented their parties' programs, which had strong socialist influences that supported state ownership of economic resources. The first President of Indonesia, Soekarno, himself often stated that national revolution means socialism and the relation between them is inseparable. This ideology had been promoted by nationalist parties such as Sarekat Islam under the leadership of Haji Agus Salim and HOS Cokroaminoto who said that 'kapitalisme yang berdosa' (sinful capitalism), is often associated with 'riba' (usury), unacceptable in Islam. Professor. Supomo promoted about unification of individualism with socialism and invented the term "Sosialisme Pribadi" or "Socialism of the Individual". Mohammad Hatta (the first Vice President) stated that even though the republic did not approve of capitalism, he was one among others who were against egoistic accumulated capital. He initiated an economic program based on cooperatives, which was always claimed as an important government initiative but, unfortunately, the implementation has been unsuccessful (Sadli, 1997).

Indonesia has implemented both economic socialism and capitalism, but is uncomfortable to be categorized as the follower of both ideologies. In my opinion, this is one of the reasons why government cooperative programs were not successful, as suggested by Sadli, especially village cooperatives as a case, which are not productive and extremely dependent on government funding. Indonesia would like to be perceived as between both ideologies, so was proudly a founding father of the Non-Aligned Movement in the mid-1950s. In daily economic activities, Indonesia looked for an economic form which truly reflected the ideal in Indonesians' dream of an 'Ekonomi Kerakyatan' (Democratic Economy) or 'Ekonomi Pancasila' (following the founding Pancasila principles of the new Republic), different from both socialism and individualism. This has been manipulated by the Indonesian rulers to legitimise their actions, both in the Old Order and the New Order. For example, during the Old Order (under Soekarno), 'demokrasi terpimpin' (Guided Democracy) was established where the government categorizes itself as democratic but added the 'terpimpin' (leadership) because the parliament was not functioning as the representative of the people. The President took over all of the power; with the excuse that Indonesian democracy is different from Western.

Under the New Order this situation was no different. Up to 1998 the Indonesian government was not just involved in economic development, it even played the dominant role. The dominant characteristic of the New Order government could be described as Bureaucratic Authoritarian or State Corporatism.

According to King (Kaisiepo, 1987: 29), "Indonesia is bureaucratic authoritarian, involving an authoritative, technocratic state using its bureaucrats in a consensual and consultative approach to making policy and achieving its goals." He cites O'Donnell (Duto, 2001) who describes a Bureaucratic-Authoritarian state as one in which people participate mainly due to mass mobilization by the state with decision-making being bureaucratic rather than democratic. O'Donnell claims that there are likely to be Authoritarian-Bureaucratic governments in Third World Countries due to the foreign debt obligations they accept to industrialize. This industrialization requires much foreign capital and technology as well as local natural resources and human capital. The initial step of building factories and importing machinery usually unavoidably demands

indebtedness to donor countries or international lenders such as the World Bank or ADB that require maintenance of political stability. This is provided by a Bureaucratic-Authoritarian governance of the debtor country.

Indonesia is not an exception to this claimed phenomenon, economic development with high dependency on foreign debt. Mochtar Maso'ed (1989) described the restructuring and reorganization of the society under the New Order as the government tried to simultaneously maximize economic productivity and minimize conflict by legitimizing the use of its military and bureaucracy.

Indeed, under this mechanism Indonesia was relatively stable and achieved a high rate of economic growth albeit little redistribution. However, as already mentioned, this situation was tied to an economic imbalance between regions, especially between KBI and KTI, and a high dependency on foreign debts. As well, under the New Order Regime the military was an extremely dominant player. To increase the speed of the economic development, under the leadership of Soeharto (a former Army General)³, the Indonesian military regime justified a double role (*dwifungsi*) for the Indonesian military. They were not only to be involved in security and defense but also in commercial, social, economic and political issues, justified for the sake of successful economic development. In practice this dual role was misused, the dominant role of government by bureaucrats was not only supported by the military but also the military actively and directly was itself involved in the government, either in executive, legislative or judicial teams. Concentration of power in the government and military is one of the contributing factors to the massive corruption in Indonesia (see 5.5.5.5).

The dominant role of the government could also be described as State Corporatism. This, according to Schmitter (Mas'oed, 1989) involves a very strong and interventionist government, relatively independent and dominant in the political process even though it might allocate, on its own terms and under its leadership, some opportunities and roles to the community, professional groups or private associations.

In reality, the Indonesian government fits this description, with its role in the economic development process, including planning, funding, implementing and

³ According to Transparency International (<http://au.news.yahoo.com/040325/19/oa9p.html>), Indonesia former president Soeharto holds the dubious title of being the most corrupt world leader in recent history.

evaluating. The Indonesian government through its bureaucrats dominates not only in economic development but also intervenes in almost all of the community's activities.

Furthermore, with the excuse of fighting against communism, the government was very sensitive to socialism, considered close to communism. Pancasila, which had to be honoured as the state ideology was turned into a tool of the New Order Government to legitimate its actions. All strata of the population were compelled by the government to follow the basic Pancasila principles. These took the form of propaganda because the material, which was given to the public, was an idealistic conception that formulated the government as the appropriate important elite to hold authority at that time. The most interesting part of this was that, to quieten and shut off any strong opposition and differences in opinion, all public organisations and political parties had to have the one and only foundational basis of Pancasila and, a government 'success', all singing together and in tune.

If we consider State Corporatism as the government model for the relation between the people and the state, it can be seen as a form of rejection of both capitalist and socialist systems. The former pushes a need to maximize liberalization, competitiveness and individualism for achieving economic efficiency, the latter a demand to maximise state planning for economic control, social welfare and a hierarchical political community, while avoiding allowing autonomy for any alternative groups in the development of overarching structures and values. As described before, State Corporatism is characterized by being strongly interventionist, acting as a leader, which manages almost all economic and professional interests. As a consequence of this dominant role the number of government officials increase and the state organization is huge. Another reason for this size is that the demand for government jobs is high. In Indonesia this was supported by the New Order policy for combating educated unemployment and for pleasing educated society by recruiting new officials every year in many government departments and regions without thinking of the capacity of government. It is worse when recruitment process just become routine channel for some corrupt government officers to receive money from people using bribery to gain employment. Unsurprisingly, unskilled government officers with little to do trigger inefficiency in government institutions. There is an anecdote that "Indonesian

government officers must be corrupt to get back the money that they spent for recruitment and even more". Being a huge, dominant organization without good supervision and control has triggered inefficiency and high government spending.

2.3.3. Public Private Partnerships and Economic Development

As mentioned in Chapter I, even some developed countries faced problems in their government bodies and more complex government problems lead to ineffectiveness, inefficiency, unaccountability and unresponsiveness. As a result, these problems led them to reform the public administration into 'public management' in the early 1980s. This reform was supported by some scholars with their concepts such as 'Inter-organizational Relationship' from Whetten (1981), Gray (1989) Alter & Hage (1993); 'Privatisation' from Savas (1987), Multi-organization network' from Esman (1991); 'New Public Management' from Hood (1991), 'Post-Bureaucratic' from Barzelay (1992), 'Reinventing Government' from Osborn and Gaebler (1992), and 'Third Way' Giddens (1998).

Giddens's (1998) argument is that to solve the problems we need to use Public Private Partnerships, a new approach to balance the Two Ways of socialism, in which the government is responsible for desired changes, and capitalism, in which the market is responsible for the changes and individuals are responsible for themselves. He suggests that people deal with challenges as active agents and work out entrepreneurial partnerships between government and business in a new, Third Way.

In the beginning, the idea of implementing several management principles from the private sector in public institutions as a counter to an overly bureaucratic system triggered the idea of shifting the role of government totally to the private business sector. This opinion could be inspired by statements (see Weiss, 1995 and Dwivedi, 1999) that 'bureaucracy is usually seen as a part of problem than a part of solution'. Therefore, some supporters of privatisation translate it to mean letting the private sectors do the government functions by themselves. In Indonesia, the government privatisation program created doubt, because it was promoted by government through the BUMN (State Owned Enterprise) Ministry more as a way of obtaining income by selling state enterprises than

adopting private management principles for better performance of state companies.⁴ The latest thinking is that 'good governance', meaning open, transparent and accountable governance, has been identified by some scholars as introducing the idea that this is the era to shift the government role to private sectors. Some scholars such as Caiden (1991) and Giddens (1998) and international institutions such as UNDP (1995) and World Bank (1997) disagree with this opinion and argued that however the government role is still important. According to Giddens (1998: 99 –100):

Classical social democracy thought of wealth creation as almost incidental to its basic concerns with economic security and redistribution. The neoliberals placed competitiveness and the generating of wealth much more to the forefront. Third way politics also gives very strong emphasis to these qualities, which have an urgent importance given the nature of the global marketplace. Government has an essential role to play in investing in the human resources and a structure needed to develop an entrepreneurial culture. Third way politics, it could be suggested, advocates a *mixed economy*. The new mixed economy looks instead for a synergy between public and private sectors, utilizing the dynamism of markets but with the public interest in mind. It involves a balance between regulation and deregulation, on a transnational as well as national and local levels; and a balance between the economic and the noneconomic in the life of the society.

Furthermore, Giddens (1998: 125) stated that
The public sector can in turn provide resources that can help the private to flourish and without which the projects may fail. Moss Kanter points out that welfare-to-work programmes in the US have sometimes foundered on the problem of transport. Companies offer jobs in areas, which those available for

⁴ Another example is the comment by Dradjad H. Wibowo in *Gatra*, 28December2002, that privatization has the special aim for economic efficiency to improve market structure and guarantee governance on public goods and services. In reality, Privatization becomes 'asingisasi' (foreignisation) because it tends to sell government assets to foreigners. Price tends to go up and employees fired without consideration, good governance is not well guaranteed, and there is no good service for the community. The sale 42% share of Indosat is the biggest example of privatization as a retailer model. The first mistake was the privatization Indosat as a state enterprise without supporting law. The second mistake was the sacrifice of an Indonesian geopolitical and important strategic asset. Temasek, which bought Indosat is a Singapore state enterprise which can access the Palapa C3 satellite's military communications frequency. The third mistake was that the transaction was undervalued.

them can't easily reach because of a lack of adequate transport facilities’.

Giddens used classical social democracy and neoliberalism as a dichotomy in his discussion. Classical social democracy is one version of the socialist paradigms and Neoliberalism is one of the capitalist paradigms. Even though both of them cannot present a dichotomy as well as the capitalism and the socialism paradigm itself, at least with his dichotomy, Giddens has the same conclusion that we discussed before, that we still need the role of the public sector as well as of the private sector. Balancing the role of state and the role of market through Public Private Partnerships could lead to better results, but only if it is implemented within a context of transparency and accountability. For this to occur civil society needs to be involved. This thesis has not addressed this dimension. But it makes it clear that corruption occurs within and across the government, the private sector and within non-government organisations.

For example, as mentioned by Karim (1997) the concept of Public Private Partnership is one of closer cooperation and collaboration between the public and private sectors, which would require close working and the development of mutual understandings. But this would not be enough, if it merely helped to enhance corruption. If accountable partnerships could be created such national development could be more more successful, it could create more private businesses, higher employment and more government revenue.

2.4. Review of Concepts Used in the Thesis

The term Partnerships is used for describing interorganizational relations in many literatures such as in business, economic, sociology and economic development literatures.

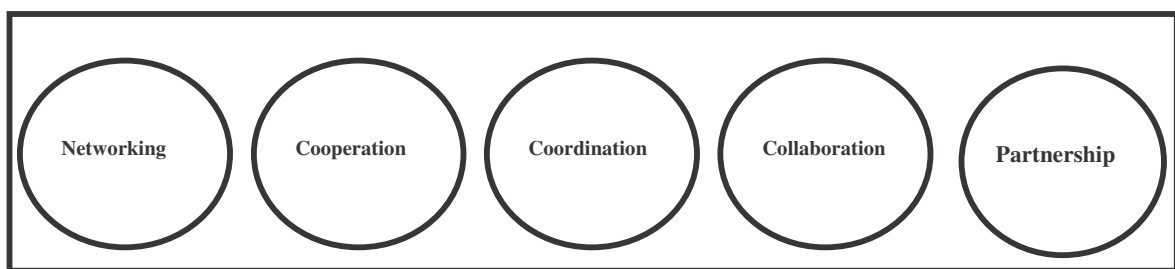
In discussion about processes for integrated governance in a national research project about ‘Working Together–Integrated Governance’, The Institute of Public Administration Australia/IPPA (2002: 17) stated that:

Initially, use of terms such as coordination, collaboration, and networking were used interchangeably to differentiate new ideas from those of competition. However, there is emerging research, which supports the placing of concepts on a continuum based on the degree of change and commitment

required. Informal relationships require little commitment and no organisational change; cooperative relationships are similar to informal ones but have increased levels of commitment with possible management by a Steering or Management Committee. Coordinated relationships/partnerships require some organisational change, meaningful training and a commitment to the aims of the other players. Collaborative relationships imply ‘change and innovation’ and are often started at the grassroots level. ‘Integration’ requires partnership in participation and can include joint planning, implementing and evaluating of policies

The process for integrated governance according to IPPA is shown in Diagram 2.1 below:

Diagram 2.1: The Process for Integrated Governance According to IPPA



As mentioned in Chapter I, in the local economic development context, Bennet and Krebs (1991) describe Partnerships as including both the factors of production and local stakeholders who manage each of these, need to cooperate and to fulfil their development responsibilities.

In their discussion about Collaboration and Partnership, Miller and Ahmad (2000: 28-29) define Partnerships, “as a means by which to pursue a number of other interests, bring to such arrangements different agendas, priorities and levels of commitment to a shared outcome by focus on strategic regeneration issues and operational concerns in the implementation of specific projects within the overall strategy”.

In the literature there is still confusion over using the term “private” in Public Private Partnerships. Almost all writers agree that “public” refers to government, but the term “private” refers to different kinds of actors. Some writers use the term “private sector” only for business/private companies; others use it more broadly, not only for business/private companies but also to include others/institutions such as NGOs, Social Institutions, etc.

Furthermore, some use the term “Public Private Partnerships” (Bennet & Kerb 1990, World Bank 1994), other use term such as “Government-Industry Partnerships” (Gore, 1995), “Public/Private Sector Infrastructure Arrangement”/”PPS Arrangement” (Peirson & Mc Bride, 1996), “The Public Private Interface” (ICID, in Juoro, et al., 1997), “Partnerships” (Victoria, 2001), or “Local Partnerships” (OECD, 2001). However, although these writers use different terms, their meaning is the same. For example, referring to a partnership between government and business/private companies, ICID uses “Public Private Interface”, Victoria uses “Partnerships” and Gore uses “Government-Industry Partnerships”.

On the other hand, others use the same term but their meanings are different. For example, Bennet and Krieb use “Public Private Partnerships” to refer to partnerships between government and many actors including Industry (business/private companies), Community, Professions, etc. What Bennet and Krieb mean by “Public Private Partnerships” is the same as OECD means by “Local Partnerships” where government works together with private sectors (business/private companies), social partners (trade union and employer organizations), and community based organizations and the voluntary sector (NGO), etc. In Britain, the term “PFI” for “Private Financing Initiative” is used for any project which involves the private sector even though, sometimes, only private company money is used.

Based on the review above, this study will use the term Public Private Partnership to refer to a formal, legal and consistent productive working relationship between government and business with different agendas, priorities and level of commitment together to fulfil their responsibility in strategic regeneration issues and operational concerns as equal partner in managing local economic factor to ensure successful and sustained local economic development.

The term Public Private Partnerships (Local Partnerships, Regional Partnerships, National Partnerships or International Partnerships) refer to a formal, legal and consistent productive working relationship between government and many private sector actors such as: business/private companies, social partners, community, non-government organizations, voluntary organizations, etc with different agendas, priorities and level of commitment together to fulfil their responsibility in strategic regeneration issues and operational concerns as equal partner in managing local economic factor to ensure successful and sustained local economic development.

2.5. Discussion of Individual, External Environmental factors and the Interorganizational Relationship

Based on a review of several studies conducted in European countries about interorganizational collaboration, Alter and Hage (1993: 24 & 39) mentioned that:

From our perspective, the most interesting new ideas are contained in several different studies by a research group in Sweden (Hakansson, 1990; Hallen, Johanson, & Mohamed, 1987), who found that sharing of technical, organizational, commercial, or market information leads to the ability to adapt and it is this success that builds trust. In a comparative study of 27 Swedish and 25 British firms, industrial marketers (more than one per firm) were asked about their most important relationships with customers in France, Germany, Italy, Sweden, and the United Kingdom (Hallen et al., 1987). Independent of the very strong relationship between adaptation and information exchange, the Swedish researchers found that need influenced both adaptation and information exchange strongly. In other words, there are sets of variables that encourage people to share information and to adapt, and these facilitate the building of a relationship but, in turn, there are situational factors that also influence whether this process will occur. The first and most basic condition that must exist for interorganizational collaboration is the willingness to collaborate. Willingness starts, of course, from an awareness and understanding of other organizations' needs and the perception that they are in way compatible with one's own.

Furthermore, the understanding of attitude could be translated as the way of behaving toward a certain object, which could be views or feeling but with an attitude incorporating a tendency to act based on that object (Gerungan 1986 & Masri 1972). There is obviously a strong correlation between attitude and action. The object, according to Gerungan (1986), could be anything, as attitudes may refer to things, people, but also to events, institutions' attitudes, norms, values and so on.

Attitude is formed in the development of each individual through his or her experiences. However, external factors themselves are not convincing enough as the only cause of the attitude. Even though it is admitted that experience is an important factor, the forming of attitude is determined by the individual himself/herself through such as attention and norms. Existing attitudes and others will play important role in whether external things will be accepted or not.

According to Walgito (1983: 52), in general, an attitude could be determined by two main categories of factors:

- a. Internal factors within the individual himself/herself.

How an individual responds to the external world is selective, every thing from the external world will not be accepted right away but each person selects which one is accepted and which rejected. This relates to each individual's perceptions of methods that could be used in response toward that objective. Therefore, individual factors will be dominant in determining whether something from outside is accepted or not.

- b. External factors in the Environment

Situations that exist outside an individual can be external factors that trigger or stimulate the formation of attitudes. This could be direct, in term of direct interaction between individuals, or between an individual and a group or between groups. It could also be indirectly, as a result of human civilisation, individual relations and communication equipment.

Beside, the willingness to collaborate as an internal factor to form Public Private Partnership, another internal factor is the level of trust and confidence. Trust is the basis for successful cooperation (Putnam, 1993, Fukuyama, 1995, and Kramer & Tyler, 1995). Misztal (1996: 3) suggested that, "it is often argued that we live in uncertain and

confused times and that we have lost the symbols or ideologies able to represent the meaning of integration. Hence the current search for new bases of integration need for a rediscussion of alternatives to the traditional bases of cooperation revives a concern with trust seen as a valuable asset, which develops in the mutually formative interplay of public institutions and individuals”.

Arrow (Azfar et al, 1999: 22), among others, has emphasized the importance of trust for economic activities. "Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence."

However, Buckley and Casson (Alter and Hage 1993: 24) who analysed cooperation in business elaborated the possible relationship, pointing out that “the level of trust not always is a basis for cooperation because there is cooperation with distrust. For example, the level of trust that develops between joint venture partners is a function of the motives of the partners. The research and development cooperation is likely to lead to the sharing of information and the building of trust, while joint marketing ventures are more likely to create distrust and cheating behaviour”.

A Public Private Partnerships is an interorganizational relationship in which public and private organizations share their strength to compensate for each partner’s weakness. As a complementary relationship, a Public Private Partnership needs mutual trust and confidence as a basis for the relationship.

One of the external factors that need examination is the organizations’ culture. As Atmosudirdjo (1997) mentions, one prerequisite for good partnerships is that the difference in ‘organization culture’ between the partners should not be too difficult to overcome or overbridge. If the difference in values, norms and outlook are too big, any kind of partnership will be doomed to failure.

Nevertheless, although to some extent it is true that different cultures can trigger failure in a partnership, as mentioned above a Public Private Partnerships is intended to be a complementary relationship, with differences needed to establish such a partnership. Even with a large difference in organization culture, because a need exists that cannot be filled by the organization itself, it can build a partnership. Public and private sectors have

different organization cultures, but this will not necessarily become an obstacle because the type of partnership is intended to be a complementary one, as mentioned in Chapter I, with the private sector sharing their technology, knowledge, skill, funds, management and enhanced utilisation of market mechanisms to support the government in the development process while, on the other hand, government becoming more responsive to the private sector's needs by providing a conducive environment for investment, innovation and entrepreneurship.

A large literature exists on appropriate contextual management styles. Some scholars believe that a bottom-up style is the best for key local economic development activities because it is participative. Neither top-down nor bottom-up strategies can stand-alone. In some cases we need top-down, in others bottom-up. We need at some times to be centralized, at others decentralized. In other words, perhaps we need a two-direction style. Public Private Partnership could require both directives from above and below in order to achieve accountability to civil society, business and the government at the local, provincial and national level. Thus it needs a two-direction style; a combination of centralized-decentralized approaches will achieve more effective results, even though in some cases one style might be needed more than another.

A top-down approach is needed for a coordination system, as the centre needs to know what is happening in localities, so it can support local initiatives. Bottom-up is an essential style for local stakeholders, as they have to take new roles and initiatives for encouraging economic development. If both centre and local have a familiarity with a two-direction style this will make working together easier than if they are work in one direction. For example, if they are used to working only in a top-down style, it is difficult to expect the initiatives, which are needed in fluctuating commercial environments.

2.6. Public Private Partnership Models

2.6.1. Review of Diverse Models of Public Private Partnerships

There are some variations in patterns of government and private sector involvement in the management of economic development among countries and cases and these may change over time. For example, according to Moon (1994) in South Korea close ties between government and private sector involve state domination of a mainly hierarchical but interdependent relationship with the government organizing, subsidizing and controlling. Competence between the bureaucracy and a historical tradition of authoritarian governance has provided for a successful orchestration of the private sector with a dictation of desired market outcomes and economic development. Wade (MacIntyre, 1994) pointed out that the South Korean private sector has not had a tradition of independence from the government and has behaved like subcontractors “competing and cooperating under state supervision”.

According to MacIntyre (1994), there are two key variables which are supporting factors for the successful Northeast Asian economies such as Japan, South Korea and Taiwan economies, government strength and strategic intervention in markets.

However, there are also some external factors acting on these interventionist trade policies and practices, for example other powerful governments. Chu (1994) pointed out successful American pressures against what is claimed were various ‘unfair’ trade barriers, export subsidies and domestic content requirements.

As discussed, internal and external factors contribute to changes in patterns of government and private sector involvement in the management of economic development. This study will focus on Public Private Partnerships as one such pattern.

There are several models of how the government and private play their role in Public Private Partnerships. These models are reviewed in order to draw out learnings from top down and more participatory approaches, when considering the specifically Indonesian context. The models are given in brief (albeit stereotypical) summary:

a. The World Bank Models

World Bank (1994: 8–9) gives four examples of main options for public-private partnerships over infrastructure equipment:

- i) Public ownership and operation by enterprise or department. Public provision by a government department, public enterprise, or parastatal authority is the most common form of infrastructure ownership and operation.
- ii) Public ownership with operation contracted to private sector. This option is typically implemented through lease contracts for full operation and maintenance of publicly owned infrastructure facilities, or through concessions, which include responsibility for construction and financing of new capacity. Arrangements between the owner (government) and the operator (firm) are set out in a contract that includes any regulatory provisions.
- iii) Private ownership and operation, often with regulation. The private ownership and operation of infrastructure facilities is increasing both through new entries by private firms in infrastructure markets and through divestiture of public ownership of entire systems.
- iv) Community and user provision. Community and user provision is most common for local, small-scale infrastructure such as a rural feeder road, community water supply and sanitation, distribution canals for irrigation, and maintenance of local drainage systems and it often complements central or provincial services.

b. BOO (Build-Own-Operate), BOT (Build-Operate-Transfer) or BOOT (Build-Own-Operate-Transfer) Models.

Similarly to the World Bank, according to Peirson & Mc Bride (1996: 1-2) point out that:

Governments have invited private sector entities to become involved in the financing, construction and/or operation of capital-intensive projects, which

have previously been provided by governments. The arrangements typically last for long periods and take a long time to generate profit. Public-Private Partnership can take many forms in implementation, either BOO, BOT or BOOT. Forms of Public Private Partnership may incorporate some or all of the following features:

- the public sector entity transfers facilities controlled by it to the private sector entity
- the private sector entity builds, extends or renovates a facility
- the public sector entity specifies the operating features of the facilities
- the services are provide by the private sector entity using the facility for a defined period of time
- the private sector entity agrees to transfer the facility to the public sector at the end of the arrangement.

c. South Australia Water Corporation: ‘Adelaide Outsourcing Contract’

This model is similar to the World Bank model ii). The South Australia Water Corporation (SA Water), a state government agency, contracts the provision of services to several private companies which take on responsibility for developing, managing, operating and maintaining their own projects, while SA Water retains ownership of the assets and maintains overall management responsibility for water supply including approval of all capital management. Through these Public Private Partnerships, profits have increased, water and wastewater services have improved and new technology continues to be introduced (SA Water, 2000).

d. China: Guangcai Programme

Compared to eastern China, the living standards of many areas of China are worse. This has driven the government to adopt a “Three-Wests” strategy (Jinhu, 2000), which covers large-scale construction, huge investment and sustained development with the aim of removing poverty from China. In implementing this strategy, the government collaborates with non-government enterprises. This need to be successful in selecting the right intervention to succeed in getting support from the government and the people, and

in promoting management techniques that the company has chosen. Examples include the construction of highways in poor areas, which has benefits such as saving travel time from one region to others and easier access to information. In addition, farmers' incomes there go up every year while, as a great deal of local surplus labour was used in highway construction, these former farmers were trained and have become important technical staff. This strategy has shown great success so that it must continue to be applied to deal with regional disparities. Another advantage of implementing this strategy is that it is the best way to promote the economic development of backward areas. However, the non-government enterprises must select the best projects to cooperate with the government. To do this, they should understand the local governments' plans, the level of economic development and other determining factors

e. Thailand: Joint Public and Private Sector Consultative Committees (JPPCCs)

As described by Laothamatas (MacIntyre, 1994: 203-204), that "Over the past decade the relationship between government and private has changed from one of clientelism with the government as the patron and the business as the client to one largely of equal partnership. The Thai model is 'cordial collaboration', and characterised by a larger and more active role for business in policy-making process. Since the late 1970s, three leading business association i.e. the Thai Bankers Association, the Thai Chamber of Commerce and the Association of Thai Industries has been lobbying for the creation of a national forum for policy dialogue between the government and organised business. The national Committee consisted of the premier, ministers in charge of economic portfolios and leaders of the three flagships business association, with the official National Economic and Social Development Board (NESDB) serving as its secretariat. Paralleling this the national level arrangement were provincial Committees, each comprising the governor, officials in charge of the province's economic and business affairs and provincial affiliates of the national flagship association. Government allowed a much stronger role for private sector in development, include business representatives in the policy formation process. JPPCC system was created as a means to identify and tackle problems obstructing business expansion".

f. USA: The Michigan Economic Development Corporation (MEDC)

The American State of Michigan's Economic Development Corporation (MEDC) is a "quasi-public organisation that has a private-sector board of directors that controls public dollars". The MEDC board, of private business leaders, is empowered to promote and supervise many publicly funded economic development projects by mobilising and supporting partnerships between government, business and other organizations.

With its state funding it joins with local economic development agencies, contributing to local projects, providing various forms of assistance to businesses to attract them to and retain them in Michigan. This assistance can range from providing reduced-interest loans or tax credits to constructing infrastructure or subsidising job-training facilities in the State. A special feature of the MEDC is its 'account managers' with regional responsibilities to monitor and encourage economic activity by keeping in touch with all major employers and local economic development agencies, offering MEDC services where these could encourage economic expansion or prevent reduction of business or industrial activities (Eberts and Erickcek, in OECD, 2001).

g. Germany: Hamburg Business Development Cooperation (HWF)

Hamburg Business Development (HWF) was set up in 1985 to encourage private sector so that it can lead local economic development. The major task of HWF is to lead the conceptualisation and application of strategies for structural regeneration of the Hamburg economy. In terms of tasks, there is an obvious division between HWF and the government. The separation also takes place in transferring some decision-making power. HWF has authority to make decisions independently in negotiating with firms, adequate funds for economic promotion and flexibility in spending. Another strength of HWF is that it provides a comprehensive consultancy service. This service is for Hamburg-based firms which want to reorganize or develop and for national and international enterprises setting up new operations in Hamburg. It also has freedom in developing and implementing economic goals, strategies and instruments. However, the provision of financial support to firms is still with the government. Additionally, Britain, Scandinavia, Eastern Europe, the USA, Japan, Korea and Taiwan became the target areas for the

attraction of firms, and HWF has local representatives in all these countries. The variety of services are:

- assistance on general managerial and financial matters;
- giving procedural assistance on all questions concerning location and sites;
- legal advice in obtaining approval from appropriate authorities;
- improving communication between industry and science;
- simultaneously promoting the exchange of ideas between individual companies;
- providing Hamburg companies with high tech links to firms abroad.

During the period 1985 to 1990, HWF catered for 747 Hamburg firms. These efforts included increasing new investment, safeguarding existing jobs and creating new jobs. Furthermore during the same period, 254 firms from abroad were located with HWF Support in the Hamburg area (Bennet and Krebs, 1991: 167-168)

2.6.2. Discussion of Two Conceptual Models of Public Private Partnerships

Based on these examples of many forms of Public Private Partnership, which have been implemented in some countries, we can categorize them into two forms; namely the Functional Model and the Institutional Model.

a. Functional Model: Task Oriented

This model is more specific; task oriented and focuses on sectoral functional activities, for example, infrastructure. Examples of this model includes many forms of Public Private Partnership as mentioned by Peirson & Mc Bride, four examples of the main options for public-private partnership described by the World Bank (with the case of SA Water : Adelaide Outsourcing Contract similar to its option b) and China's Guangcai Programme .In the case of public service management, according to Kolderie (1986: 285), "the key to efficiency in public service management is increasingly seen to be the separation of responsibility for provision from that for production of public services". Moreover, Savas (1987: 61) asserted, "it should make a distinction between arranging for a service to be delivered and actually producing it. Government is essentially an arranger or provider, an instrument of society for deciding what shall be done collectively, for whom, to what degree or at what level of supply and how to pay for

it. Producing the service, however, is a separate matter. Government deciding that a service is to be provided at collective expense does not have to produce it using public equipment and employees”. Governments transform their way of managing economic development by using innovation, managerial techniques and market based approach (Walsh 1995).

According to Bennet and Krebs (1991), partnership for a sustainable development does not require all actors to be equal partners in the economic development process, but that each plays their part. In my opinion one of the theories that more and less describes how public and private are working together as partners where they do not need to have the same interest but more importantly both play their roles that will gain them mutual benefit, is known as Agency Theory.

As described by Ross (Walsh 1995: 36), Agency Theory “has focused more precisely upon the issues which arise when one party, the agent, carries out work on behalf of another, the principal, and it is assumed that interests of principals and agents do not necessarily coincide”. Furthermore, Aucoin (Barzelay, 2001) said that in a standard version of Agency Theory, the principal-agent relationship is structured by means of a contract that specifies how agents will be economically rewarded by their principals.

For Public Private Partnerships, I am adopting this theory as a functional model, government acts as principal and the private sector play roles as agents who work by government request. There is a vertical relationship between government and private sector. In this both still use their own organization, they do not create a new organization and work based on the agreement on the contract.

Some argued that contracting out is different to partnership. Teisman and Klijn (2002), for example, pointed out that the Public Finance Initiative in United Kingdom, set up by public actors, is a contracting-out scheme rather than partnership. They did not categorize contracting-out as partnership because there is no cooperation in policy making, the government still using ‘its existing well-established procedures’ of internal decision-making. Their argument rests on their basic point of view that an analysis of the policy making distinguishes between the two forms.

b. Institutional Model: Long term relationships that are institutionalized through planning and structural change

This model has a more general focus on institutional and strategic planning. Examples of this model are the Joint Public and Private Sector Consultative Committees (JPPCCs) in Thailand, the Michigan Economic Development Corporation (MEDC) in the USA and the Hamburg Business Development Cooperation (HWF) in Germany.

I categorized this as Institutional Model, this relationship can be described in terms of Agency Theory, in this model both government and private sector acts as principal with a horizontal relationship between government and private sector. Following the HWF steps, generally, in this model government and the private sector establishes local economic development board with members from both. The board is differentiated from government but has some decision-making powers transferred from it.

Based on the discussion above we can make list the difference between the Functional and Institutional Models as follows:

Table 2.1: Differences between Functional and Institutional Models of Public Private Partnerships

No.	Functional Model	Institutional Model
(1)	(2)	(3)
1	Responsive	Strategic & Pragmatic
2	Structure	Context
3	Specific Task	Integrated Task
4	Short Term	Long Term
5	Existing Institutions	Formation of a New Board
6	Certain Period	Indefinite Time

2.7. Public Private Partnerships and KTI's Economic Development

Based on the descriptions above we can recognize that the Public Private Partnership concept does not see a dichotomy between capitalist and socialist. This concept is based more on a synergy between them in a mixed economy as a third way to balance the roles of public and private sectors to maximize economic development.

In the case of Indonesia, there is little question about the domination of the government role at the start of the development process if it has sufficient funds for supporting it. When development has been insignificant, for example in KTI, because of insufficient funding, the government's dominant role is questionable.

In his review of implementation of Western economic theory in developing countries, Todaro (1989: 68) concluded that:

There are failures of Western economic theory in developing countries, because the reality of the institutional and political structure of many developing countries is different with Western countries. As a result, many of the implicit assumptions of Western economic theory are inappropriate for the actual conditions in developing countries. The Marshall Plan, for example, worked for Europe because the European country receiving aid possessed the necessary structural, institutional, and attitude conditions (e.g. well-integrated commodity and money markets, high developed transport facilities, well-trained and educated manpower, the motivation to succeed, an efficient government bureaucracy) to convert new capital effectively into higher levels of output. Another example is Rostow-Harrod-Domar modes that argued the development necessary for any takeoff was the mobilization of domestic and foreign saving in order to generate sufficient investment to accelerate economic growth. This theory implicitly assumes the existence of these same attitudes and arrangements in developing countries. Nevertheless in many cases they are lacking, as are complementary factors such as managerial competence, skilled labour, and the ability to plan and administer a wide assortment of development projects.

As mentioned in Chapter I, KTI as a region in a developing country has the same conditions, such as a lack of capital, lack of effective managerial skill, lack of access to

market, lack of information and technology, lack of efficient ways and lack of infrastructure. In my opinion Public Private Partnerships through a mutual partnership program is one of the appropriate ways to fill these gaps and at the same time develop the region with some direct and positive consequences of this new vision such as capable human resources, good management, high investment, appropriate technology and enhanced utilisation of market mechanism. As mentioned by Karim (1997: 13), “through close cooperation and collaboration, the public and private sectors can share their scarce resources, skills, technology and all other critical factors to achieve optimal growth and development and hence sustain the competitiveness or even better role in the international economy”.

One of the lessons from developed countries is the suggestion to counter gaps between regions by creating partnerships across the public and private sector. When Australian regions are benchmarked against regions in America and compared with regions in Europe (ALGA and National Economics 2002, 2003 in McIntyre 2005a,b), it is clear that Australian regions lag behind in terms of education, technology and talent/creativity, albeit not in terms of so-called “tolerance”, measured in terms of acceptance of diverse lifestyles and cultures, to use the reports’ terminology. The reports provide qualitative and quantitative evidence for socio-economic and environmental well being as part of the same moment and context. Research by the Australian Local Government Association and National Economics investigated the characteristics of successful regions. Sydney, the leading Australian region in terms of technology, came 24th when benchmarked against the highest-ranking American regions. However in terms of composite diversity (defined in terms of cultural and social diversity as well as education, type of creative occupation and number of patents⁵ both Sydney and San Francisco were on a par. The gaps between the regions in Australia were however much higher than in America and in Europe (including United Kingdom). A number of reasons were given for this in the above report.

One of the key suggestions was the way government operates. In Australia formal governance is through institutions and the amount of networking and formation of

⁵ This is problematic for access to knowledge that is commodified. But it is indicative of a realisation of the value of knowledge per se.

partnerships across the public, private and NGO sectors needs to improve for the purpose of lifting the quality of life in regions in social, economic and environmental terms. What follows are some of the potential benefits and expected outcomes of Public Private Partnerships. But I stress that these outcomes cannot be achieved in the absence of accountability and transparency. This requires capacity building and good governance.

2.7.1. Benefits of Public Private Partnerships

Some benefits of Public Private Partnership in KTI's economic development may be:

a. *Funding*

Inviting the private sector to be involved in partnership may attract capital in this region. Budget limitation is one of the main reasons why many countries involve themselves in public private partnership (Peirson and McBride 1996, World Bank cited in Juoro, et al, 1997, and Trusketts in Skotnicki, 2001).

b. *Effective Managerial Skill*

For Government another benefit from Public Private Partnership would be to improve officials' knowledge and skill by working together with employees of private businesses, sharing experience and opinions. This could be particularly important for their gaining managerial concepts and skills. Adopted from ideas of Kolb, Rubyn and McIntyre, Vecchio (et al, 1997: 72-73) described that

Successful managers and organizations are distinguished not so much by any single branch of knowledge or skills but by their ability to adapt to and master the changing demands of their career; that is, by their ability to learn. Continuing success in a changing world requires an ability to explore new opportunities and learn from past successes and failures. Yet it is surprising that this ability to learn, which is so widely regarded as important, receives little explicit attention by managers and their organizations. Managerial education will not be improved by eliminating theoretical analysis or relevant

case problems. Improvement will come through the integration of the scholarly and practical learning styles. There are two goals in the experiential learning process:

- to learn the specifics of a particular subject matter
- to learn about one's own strengths and weaknesses as a learner :
Learning how to learn from experience.

When the process works well, participants finish their educational experience with new intellectual insights and an understanding of own learning style. This understanding of learning strengths and weaknesses helps in application of what has been learned and provides a framework for continuing learning on the job. Daily experience becomes a focus for testing and exploring new ideas. Learning is no longer a special activity reserved for the classroom, but becomes an integral and explicit part of work itself.

Furthermore, Karim (1997: 13) claims, “both public and private sectors can redefine, develop and operationalize new patterns of thinking and behaviour vis-à-vis the other”.

c. *Efficiency*

Many countries use Public Private Partnership to try to get better services at a lower price. Public Private Partnership is one of the ways to improve the efficiency of the services and financing (World Bank cited in Juoro, et al, 1997, Partnership Victoria 2001). In addition, as mentioned above the key to efficiency in public service management is the separation of responsibility for provision from that for production of public services. On the other hand, the government should change its role as the leading actor in economic development to a catalyst and facilitator.

d. *Access to Domestic and International Markets*

As well as government officers getting benefits in developing and improving their knowledge and managerial skills or techniques in Public Private Partnerships, this process will have another benefit, the development of market mechanisms, as mention by Walsh (1995: xii).

More generally the government regulatory role in relation to the private sector has been expanding. What governments have been willing to do has

been to engage in transformation of the way that they are managed. This has generally involved two main strands: the introduction of managerial technique from the private sector, and the development of market mechanisms within the public services.

Furthermore, in her review of Public Private Partnership, Wimalasiri (1997: 99-100) said that,

Countries with centrally planned economic and/or with a large number of state-owned enterprises like Indonesia should be consider some constraints when they attempt a transition to being market-oriented. Firstly, shortage of qualified, trained and experienced personnel (trained in business enterprises and international commercial law). Secondly, lack of pre-existing regulatory agencies to deal with domestic and international regulations pertaining to market economies. Those who hold top positions in such agencies may not have the required knowledge or experience in market economies and therefore can resort to interventionist activities. Thirdly, according to Fornakzyk lack of market-orientation. Managers and consumers in transition economies may not be able to understand the concept of competition and, thus, non-market behaviours can lead to problem such as price-fixing, monopolistic practices and buyer-seller collusion (Cohen, March and Olsen, 1972). Finally, asserted by Easterbrook, lack of reliable information. Effective market-oriented competitive policies can be devised only if the relevant agencies are able to obtain reliable information and interpret them in the context of the market-competition-oriented environment. Most developing economies tend to rely heavily on documents of intent of the political hierarchy and rough industry statistics. Learning of new technology, whether it is marketing, information technology or management, must be done at higher levels because knowledge transfer requires it. Higher-level learning means shifting one's-thinking towards marketing and strategic orientation.

Moreover, as stated by Bennet and Krebs (1991: 158), it will not be successful to try to 'go it alone' in economic development. Local responses to global economic

changes will need adaptations, learning and full information about the new marketplace and of needs of others. “This should act to stimulate each actor to respond in new ways.”

Public Private Partnership hopefully give chance for both partners to work together and formulate what is appropriate for a market, what are trends in markets, etc, how to maintain the domestic market and how to access the international market. It is important to encourage international business, which has experience in competitive markets to become involved. Also, partnership with international business will encourage local government and business to understand the concept of competition and implement this in the market.

e. *Infrastructure*

Infrastructure services, such as the provision of energy supply, transportation and communications, are important and contribute to costs in all industries directly and indirectly. Increasing infrastructure will improve the market, which is one requirement for accelerating economic activities. Increasing infrastructure quality and facilities not only represents a process of economic development but also a result of economic development. Furthermore, as mentioned by Hill (2000: 3),

Numerous studies have shown that improved transport and communications make markets work better, thus enabling regions to exploit more effectively their comparative advantage. In turn, this should benefit economic agents in hitherto isolated regions, for example Hayami and Kawagoe’s study (1993) that prove that a better road network in Indonesia has been shown to improve farmers’ incomes because the gap between farm-gate and retail prices is lowered.

Moreover, infrastructure is one of the most popular areas in which many governments invite the private sector to work together in Public Private Partnerships. This is not only because the private sector can help with its funds for the expensive facilities, but also it has effective human and institutional resources for project design and development that are important for rapidly expanding the stock of infrastructure (World Bank cited in Juoro, et al, 1997)

2.7.2. Expected Outcomes of Public Private Partnerships

Karim (1997) emphasises the interdependence of public and private sectors. As the private sector is mainly an economy of active agents while the public sector has to provide a policy framework and direction to support the performance of these a closer cooperation and collaboration will improve that interdependence.

In Public Private Partnerships, government and private sectors are not only involved intensively and play their roles in economic development optimally, but also they have equality of position, in the meaning both of them have bargaining power which can be used to achieve win-win solutions. Government does not need to make market interventions, for example export subsidies, as both of them can work together in institutional channels, for example in digesting the domestic and international market information to find out ways to access the market and win the competition. Under Public Private Partnerships, the private sector is invited to cooperate and be involved in development activities for better solutions. The concept is that if there are problems because of market failure and government failure, neither government nor private can effectively work independently; they need to work together mutually to solve the problems to achieve optimal prosperity. Public and private sectors need to share the task, risk and responsibility based on their strengths and weaknesses. By using Public Private Partnerships it is possible for government and private sectors to implement regional economic development efficiently, effectively and achieve maximal outcomes.

Some examples in the literature of international empirical findings on economic efficiency due to competitive tendering of public services to the private sector are shown in Table 2.2.

Table 2.2: Some studies of international empirical findings on economic efficiency

Study	Activity/Country	Cost Change	Description
Steven 1984	121 US cities and 8 services Los Angeles, USA	Reduced up to 49 %	Multiple regression analysis savings varied with payroll preparation at the lowest and asphalt overlay construction at the highest
McDavid 1985	126 local councils in Canada, refuse collection	Reduced 24% to 29%	Multiple regression, cost reductions usually larger when contract won by private sector rather than mix of private and public contractor
Hartley & Huby 1986	213 local government councils and National Health Services, UK	Reduced 26% to 68%	Based on a 1985 survey with 52% response rate
Rimmer & Webb 1990	127 local councils in 3 functions, Australia	Reduced 10% to 24%	Difference in average costs between councils using CTC and those using in-house provision
Savas 1993	Many US and International Study reviewed	Reduced 28% to 50%	Savings quoted were between 28% and 50% (before and after studies), 33% (time series studies).
Farago & Domberger 1994	Survey of Government Business Enterprises, 1993, Australia	Reduced 8% to 46%	Enterprises providing gas, water, electricity and sewerage services.

Source: Hodge (1996: 21-23)

2.8. Criticism and Obstacles for Public Private Partnerships and Conditions for Their Success

Remembering the proverb ‘we learn from our mistakes’, in reviewing the conditions for successful implementation of Public Private Partnership, we will first discuss some criticisms and obstacles for achieving them. Following some strong criticisms that some commentators have made of PPPs:

- **Teisman and Klijn** (2002) point out that using the term ‘partnership’ can be just a language game played by politicians and government officers in promoting a new legitimacy about efficiency of the private sector and involvement of civil society for their policies, but in fact a genuine partnership project is difficult to realize.

In some extent these authors are right in that some politicians misuse the term, but their conclusions about Public Private Partnership projects are difficult to accept, just being based on one aspect of analysis as they see Public Private Partnerships only as the involvement of the organizations in joint planning and decision-making. Public Private Partnerships is broader than just decision-making activities, as mentioned before it not only focuses on planning and decision-making, but also can focus on sectoral activities and many activities are involved, such as implementation, monitoring and evaluation.

- **Considine and Painter** (1997) argue that, with their different environments, public sector organizations find the adoption of private sector techniques difficult if there is not understanding of the “philosophy and principles” underlying those techniques.

In this case, the difference in environment will not always to be an obstacle but can be a benefit. As pointed out by Gray (1989), partnership is a process that looks for different aspects of a problem, explores their differences and searches for solutions that go beyond one organization’s limited vision of what is possible. Hence, in the partnership process public and private sector organizations seek which techniques are appropriate to adopt and implement not just for their organizations but for the commitment, mission and objectives of the partnership itself.

- **Nathan** (cited in Skotnicki, 2001: 74), is that:

The problem with Public Private Partnerships is that sharing risks between public and private interests can lead to situations in which the level of government accountability is hidden under the veil of ‘commercial confidentiality’ arrangements. Furthermore, he said that the state often

accepts greater risk than is 'warranted'. It results in problems of risk delineation and accountability.

Soedjito (1997) mentioned that full and public disclosure of the roles and responsibilities of the parties, transparent legal framework and regulatory systems will prevent misuse of commercial confidentiality. As mentioned by Soedjito (1997), a stable and transparent legal framework and regulatory systems is a prerequisite for attracting private investors and safeguarding their interests. The given legal and regulatory framework with clear definition, assignment, mechanisms and systems will reduce the cost of doing deals because all parties are familiar with the ground rules and the time required for getting project started.

- **Skotnicki** (2001: 79) stated that one of the main ideas to encourage Public Private Partnership is to obtain otherwise insufficient funds but, in practice, this objective is easy to manipulate.

Critics of Public Private Partnership structure point to the Sydney Airport Link, which is now in receivership. About \$ 200 million of funds provided by private joint venture partners (Transfield and Bouygues) to the \$ 900 million cost of the project, which links Sydney Airport with Central Station, was in the form of a loan from National Australia Bank that was guaranteed by the NSW Government. An answer to this problem would be to create a board following the Institutional Model. This would monitor and respond to feedback for guiding what is implemented to be appropriate to the objective, commitment and mission of the public private partnership.

- **Deutz** (cited in Field, N., 2001: 18) has mentioned that:

The central and local governments must have good coordination due to private sector investment in Public Private Partnership or risk (being dictated) by international investors. Central and local governments must agree on the basic features of projects. If they do not, the private sector will be able to undermine their policy position and perhaps harm intended outcome.

Good coordination would not just prevent international investor dictatorship but it is needed for implementing a Public Private Partnership successfully. Some people argue against involving the private sector in infrastructure projects that used to be handled by governments or politicians. They reason being that private involvement can increase the fees and the society cannot control it because private sector work is based on profit unlike politicians who depend on people's vote. For example, based on my early interviews with some water customers in Adelaide, many complained about the South Australia Water/Adelaide Outsourcing Model as under this model prices has increased and they could not complain to the private company as they had been able to do to government. A response to this argument is Threadgold's opinion (1996: 9) that:

The transfer of risk from the public sector to the private sector will raise the apparent cost of capital to infrastructure projects: required returns in equity markets, in corporate bond markets and in the banking sector are significantly above government bond yields. The resulting better allocation of resource, better operating efficiencies, and increase accountability will offset the impact of a higher cost of capital.

Furthermore, there are some experiences on Public Private Partnerships that finds some obstacles making PPPs effective such as:

a. Poverty Alleviation through Rural – Urban Linkages (Parul) in Indonesia

Poverty Alleviation through Rural-Urban Linkages (PARUL) is a Indonesian national project implemented and coordinated by the Indonesian National Development Planning Agency (BAPPENAS) and funded by the United Nations Development Program (UNDP). PARUL introduces a market-led approach to local economic development through the establishment of commodity-focused public private partnership organizations in selected provinces and regencies (Kabupaten). The task of these organizations is to identify the constraints faced in the selected commodity cluster, mobilize public and private resources required to address these constraints, and improve the linkages and business arrangements between poor rural producers and urban processors and exporters. In Parul Mid-

term Evaluation Report (2001: 1-7) mentioned five issues in project implementation that are

- Active Project Support Units (PSUs), PARUL PSUs have carried out the activities required to establish the local partnership organizations (eleven *Kabupaten* Implementation Teams – KITs - and two provincial Cluster Development Partnerships - CDPs), assisted them in formulating their first action plans, organized and delivered capacity-building workshops on improving market linkages and developing more effective cooperation between the public and private sector, organized and delivered technical training programs to farmers', fishermen's, and women's groups, and worked to put together numerous deals between producers and potential processors/exporters. The two PSUs in Sulawesi have been active in establishing and assisting the KITs and in helping creatively to establish practical linkages between producer groups and potential buyers. In Sorong, the lack of continuity in the PSU office stimulated the KIT to fully take charge of the process on its own. It has done this to the extent that PARUL is in the process of sub-contracting the KIT to operate the PSU, rather than maintaining the PSU as a separate office managed from Jakarta.
- There are four parties (UNDP, BAPPENAS, Habitat, & NPO) operating without an established overall management structure—no steering committee or subsidiary executive committee. As a result it often appears that there are too many cooks in the kitchen. Separate dyadic discussions and negotiations go on regarding minor issues such as scheduling and major decisions such as approval of quarterly work plans and budgets, and initiating new pilot provinces. This process allows/prevents BAPPENAS, the executing agency, from asserting its responsible role as fully as it should.
- For a project that seeks to build provincial and district level capabilities, too many decisions are made in Jakarta, either by the NPO or by UNDP. PSUs, CDPs, KITs, and their associated local governments are often left

hanging, waiting, and wondering regarding decisions that are made, not made, and changed in Jakarta. The evaluation team approves of the move in Sorong to have the KIT (led by the head of BAPPEDA) take responsibility for managing the PSU. Discussions of similar arrangements are under way in other project areas. The sooner the local task forces and local government units take greater responsibility the better.

- PARUL activities in the field often suffer from the uncertainty of funding due to delays in release of the quarterly advances. This is especially problematic because a key objective of PARUL is to teach the KITs to prepare workplans and then implement their plans according to schedule. With periodic delays in quarterly funding this key capacity building objective is undermined. As part of the recent internal review of PARUL operations, the parties to the quarterly funding process (BAPPENAS, UNDP, Habitat, PARUL NPO) agreed to a strict timetable to try to minimize these disruptions in the future.
- The provision of technical advice has been overly decentralized. Given the distances and variations involved, it is understandable that PARUL PSUs operate with considerable autonomy from the Jakarta National Project Office. The decentralized project style, combined with the fact that some PSU staff members are part-time (and in Sorong they keep changing), and the various efforts to try to cooperate with other similar and related BAPPENAS projects and activities, has led to a less-than-optimal variety in operational styles and messages among the project locations.”

Most obstacles to implement PARUL arise because of lack of coordination and centralistic approach.

Furthermore, inspired by the Sorong KIT case, Hugh Evans⁶ as UNCHS (Habitat)'s Chief Technical Advisor to PARUL in Indonesia said that

Setting up a partnership, however, is only the first of several steps. The second step is to empower all partners so they can become effective agents of local development. Another step is to establish the partnership as a legal entity

⁶ http://www.unhabitat.org/hd/hdv7n2/supp_parul.htm, access December 26, 2005

under law so that the partners are able to enter into contracts with other parties. Given the lack of precedents in this area of law, PARUL has commissioned a report on the subject, entitled "Legal Status of the Public Private Partnership". Yet another step is to equip the partnership with the technical capacity to prepare its own plans and proposals independently of government. For this purpose, PARUL sets up Partnership Support Units (PSUs) in each region, comprising two or three professional staff. PARUL is currently operational in 6 regions of the country, covering a total of 19 regencies. To be fully independent, partnerships also need to obtain funding, in part to hire technical assistance, but also to undertake activities that complement government programmes. These might include market feasibility studies, or pilot experiments to demonstrate the viability of new ventures.

In other word, according to Evans (2001) providing capacity building through *Partnership Support Units* (See Evans 2001) is a practical and useful initiative.

b. Public-Private Partnerships in Solid Waste Collection in Three Ghanaian Cities

Awortwi (2004: 213 and 218) mentioned that “Ghana Local Government enter into partnerships for improving service delivery based on the idea that private sector more efficient and effective than the public sector. In the Ghanaian case, non of 6 indicators of a good contracting document had any positive correlation with the quality of service delivery as assessed by users and not contracting authority”. Following the six indicators and the obstacles (Awortwi 2004: 219 – 222)

- “i). Private sector delivery of public service is cost saving contracting-out in two out of the three Ghanaian cities has not led to increased savings. The high contract costs in Accra and Kumasi have come about as a result of alleged collusion and corruption by politicians and some rent-seeking private associates.
- ii) Reduction in the size of LGs (local governments) and efficiency gains from PPPs (Public Private Partnerships)

Although PPPs did succeed in trimming the departments, the reduction was minimal, leaving the administrative personnel untouched. There is little to show that there has been any significant improvement in efficiency of LG personnel and managers. It has been business as usual. The role of users and civil societies in influencing service delivery is minimal and transparent corporate governance necessary partnerships is absent in Ghana.

iii) Passing over the responsibilities and risks to private agents

There is little or no financial Risk was transferred from the LGs to the companies. The companies did not bring in any substantial capital or managerial expertise.

iv) Partnerships and the Role of Users

Instead of putting users at the centre of service management, their important roles have been ignored.

v) Promotion of good governance

The Minister of LGs and mayors wield substantial powers to influence any contractual agreement and, as long as these people have little direct accountability to the public, power has not been diffused. Some of money misuse for political campaign due to lack of transparency.

vi) LGs' capacity to regulate agents

The capacity of LGs to manage PPPs is dependent on their ability to separate delivery role from regulation and to monitor performance and sanction defaulters. In all the contractual exchanges, conflict of interest and collusion played a very important role. In Accra the mayor of the city was also a member of the board of directors of the company that was awarded the monopoly contract. With poor LG salaries, the private agents easily manipulate the already unmotivated monitoring officers in the cities.’’

Furthermore, Awortwi (2004: 233) stated that "the findings demonstrate that PPPs don't - in themselves guarantee effectiveness and lower costs. Problems arise when LGs ignore or fail to implement important fundamentals that make them Work."

In his discussion, Awortwi argued that without ensuring both the quality and affordability of services leads to worse situation than successful PPPs. Lack of skill in drawing up contracts and without careful monitoring of contracts will get difficulties to make PPPs effective. In general, there are some obstacles for implementing Public Private Partnerships such as: collusion and corruption, lack of transparency and participation, and lack of capability.

Moreover, Soedjito (1997: 5-6), who focussed his partnership discussion on infrastructure mentioned that:

In a comprehensive study conducted by working group on Private Sector Development established in Japan, a total of 96 private developers and investors were interviewed to analyse and identify the constraints in the current state of infrastructure development in developing countries. It identified three major constraints on enhanced private participation in infrastructure provisions:

- An increased share of risk for private developers, including assuming a disproportionate part of project risks; lack of effective national development plans and clear definition and assignments of risk; lack of an appropriate tariff adjustment mechanisms and systems that fully reflect the long-term marginal cost of investment; unexpected policy and regulatory changes, governments' intervention, and insufficient coordination between central and state governments; and long-term operational risks;
- High transaction costs, as reflected by complexities in obtaining government approvals, and non-transparent procedures; extra funds developers must bear to complete financial structuring and documentation; controversy over the type of contracting-negotiated deal

vs open tender, BOT (Build Operation Transfer) schemes vs joint ventures; and

- Financing constraints, including limited availability of long-term debt financing; foreign exchange risks; limited availability of funds in local capital markets; and insufficient mobilization of resources of institutional investors and pension funds.

He added that a conducive macroeconomic environment, a stable and transparent legal framework and regulatory systems, sectoral policies and availability of long-term capital are core conditions for encouraging private sector to get involved in infrastructure investment. Based on the discussion above and considering some expert reviews below, there are some conditions which appear to be needed for successful and implementation of a Public Private Partnership in general:

- **An accountable and transparent legal framework and regulatory system that supports development for social and environmental justice.**

This could help to attract investment, safeguard their interests and ensure that the profits from companies are spent in ways that could build up development fund that could be redistributed. The given legal and regulatory framework with clear definition, assignment, mechanisms, systems and full and public disclosure of the roles and responsibilities of the parties will reduce the cost of doing deals because all parties are familiar with ground rules, and the time required for getting project started (Soedjito, 1997).

- **Good governance between central and local governments**

Lack of coordination between central and local government will affect economic, business and social development. For example, if central government overrules and breaks a contract already made between local government and a private company because it does not match with national planning.

- **A conducive macroeconomic environment**

This would include continuously pursuing and maintaining prudent monetary, fiscal and exchange rate policies to attracting private sector investments. The primary responsibility of the public sector in this instance is to

create a favourable environment that would drive rapid economic growth (Soedjito, 1997).

- **Qualified and experienced personnel who involved**

Personnel need to have knowledge or experience in market economies, a market-orientation, capability to deal with domestic and international regulations and capability to obtain reliable information and interpret this in the context of the market-competition-oriented environment for making effective market-oriented competitive policies (Wimalasari, 1997).

- **Mutual trust and confidence**

It is widely accepted that this is the basis for successful cooperation (Putnam, 1993, Alter and Hage, 1993, Fukuyama, 1995, and Kramer & Tyler, 1995, and Misztal 1996) and it can only occur in a context of transparency and accountability.

- **A stable political environment**

A stable political environment is a crucial condition to keep the policy and regulatory changes and government interventions appropriate. An unstable political environment will increase risk for commitment and will not guarantee certainty for long-term commitment.

2.9. Conclusion

The pattern of economic development in Indonesia is also related to the change in development in western countries. Especially influenced by the school of Neoclassical Economics that economic development is reliant on the spread and trickle-down effects of economic growth and Keynesian theory that government need to intervene in the market mechanism. Even though the objective of 'equality' (i.e. equitable distribution of the fruits of economic growth) is often mentioned in government policies as main the priority, in practice the government focuses more on socio-political stability and economic growth. The Indonesian government has focussed more on KBI development for years and expected that KBI growth would spread across regions. In reality inequality

was not only as early stage of economic growth as defined by U theory, there has been no trickle-down effect for KTI.

One of the reasons for the government involvement in development is based on the idea that the society cannot achieve optimal prosperity, because of market failure. Up to 1998 the Indonesian government was not just involved in economic development, it even played the dominant role.

Balancing the role of state and the role of market through Public Private Partnerships could lead to some improvements in development. The concept is complementary cooperation; both will gain from the other's strength in overcoming their weaknesses, to enhance managing economic development successfully. Public Private Partnerships require formal, accountable legal and consistent productive working relationships between government and private sector institutions such as: business/private companies, social partners, community, and non government organizations, voluntary organizations etc. They, with different agendas, priorities and level of commitment, can work together to fulfil their responsibilities in strategic regeneration issues and operational concerns as equal partner in managing local economic factor to ensure successful and sustained local economic development.

There is some variation in patterns of government and private sector involvement in the management of economic development among countries and cases and change over time. Based on some models of Public Private Partnerships being promoted and used in other countries, and adapting Agency Theory, this study promotes two models of Public Private Partnerships. The first model is a Functional Model, more specific and focussed on sectoral activities. There is a vertical relationship, government acts as principal and the private plays roles as agents who work by government request.

The second model is an Institutional Model. This model is more generally focussed on institutional and strategic planning. In this model both government and the private sector acts as principal, with horizontal relationship between them.

There are various criticisms of Public Private Partnerships. For example, Teisman and Klijn argue that the term 'partnership' is just part of language games played by politicians and government officers. Furthermore, Considine and Painter stated that public and private sectors have different environments, and it is difficult for the public sector to

adopt and implement private sector techniques appropriately. Nathan doubted that sharing risks between public and private interests can lead to situations in which the level of government accountability is hidden under the veil of ‘commercial confidentiality’ arrangements. In practice, this objective is easy to manipulate, as stated by Skotnicki. Furthermore, Deutz mentioned that Public Private Partnerships have risk dictated by investors. Some people argue that as private sectors work is based on profit, it will increase the fee and it is beyond society’s control.

Despite the critics of Public Private Partnerships, based on review of some studies it appears there are some benefits of Public Private Partnership that could be relevant for KTI’s economic development such as increasing funding, finding more efficient methods, improving capacity and managerial skills, increasing access to domestic and international markets and infrastructure.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the process of data elicitation and collection, the participants and the methods of data analysis. The research draws on both primary and secondary research data. The primary data was mostly qualitative, from interviews, and was analysed using grounded theory methods, whilst mindful that my own life experiences have shaped my interactions with people and my interpretation of the research material. *The grounded theory research process involves turning ‘material’ into ‘data’ in a major element of the researcher’s interpretation of what is going on*

Rather than allowing only a single standard approach Grounded Theory can be seen as providing for a variety on a continuum from more objectivist to more constructivist approaches. My research was closer to the latter (see Charmaz, 2000).

Some years ago I carried out research for my undergraduate thesis about ‘*Some factors that shifted Lampung’s status from a region that receive transmigrants to become a region that sent transmigrants*’. I was there in Lampung as a Lampungese, and this experience of carefully studying Lampung⁷ triggered my resolution to do further research on the Eastern Region of Indonesia for several reasons, among them personal ones. In the early 1970s, when I was young, during school breaks I would visit my grandmother’s village. I loved to go there, coming to the forest, where the sun came through the leaves and trees, pure water flowed in a stream by the footpath, so fresh. When we swam in the river, we could catch fish with our hand without any equipment, there were so many in the Lampung Rivers. However, after the massive influx of people into Lampung, especially through the transmigration program, much of the forest were cut down and

⁷ One of provinces in western Indonesia that is claimed by Indonesian government as a successful region for transmigration program implementation.

destroyed for the new residents' settlements and rice fields. The purity of the river and its fish were destroyed because of the residue of massive pesticide use in rice fields went into to the river, and people who were greedy caught fish by poisoning the water. My experience triggered my sympathy to the Eastern Region of Indonesia, because so much of it suffered especially environmental destruction as a result of the massive migration. Among its thousands of islands, Indonesia has five very large ones; Sumatra (with Lampung as its southern part), Java, the majority of Kalimantan, Sulawesi and the western part of Papua. I spent my childhood until high school in Sumatra, moved to Java and finished my undergraduate studies before starting work there, then carried out my Ph.D fieldwork in Kalimantan and Sulawesi.

My mission is to propose and justify an economic development approach that could be utilized to develop the KTI economic region to redress regional imbalances, at the same time enhancing the sustainability of KTI environments and interests.

My intended research necessitated obtaining open discussions with influential people. The availability and form of the interviews was only possible because of my pre-existing personal networks in KTI. As mentioned in Chapter I, the KTI region is huge, covering fourteen provinces across many islands. Visiting all provinces was impractical and traveling in the region can be difficult, both within and between the provinces, hence I chose two of them as my main locations for the research. These two provinces can be used as representative of many other of the KTI provinces because, even though there are differences, all of them also have similar factors contributing to their imbalance with KBI, the Western Region, such as lacking capital, effective managerial skill, access to domestic and international markets, information and technology, and efficient procedures as well as of infrastructure, as mentioned before.

3.2. Rationale for Research Design

The two provinces that this research investigated are East Kalimantan and South Sulawesi. Both are relatively developed among the KTI provinces but their economic development lags behind compared that of the KBI provinces.

MAP 3.1 : Kalimantan (Borneo) Island



Source: [On Line Access June 06, 2005]
<http://www.lib.utexas.edu/maps/indonesia.html#otherdetailed.html>

MAP 3.2 : Sulawesi (Celebes) Island



Source: [On Line Access June 06, 2005]
<http://www.villasinbali.com/maps/sulawesi.html>

Studying these two provinces will enable the researcher to:

- i). analyse the factors contributing to the imbalance; and
- ii). suggest a way to address it.

These two provinces provide good examples to study the prospects and opportunity for KTI provinces to implement Public Private Partnerships. Beside my empathies with Eastern Indonesia since childhood as I mentioned before, I chose East

Kalimantan as a suitable place for fieldwork as it is a province which can be used to represent Eastern Indonesian (KTI) provinces that are rich in non-renewable natural resources such as oil or minerals, while South Sulawesi is an example of those KTI provinces with renewable natural resources such as fisheries and other marine resources.⁸

3.3 Discussion of Methods

Qualitative methods usually involve understanding ideas and perceptions and many sources of data; interviews, observations and documents (Patton, 1990 and Strauss & Corbin, 1996). The source materials for this study were government documents, reports, economic and policy studies and interview material. Qualitative research attempts to capture the dynamic and holistic elements of individuals' experiences in their contexts, trying to interpret why people act in terms of their own motives and perceptions of themselves and their lived-in world (Cormack, 1991; Minichiello et al., 1995 and Polit & Hungler 1995). This 'emic' approach to researching interpreting human action differs in emphasis from the 'etic' approaches from the 'outside' where actors' own subjective interpretations of their actions are less central to the researching process.

As mentioned in Chapter 2, how the individual responds to the external world is personally or subjectively selective, related to each individual's perceptions and repertoires of methods of response to what they perceive. In this study discussing the issues involved as they saw them helps to determine the perception of local stakeholders toward their concepts of 'Public Private Partnerships'.

An interview method was appropriate as it can produce interviewees' words and interpretations, which reveal the meaning of particular human interactions (in this case, those of Public Private Partnerships) to them (Minichiello et al, 1995).

Compared to using questionnaires, interviewing was considered likely to provide better cooperation and more flexibility in data gathering and in further probing and follow-up questioning (Emory and Cooper 1991). Interview methods are commonly categorized into three models: structured, semi-structured and unstructured interviews. According to Minichiello, et al (1995), a semi-structured interview involves the

⁸ Other provinces, for example, Maluku can represent provinces that rich in renewable natural resources such as marine resources and spices, but this research did not include it because of the current civil war.

interviewer using a list of topics to enquire about but without particular questions or sequence set beforehand thus providing both for focussing and flexibility. This research used semi-structured interviews to try to elicit, interpret and understand the current subjective meanings of 'Public Private Partnerships' among local actors. Semi-structured interviews were chosen as they provided for easier focussing and less wandering from a topic of research interest than completely unstructured interviewing but were more able to provide for flexibility and probing than completely structured interviewing. I recognised that all interviewing processes can be influenced by researcher-interviewer bias (Kumar, 1996), as well as the social dynamics of the interviewing relationship, but attempted to be conscious of these possibilities and use this recognition in my interpretations of the material obtained.

The individual interviews can be seen as providing case studies of individuals' thinking about the topic. Stake (Patton, 1990) has argued that these can provide clearer and more justifiable portrayals, understandings and grounds for consequent action.

3.4 Data Collection and Analysis

There are many different types or approaches to doing qualitative research; My research combined qualitative interviews and an attempt at developing theory from the data as interpreted through my experience. This approach is not traditional grounded theory in the sense used by Strauss & Corbin (1996:12). My approach is much more constructivist (Charmaz, 2000)⁹ it is closer to the way Sarantakos (1998: 200) describes grounded theory in that,

It is 'grounded' because it is related to, emerges out of, is created through and grounded on empirical data. The centre of its interest is not on collecting volumes of data but organising the variety of thoughts and experiences the researcher gathers during the analysis of data, and developing theory from conceptualisation of the data.

⁹ It is not a self-corrective method (Glaser 1998: 150) that uses a systematically applied set of methods to analyse data collection linking to generate an inductive theory about a substantive area (Glaser 1992: 16).

The main procedures of this version of grounded qualitative research (Strauss, 1991: 51; Glaser, 1992 and Sarantakos, 1998) are that, following initial data collection, theories are consequently developed and then further refined and tested, in a continuous and unending process.

This research examined some aspects of the situation underlying the opportunity for local stakeholders to implement and develop Public Private Partnerships by investigating the perceptions of local stakeholders as autonomous cases. During interviewing there was a process of interaction between researcher and the 'research case' until, more or less, the researcher was not only gaining information about the participant's point of view but also sharing that point of view. This research interpreted the collected material into information about how the powerful saw the reality, saw the problems in KTI and saw the opportunities, and then discusses what has been done already and what should be done to reduce the 'KTI problem'. As Minichiello et al (1995: 247) said, "The aim of data analysis is to find meaning of the information collected. Data analysis is the process of systematically arranging and presenting information in order to search for ideas".

3.4.1 The Research Sample of Interviewees

My sampling process was purposive, using a snowball sampling technique. Patton (1990) stresses there are no rules for sample size in qualitative research. The extent of saturation in my sampling so far achieved is demonstrated by the extent to which new information can achieve a change in the existing data. When such a change does not occur saturation is considered to have been reached, and the process is completed (see Sarantakos, 1998, Glaser 1992 and Strauss 1991).

Sample size depends on what we want to know, the purpose of research, and what can be done with available time and resources. Even though there was no rule for my sample size, this research had some criteria for choosing participants. As the research was to examine whether Public Private Partnership can be developed and implemented by local stakeholders in KTI semi-structured interviews were conducted with a number of local decision makers and local business representatives.

Participants were recruited from local decision makers in Local Parliaments (Dewan Perwakilan Rakyat Daerah, DPRD) and Local Government in eight Regencies in the two Provinces. Chairmen of Local Regency Parliaments and Heads of the corresponding Regency Governments were interviewed, as were Heads/Deputy Heads of local government offices that were involved in the economic sector and supporting facilities such as the Local Development Planning Board, Office of Local Revenue, Office of Industry and Trade and Office of Public Works. To represent local business participants were recruited from local business associations and, as private sector representatives in economic activities, from private companies that operated in the regions. I also interviewed the chairmen of the Local Chambers of Commerce and Industry (Kamar Dagang dan Industry Daerah, KADINDA), one of local business associations, and owners/directors/managers of private companies.

Semi-structured interviews were conducted with these local decision makers and private company managers because of their extensive experience and knowledge, and due to their position as decision makers. Furthermore, as mentioned in Chapter 1, overall this research was intended to describe the complex problems created by poor policy making from above. Therefore it needed to shift the attention from the powerless citizens to the powerful decision makers. This research probed the viewpoints of the powerful. It also focused its attention on government and business in considering government and business roles as key players in economic activities. Moreover, desirable characteristics of Public Private Partnerships are legality and formality and consistency. Public Private Partnerships are inter-organizational relationships that should have clear responsibilities and consequences for each organization/institution. As a result, an examination of the point of view of local decision makers and local business top managers was important and required. The facilitation approaches were participatory (McIntyre, pers. comm. 2002; also see McIntyre 2000; 2003 and 2004). To gain more information, interviews were also conducted with a number of national decision makers, national business association representatives, experts from study centres, managers from state enterprises, managers from multinational company, managers of national projects on Partnership, local journalists and local NGO. In total, sixty participants were interviewed.

Beside the general descriptions of participants mentioned above, here is some specific information about some of the participants and institutions or organizations that contributed rich information for this research:

1. State Minister for the Acceleration of Development of Eastern Indonesia

This research gained information from this relevant ministry and the Minister himself, who explained his point of view about the problems that have faced KTI and why he considers that Public Private Partnership is also one of the possibilities for accelerating the development of KTI.

2. Secretary General of Eastern Indonesia Development Council.

He is involved directly and is responsible for formulation of Eastern Indonesia Development Council Strategy and Policy.

3. Vice President of Unocal.

He joined Unocal in 1975, and has had many years dealing with the Indonesian Government. Unocal is one of the multinational companies that established partnerships with Indonesian government over more than three decades; its focus is on oil exploration in East Kalimantan.

4. UNDP National Project Manager of Partnership for Local Economic Development.

The respondent is National Project Manager of UNDP (donor) on Partnership project (KPEL which has previous name as PARUL: Poverty Alleviation through Rural-Urban Linkages). The respondent is chosen consider her primary responsibilities that are to mobilise and coordinate support from donors and central government agencies involved in the program, and facilitate the execution of the program by KPEL partners in regions. Rich information was gained from UNDP National Project Manager of Partnership for Local Economic Development who has experienced in managing pilot project on Partnership for local economy in 6 regions i.e. South Sulawesi, South-East Sulawesi, North Sulawesi, Lampung, Jambi and Irian Jaya (Lampung and Jambi are in KBI, the others are in KTI).

5. Head of the Innovation Centre of LIPI (Lembaga Ilmu Pengetahuan Indonesia/Institute of Science of Indonesia).

He has a long history of partnerships; even before being promoted to Head of LIPI's Innovation Centre he had been managing partnerships between LIPI and third parties for many years.

6. Deputy Mayor of Samarinda Municipality.

Besides being a local government decision-maker he is a businessman and knows much about what businessmen and decision-makers' problems based on his own experience and observation.

7. Deputy Chairman of Samarinda Municipality Chamber of Industry and Commerce.

He has had twenty years experience in the East Kalimantan Chamber, starting as a clerk, moving up to be an administration officer, then an official member. Three years ago he had joined the Samarinda Chamber and had become one of its top management team as the Chamber's deputy head.

8. Head of Local Development Planning Board Kutai Kertanegara Regency.

He has been the Secretary of this Regency and was formerly Project Manager of the Mahakam II Bridge. During my fieldwork, there was debate about the pros and cons of implementing a toll tariff on this Bridge. Based on this and on his information, there was something to learn about how some people in this study location were interested in partnerships but misunderstood how they work, as shown when they want to commercialise the Mahakam II Bridge.

9. PT Kayu Alam Perkasa Raya (Log Industry).

Similarly to other big companies that operated in East Kalimantan and South Sulawesi, their official centre is in Jakarta with the company sending only one or two of their management team to represent them in the region. This company was deliberately chosen from among the several logging industries that are operated in the study location to get more information, as it is located in two regions. The managers of this company need to deal with two local governments because their Sawmill Factory is in Samarinda Municipality whereas their land area is in Kutai Kertanegara Regency. As their Sawmill Factory is located along the Mahakam riverside, the researcher used 'the only transport', one of the company's small traditional boats used for the daily picking up of employees, to get to it.

10. The Institute for Rural Coastal and Community Studies (LP3EM).

From among the Non-Government Organizations in South Sulawesi, LP3EM was chosen. It was established in 1985 and focuses on daily life of the local community of fishermen. According to the Executive Director of LP3EM, South Sulawesi culture is maritime culture, a culture of the ocean, but before LP3EM no government, business or NGO activity focused on the ocean. Thus, information was gained based on an NGO point of view, particularly from an NGO that has a long history with its local community.

11. Population Centre of Mulawarman University.

To gain information not only about local stakeholders in general but also about traditional communities, this research needed to consult the Population Centre of Mulawarman University. Considering that the traditional communities of East Kalimantan mostly still stay in isolated areas, some in the forest, it is difficult to access them. The researcher believed that the Population Centre had access to traditional communities and had more information based on their observation than others, especially local governments.

12. Local Journalist.

The researcher chose two local journalists from the biggest local newspapers as participants, one from East Kalimantan and another from South Sulawesi. They are senior journalists who have had years of experience as journalists, both having been involved since the newspapers were established. As well as being a journalist, one of them is also a regional network coordinator for his newspaper. This research benefited from seeing the problem from the points of view of local journalists who had gained more information from their years of observation and experience assimilated with local community, local government, local business and others.

13. Chairman of Pare Pare Municipality Parliament

He was not only a current local decision maker but also a former 'insider' as a government official (1963 – 1971) and a businessman, involved in small industry in public commerce since 1972. He has a good history background and was useful for this research.

3.4.2 Collection and analysis of interview material

There were two kinds of material to be analysed; interview records and documents. Interview material elicited and collected through the semi-structured interviews was summarized and categorized into data based on the different issues under consideration and subjected to further content analysis. As mentioned at the beginning of this chapter the content analysis followed the procedures in grounded theory to develop new concepts, based on discussing the material generated from fieldwork in relation to existing theories and existing policies. There are software programs, which could have been used to assist in managing the materials in displaying the data and in the search for theoretical linkages within it (Richards & Richards, 1991). However, my intention in the data analysis was to extract the essence of the interviewees' meanings as they were verbalised in my observing presence either as intended and unintended accounts (Williams in Minichiello, et al, 1995), I needed to find meaning not only between words but in full sentences and also sometimes those I interviewed used different terms for the same matter or used the same term for different matters. When doing the research I was able to memorise body gestures during interviews and to elaborate and interpret the notes that I made during interviews. In other words, I managed my data by drawing on more detailed and richer information than just the recorded speech and made the data processing more valid. In this kind of data analysis the capability and capacity of the researcher are very important. The capability to interpret the meaning of a sentence, its background and to dig its real meaning from certain participants was crucial, especially in an Indonesian community with a culture that avoids using direct words or sentences to mention or explain something that could be impolite and prefers to say some things indirectly. In this case, my known identity and background as an insider, as a government officer, helped considerably. I am not only an economic planner in the Indonesian National Development Planning Agency (BAPPENAS), but also I have been involved in managing or coordinating several government projects and working side-by-side with government decision makers and officials. I joined BAPPENAS in Jakarta as a planner in fiscal year 1989/1990, was involved in the Integrated Pest Management Project from 1990/1991-1993/1994. In 1994/1995, I was appointed to joint the IDT (Inpres grants to undeveloped villages) National Coordination Team, which was an honour as I was then

still a young member of staff and was working with the most senior (Level 1) BAPPENAS experts such as Professor Mubyarto, Professor Mustopadidjaja A.R. and Professor Sugijanto Sogijoko. In the same year, I also started to work as a trustee for IDT projects, which I continued for the three years until 1996 then, in early 1997, was granted by World Bank scholarship to study for a Master's degree in Public Policy and Management at Carnegie Mellon University in America. On my return in middle of 1998, BAPPENAS promoted me as Head of Industry and Commerce Subdivision. In early 2001, I went to Australia with an AusAid scholarship to start a Doctorate in Public Policy and Management at Flinders University in South Australia. I have a family background in business, as the second child of a local businessman from Lampung Province, Sumatra. My father started his business on his own when he was young and became quite successful, by 1956 owning two trucks at a time when many others were still using 'gerobak' (traditional oxcarts). I studied for my undergraduate degree in government science and get my Bachelor of Art and Doctorandus from Gadjah Mada University in Yogyakarta, and I also get a Bachelor of Accounting from the AA-YKPN (Accounting College, State Institute for Patriots' Families) in the same city, fully supported by my father. He is democratic person, who discussed everything with his family. Since I was in high school, I was involved in business brainstorming with my father. Once, during my semester break from Gadjah Mada University, I helped him to find a solution to a problem with his plantation company, which he and his partner had already given up on. My work environment in BAPPENAS involves respect for people based more on capability than hierarchy, being a member of the higher echelon government officers, a democratic family background and my study in management at Carnegie Mellon gave me confidence to do my interviews and establish good communications with decision makers and business managers. Furthermore, my background as a government officer, and as a daughter of a local businessman helped me to understand many 'silent conversations' with participants who have backgrounds I am familiar with. I could understand when they used body gestures instead of sentences or, sometimes, someone said 'yes' in direct question, when I follow it with indirect questions, their answers or explanations actually meant 'no'.

Furthermore, more knowledge and understanding about Public Private Partnerships I got from my communication and discussion with practitioners of Public Private Partnership, such as CEO SA Water (Pers. Comm. at March 07, 2001), discussions with some members of Local Government Manager Australia (LGMA SA) and presenters during Local Government Managers Australia (SA) conference at 8-9 November 2001.

As asserted about grounded theory by Sarantakos (1998: 203-205),

If a researchers' purpose is to create new and theoretically expressed understandings, then theory-building methods such as the one provided in this text are indicated. The value of the methodology we are about to describe lies in its ability not only to generate theory but also to ground that theory in data.

The reason why this research used grounded theory was because it was suited to the purpose of the research, to create new and theoretically expressed understandings of the meanings of 'Public Private Partnerships' in Indonesia, especially for KTI. As discussed above, my interpretation capability was important in this research, with a need for interpretation to be based on systematic examination.

I used narrative analysis as follows:

- i) Data Collection: Most semi structure interviews were taped (some examples of full transcripts of recorded interviews in appendix 2)
- ii) Memoing: Memos were made by listening to the tapes or reading the interview notes then writing notes, translating and editing.
- iii) Coding:
 - The interview data was read by scanning vertically through the pages to find what appeared to be key themes for further 'axial coding'. This concentrated on issues related to the apparent axis or core of a category and involved more intensive analysis. Finally, selective coding involved coding key categories
 - The interview data was read by scanning horizontally, categorizing similar indicators as a class to find common themes and sub-themes. The categorized themes are provided in the coded transcription in appendix 2.

- iv) Theme Relationships: Key themes, common themes and sub-themes were read and compared to try to find possible interrelationships among themes.
- v) Temporary Concepts: Notes were made to describe and explain possible relationship patterns to generate temporary concepts.
- vi) Developing New Concepts: The temporary concepts were considered by comparing them with existing concepts in literature and policies to assess whether they matched these sufficiently or whether it was necessary to formulate new concepts. Formulating new concepts depended on many factors, such as the researcher, point of view of participant and the topic we were discussing. This is a very central tool of analysis in this form of qualitative research. It takes place by considering the many themes raised by the informants. These become the basis for generating my etic analysis.

I realized that the concept of 'Public Private Partnerships' is a process and a tool that is dynamic, so it was difficult (and probably undesirable and invalid) to develop rigid concepts. The 'Public Private Partnership' concept is general and suitable for many situations; hence it was adapted and changed with subject, time, condition, location and participants.

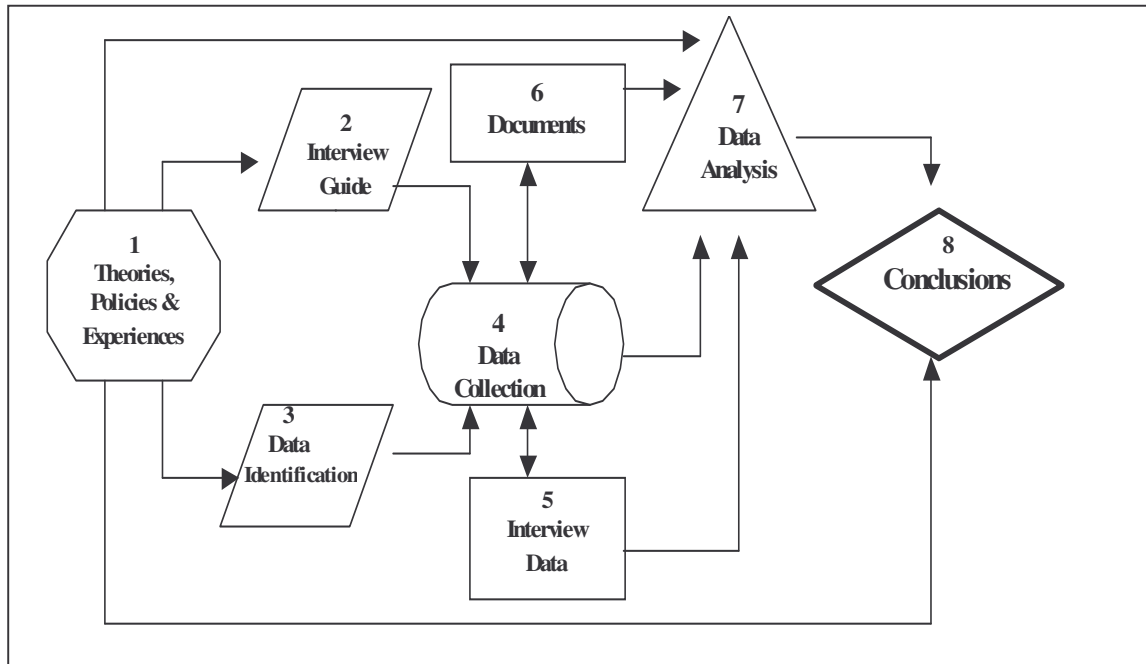
3.4.3 Analysis of documentary material

The other collection of data involved study of documents such as government development policies, economic and policy studies and statistical resources. These already existed and the data needed to be extracted and examined based on the purpose of the study. Descriptive-explorative techniques were used to analyse the existing documents and statistical resources.

3.5 Overall Organization of the Research

Diagram 3.1 below shows the flow chart of data processing and numbers the interrelated steps followed by the researcher to collect the data on which the grounded theory is based.

Diagram 3.1: Data Processing



In this thesis, the original framework was very limited because the approach was to develop grounded theory and to listen to what the informants had to say. My technical preparation for the research was to read about grounded theory and to prepare a strategy for entry into the field by drawing on my own professional contacts.

CHAPTER IV

REGIONAL DEVELOPMENT

4.1. Introduction

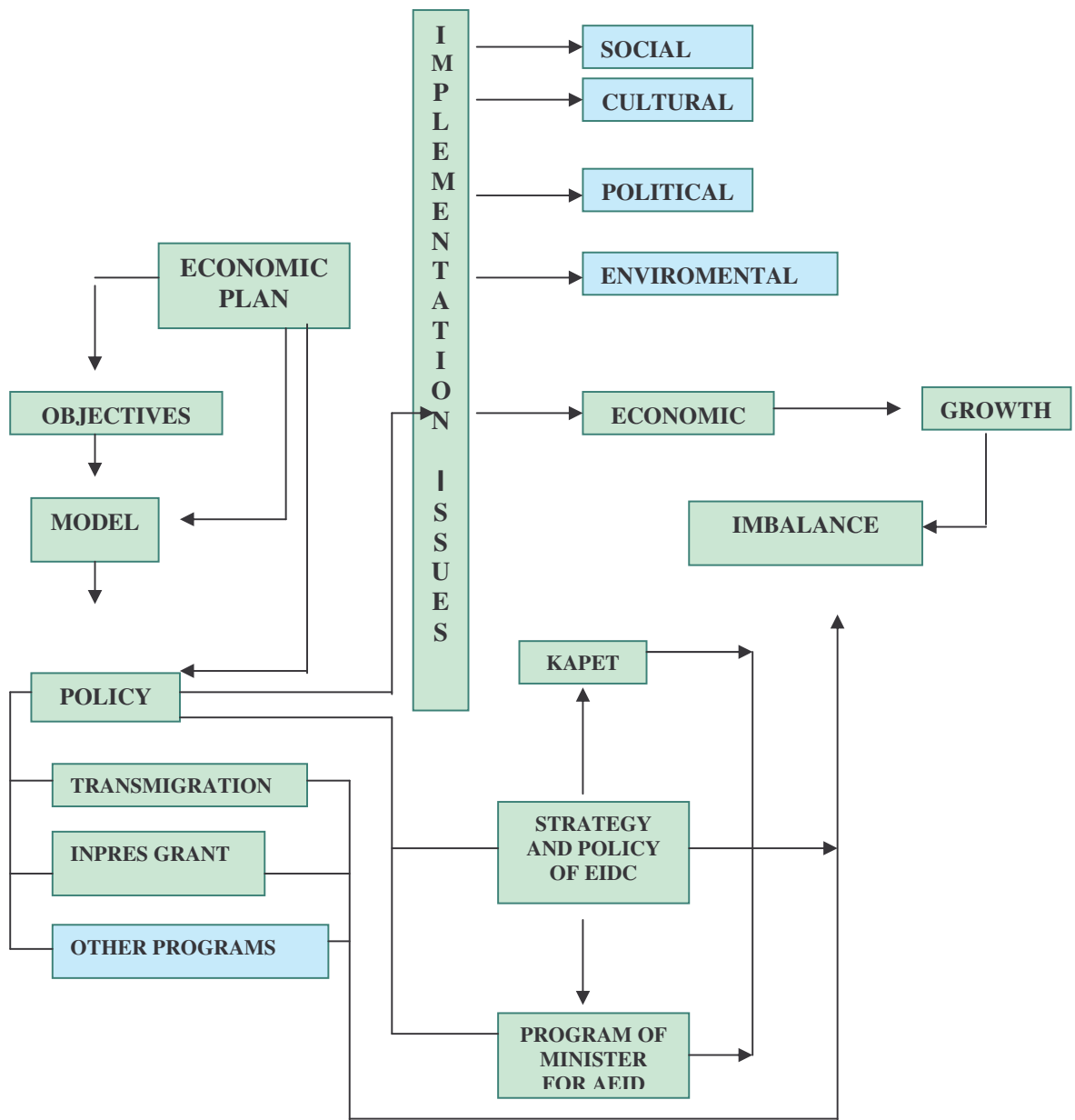
The challenges for regional development are social, cultural, economic and environmental factors, but the argument that I will develop will focus on economic aspects only. As mentioned in Chapter I, before the 1997 crises, the Indonesian economy was growing at more than 7 % per year, but there was an imbalance between the Western Region (seventeen Provinces in Sumatra, Java and Bali islands) and the Eastern Region (fifteen Provinces in the other islands). There are places such as in Java and Sumatra that are poor but in general the Eastern Region economic growth is lower overall and it has an unsophisticated economy. This chapter will:

- **Analyse** the regional economic development policies critically and systematically, and then concentrate on and discuss i) the general government strategies for regional development such as those Transmigration and Presidential Instructions (Inpres), and what the result of certain of them could mean for regional development, especially for KTI. This discussion includes current strategies that are especially formulated for accelerating KTI economic development such as i) the Policy and Strategy of the Eastern Indonesia Development Council (EIDC), ii) the Integrated Development Zone (KAPET) and iii) the Program of the Ministry for Accelerated Development of Eastern Indonesia (AEID). It presents the significant economic indicators of regional economic growth referred to in Chapter II; Gross Regional Domestic Product (GRDP), Sectoral Regional Growth Rate and GRDP per Capita. It also addresses the National Budget Allocation and Domestic and Foreign Investment in regional economic growth.
- **Present and discuss** the relevant interview data and the existing theories explaining the regional imbalance to define the contributing factors that

impact on and contribute to it. The result of an analysis based on the interviews with sixty one participants from eight districts and central government and on secondary data showed that the causes of economic imbalance are systemic and span many areas (see diagram 4.2)

Diagram 4.1 below shows the government policies on the economic planning and implementation issues in regional economic development. Each of these relevant government policies will be discussed.

Diagram 4.1: Government Policies on Regional Economic Development

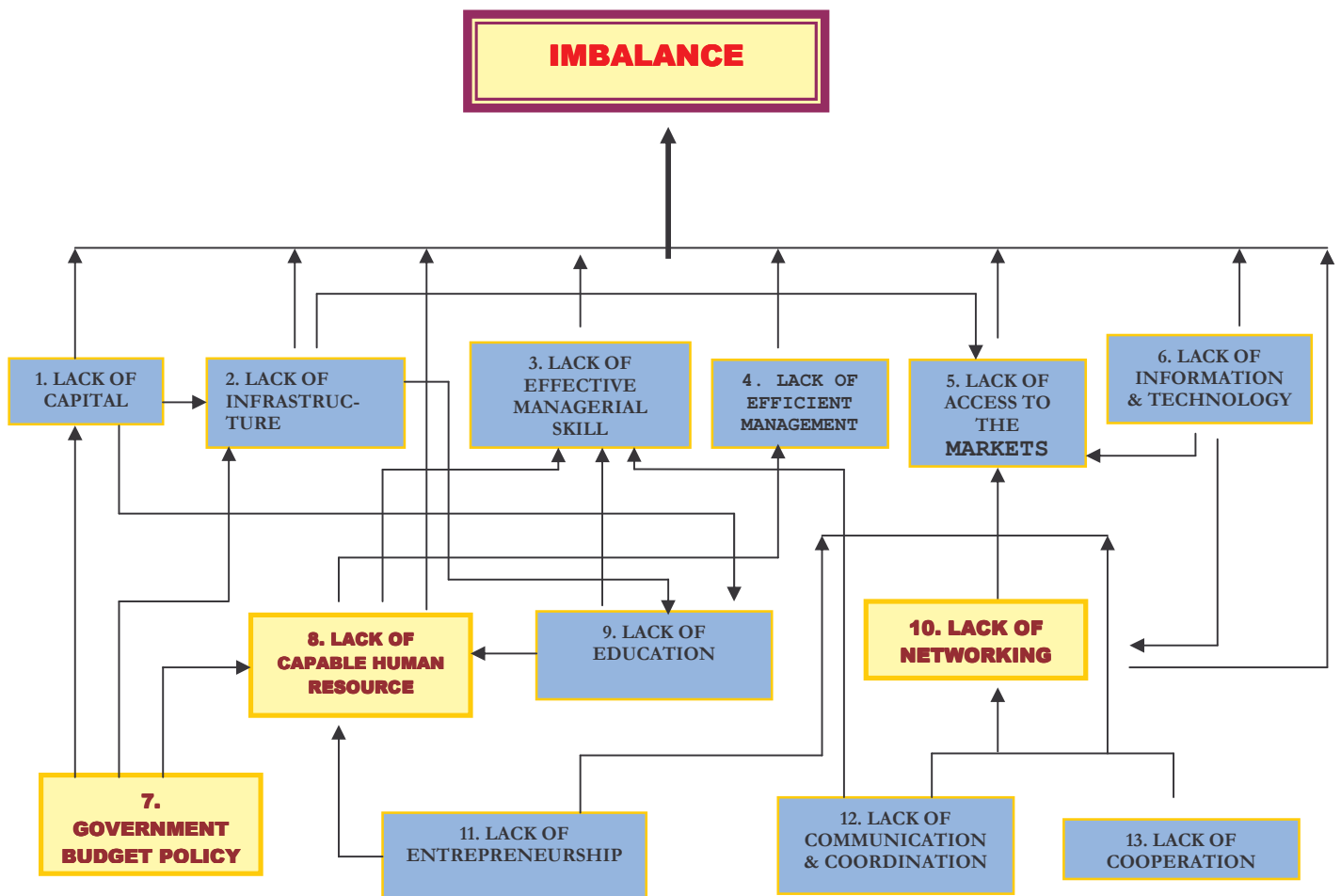


Note:
 AEID = Acceleration Eastern Indonesia Development
 EIDC = Eastern Indonesia Development Council.
 KAPET = Integrated Development Zone

Furthermore this chapter will discuss the significant economic indicators of regional economic growth referred to in Chapter II, the Gross Regional Domestic Product (GRDP), the Sectoral Regional Growth Rate and the GRDP per Capita. It will also address the National Budget Allocation and Domestic and Foreign Investment in regional economic growth.

Moreover, this chapter will present and discuss the relevant interview data and the existing theories to define the contributing factors that impact on and contribute to the imbalance. The result of an analysis based on the interviews with sixty participants from eight districts and central government and secondary data showed that the causes of economic imbalance are systemic and span many areas, as summarized in diagram 4.2:

Diagram 4.2: Factors Contributing to Regional Economic Imbalance



4.2. Some Empirical Facts about Government Regional Development Policy and Implementation

To accelerate the development process and equality, government should consider the regional and local needs and encourage other stakeholders to get involved. In fact regional and local needs have not been optimally or transparently fulfilled by government initiatives such as National Transmigration and KAPET.

Furthermore, According to Transparency International (Tempo Interaktif, 2004) “among 146 countries, Indonesia ranked fifth as the most corrupt country. Economic development and decentralized governance will not succeed unless strategies are put in place to address endemic corruption.” How systemic corruption across the public, private and non-government sectors effect fund leakages and decrease trust among stakeholders will be discussed in Chapter V (5.5.5). As a case study, this chapter will discuss some examples of corruption done by many actors in illegal logging (see 4.4.6).

Firstly, I will discuss the intricacies of the Transmigration program and then delve into a succinct analysis of the Policies and Strategy of Eastern Indonesia Development Council, KAPET and the Program of the Ministry for AEID respectively. Moreover, the Inpres program will be considered as a part of a discussion of the imbalance of government budget allocation.

4.2.1. Transmigration Program

The Transmigration program¹⁰ is a controversial program on which the government has spent a huge budget since Repelita I under the New Order. One of the reasons for government establishing this program was for regional economic development. In the New Order era, the transmigration program had multi-dimensional objectives that influenced one another with the intention that everyone would enjoy the benefits. Governments assumed that by matching human resources from Java with natural resources in the outer islands, Java’s population problems would be solved and at the same time the economic activity in other regions would be improved too. The general

¹⁰ Transmigration was actually initiated by the Dutch when they occupied Indonesia for providing manpower for their plantations by sending people from Java, for example, to North Sumatra.

transmigration policy was laid down in Law No. 3/1972 that created a larger spontaneous transmigration in order to:

- Improve living standards;
- Promote regional development;
- Balance population distribution;
- Achieve an even development throughout the country ;
- Make use of natural and human resources;
- Preserve the unity of the nation;
- Strengthen national defense and security.

Although according to critics, such as Marr (1990), the program disrupted families, created antagonisms among existing communities in the transmigrant settlement areas and caused major long term ecological damage the government dismissed criticisms, asserted that the program was essential both to redistribute the Indonesian population and to '*develop undeveloped regions*', and continued to claim the program generally benefited everyone.

Furthermore, based on an analysis of the seven goals of the transmigration program, the local needs are a key for achieving regional economic development as a whole, and transmigration implementation is just a tool for achieving that goal. As a prominent Indonesian economist, Mubyarto (1992), argues in his criticism of the everyday economy in Kalimantan, a transmigration program without regional development is nonsense, the other six goals are just by-products that are hoped will occur with different degrees of success in different contexts from time to time. In fact, Mubyarto's worst fears may have come true. Implied in the government's approach to transmigration is, once again, a significant bias on economic growth and also bias on the negative effects of overpopulation, instead of a balance between growth and equality. The transmigration programs have been an integral part of a broader strategy to relocate population from Java to the Outer Islands, especially Sumatra and Kalimantan, together with Sulawesi and Irian Jaya. As is always noted in the preamble to every *Repelita*, regional policies of employment and manpower are intended to increase the flow of labour from densely populated areas to sparsely populated areas. In fact, other than the

impact on the local demographic profile, the contribution of the transmigration program to local economic development has been small¹¹. Members of the Kalimantan community had even asked government to evaluate transmigration in four provinces in Kalimantan because it did not have positive impact on regional development. For example, the Chairman of Kerukunan Keluarga Kalimantan (K3) Jaya, Z.A. Maulani said the Transmigration Program was inappropriate to the regional resources and environment.¹²

Government needs to plan and prepare transmigrants, so they can cooperate and adapt to local culture. For example, in Sambas, Kalimantan, up to thirteen cases of community conflicts between Madurese transmigrant community and Dayak and Malay indigenous host community have been attributed to a lack of an assimilation process. In other regions where the community conflict did not blow up as it had in Sambas they have had similar problems. For example, as mentioned by the Deputy Head of Barru Regency, South Sulawesi:

It is not a public secret anymore, people always discuss the imbalance between KTI and KBI. So, it means we see here an infrastructure factor, which consists of road and various applications of central government policy, which ... is not relevant ...to the requirements of Eastern Indonesia in general because fund allocations are related to the number of residents. We can mention Java; of course clearly they have more people, a majority in numbers of residents compared to Eastern Indonesia. And secondly they often become a local enemy by the Transmigration program. People send from West carried over to East Indonesia without involving the local community that has the same characteristics as the transmigrants, same condition, same economic status. Local people see nationally that transmigrants get various facilities; they get free land with certificate. Whereas local communities which are poor and do not have land, do not have attention from the central government. As a result what is going on is when transmigrants are successful, social jealousy grows. Social jealousy will trigger problems, which can generate social conflict in the community now. So in future first we expect to have to see

¹¹ BAPPEDA dan BPS Propinsi Kalimantan Timur, 2001

¹² Bisnis Indonesia, 18 May 1999

how to involve local communities (members) who have a true desire to follow transmigration program. If possible they will interact in the same area so that there is culture interaction between West and East. Then they will have feeling togetherness; there is a sense of belonging. That is what we see from the development sector.¹³

The Transmigration program, that has been implemented nationally, not only creates problem in the Eastern region but also in Western Indonesia, especially for host populations. One of the strategies that can be applied to help fulfil regional and local needs is to improve the skills of the local population (host community). Training and education programs are needed to enhance the skills of people in relevant industries. In the New Order, however, the government was not concerned about how to train locals. Even though the government looked as though it occasionally focused on improving the skills of transmigrants before and/or after they were moved, in fact the transmigrants who were sent remained unskilled. The regional disparities were even more burdened by the inflow of unskilled labour (or without relevant skills for their new 'home' region).

One of the classic examples of the adverse effects of the transmigration program is that of Lampung, Sumatra. According to Thamrin (1989), disorderly spontaneous transmigration flow (combined with the traditional agriculture system) and the failure of Family Planning to reduce population growth level had operated to shift the Lampung region into a region that sends transmigrants. The limitation of agricultural land as a consequence of over-population and the traditional agriculture system cause high disguised unemployment, which, if followed by the lower level of education and lack of capital and capability, will reduce job opportunities. Spontaneous transmigration flow and the traditional agriculture system also exacerbated the damage to agricultural and forest areas. Transmigrants brought their "cultural baggage" (norms, customs and values) from their region that eventually permeates into villages the cultural architecture, means of livelihood and so on. The same way of life that triggered the overpopulation in Java and its history and problems were repeated in other islands. For example, Lampung's status shifted from being a region that receives transmigrants to becoming a region that sends transmigrants. Furthermore, the life of Lampungese has changed. Before 1970,

¹³ Interview Code SS-24: 2

Lampungese were known to come from a well-off, commercially oriented community, deriving regional wealth from spice-based products such as pepper, coffee and cloves. Nowadays, it is rare to find this array in Lampung. Lampungese just plant cassava because the land has become increasingly infertile and only cassava can grow without the utilisation of expensive fertilizers. Unlike spices, when the cassava price decreases, farmers cannot hold on to cassava because of its limited shelf-life (also it is easily damaged) so businessmen can manipulate prices such that sometimes farmers do not end up with a commercial return. Not surprisingly, recently many of the Lampungese have changed from being landlords to becoming unskilled laborers in farming companies in Lampung or industrial companies in Tangerang, Karawang and Bekasi around Jakarta in West Java.

The transmigration program had no private participation in the region where the program was implemented; sometimes it even ignored the local people's aspirations. As a result, the development for natural resources and human resources in the region is not well planned. In the other words, redressing the imbalance between regions (Java and other islands), which was the transmigration goal, has failed, and has made other regions worse.

4.2.2. Current Strategies Especially Formulated for Accelerating KTI's Economic Development

4.2.2.1. Strategy and Policy of the Eastern Indonesia Development Council

Since the early 1990s, there has been discussion about the development imbalance between Western and Eastern Indonesia, with the acceleration of KTI's development explicitly referred to in the official 1993 Broad Outline of the Nation's Direction (GBHN 1993). Acceleration of Eastern Region Development, according to the GBHN and Development Program has four targets: 1) reducing regional disparity; 2) improving the prosperity of local communities; 3) improving the readiness of KTI to face the free trade era; and 4) maintaining the integrity of the Unitary State Republic of Indonesia.

In 1993, in order to accelerate development of KTI, the Indonesian Government enacted Keppres (Presidential Decree) No. 120/1993 to establish the Eastern Indonesia Development Council/EIDC (Dewan Pengembangan KTI = DP-KTI), which has

subsequently been altered several times, such as by Keppres No. 13/2000. The Council is the coordinating body, which has the duty to formulate and specify strategic policy and priority programs to increase development in Eastern Indonesia along with determination of process and its execution priority. The membership of the Council has slightly changed following new Decrees. In its latest form, specified in Presidential Decree No. 44/2002, it is:

1. Chairman: President Republic Of Indonesia
2. Daily Chairman: State Minister for AEID
3. Daily Vice Chairman: State Minister Research and Technology
4. Secretary General: Staff Expert State Minister for National Development Planning in Eastern Region and Undeveloped (*tertinggal*) Regions.
5. Vice Secretary General: Secretary of State Minister for AEID

Members:

1. Minister for Home Affairs
2. Minister for Settlement and Regional Infrastructure
3. Minister for Finance
4. Minister for Communication
5. Minister for Oceanic and Fishery
6. Minister for National Education
7. Minister for Energy and of Mineral Resource
8. Minister for Forestry
9. State Minister for National Development Planning/Head of BAPPENAS
10. State Minister for State enterprises
11. Head of Investment Coordination Agency
12. All Governors in Eastern Indonesia (Governor becoming Council member only at formulation and stipulating of policy development in his/her region).

In its latest policy and strategy, EIDC (2002 : 6-11) formulated policy to be:

- a) Affirmative;
- b) Accelerative;
- c) Improving;
- d). Compatible and Optimized;
- e) Improving development;
- f) Empowering institutions and society in Eastern Indonesia.

In order to implement the accelerated development of KTI, EIDC formulated general and specific strategies. The general strategy for Acceleration of Eastern Region Development of Indonesia is:

- KTI Development is developed cross region and cross sector with Planology Plan Guidance
- Increasing of productivity of strategic sectors, that is sectors that gain large added value
- Increasing of income distribution, development result and economic access and also market access
- Pushing Local Government to enlarge fund allocation to develop education and health
- Increasing of investment interest in the development of quickly growing areas through provision of investment incentives, rule of law, security guarantees and also decreasing uncertainty of regulation
- Development of disadvantaged/isolated areas
- Creating a conducive atmosphere to push active participation and community initiative in public private partnerships in the effort to develop businesses
- Increasing of cooperation and roles between local government institution for the acceleration of eastern region development of Indonesia
- Optimalisation and extension of facility and infrastructure relate to planology plan guidance.

The acceleration of KTI development will be conducted in five areas: (1) human resources, through increasing education, health, and also development of culture; (2) economic, through exploiting the potential of natural resources with a vision of the environment, an improvement of the economic growth rate and also to increase society's purchasing power; (3) facilities and infrastructure, through readying and optimalisation of infrastructure and facility; (4) institutional, through reinforcement and equipping of existing institutions; and (5) incentives, through efforts to give incentives to investors

developing the effort in KTI. All these efforts have the purpose of assisting KTI's pursuit of its lagging development.

Eastern Indonesia is diverse in geographical, social, cultural and economic aspects including in natural resources, so that to determine policy we need to adapt to characteristics of each region as follows:

a. Human Resources:

One of the factors having an effect on growth in regions is the quality of human resources within them, and this can be assisted by the development of relevant policies in each region such as, for areas with :

- **lower levels** of human resources, the application of a policy of acceleration;
- **middle levels** of human resources, a policy of empowerment;
- **high levels** of human resources, a policy of reinforcement.

b. Economics and Natural Resource

The economic activities on which the economic structure of KTI is based are mostly natural resource exploitation. The economy of KTI depends on the exploitation of non-renewable natural resources. In the short term this cannot be avoided. But in order to create sustainable economic development, economic activities that depend on one type of commodity have to be reduced step by step.

It is time to exploit the potential of renewable natural resources in KTI like fisheries, forestry and tourism. In order to exploit natural potentially sustainable resources they have to be addressed by means of:

- i) **Managing the exploitation** of the natural resources (including oceanic and biodiversity potential) in sustainable ways. If the natural resource is non-renewable then funds need to be allocated to looking for new reserves or to developing a substitution commodity.
- ii) **Economic diversification**, based on these four characteristic areas in KTI where development will be implemented by following acceleration policies:

- Areas with low potential and low diversity, by applying a policy of development of a sustainable resource basis;
- Areas with low potential and high diversity, by a policy of increasing competitiveness and investment interest;
- Areas with high potential and low diversity, by a policy of increasing diversity as a result of processing products and continuation of natural resources.
- Areas with high potential and high diversity, by a policy of increasing products, marketing and distribution.

c. Facilities and Infrastructure

The availability of regional facilities and infrastructure can be considered as providing a supporting factor for the development of a region. For this reason, infrastructure policy is divided into two groups:

First, for regions that have relatively good infrastructure, the policy that is applied is one of improving compatibility and optimalization, and also reinforcing facility and infrastructure development;

Second, for regions that have poor infrastructure, the policy that is applied is acceleration and extension of facility and infrastructure development. The developments, which focus on undeveloped, frontier regions and high potential zones, include KAPET (Integrated Economic Development Zone). Based on a short-term target (2004) and also a middle term target (2010), implementation of strategy and policy for facility and infrastructure adapted regional and local characteristics:

- Optimalisation of facility and infrastructure development meant to increase efficient usage of infrastructure;
- An Empowerment infrastructure and facilities strategy that focussed on outer regions;
- An Acceleration infrastructure development policy of increasing quantity and quality of infrastructure;
- Expansion of infrastructure development focus on regions that have high economy activity.

d. Institutions

Strategy and policy for developing government economic institutions and community social institutions should vary as follows:

- Where the level of local government power is less adequate; a policy of increasing institutional capacity by application of the settlement strategy again (restructurisation) and reinforcement of local government organization according to local need.
- Where the level of local government power is adequate; a policy of reinforcement of institutional capacity by applying a strategy of revitalization of government institutions as prescribed by the regulations.
- Where the level of community, social and economic institutions is less adequate; a policy of development and improvement of institutional capacity by applying a strategy of increasing development opportunities for the institutions.
- Where the level of community, social and economic institutions is adequate; a policy of reinforcement of institutional capacities by applying strategy optimalization for the institutions.

The strategies and policies above showed that EIDC has already considered the factors that contributed to the Eastern region being left behind. EIDC formulated the strategy for increasing the quality of human resources, increasing facilities and infrastructure, the changing of economic structure from dependency on non-renewable natural resources to renewable natural resources, and the development of institutions. Besides, in its latest strategy EIDC considers that Eastern Indonesia represents an area with high heterogeneity in natural resources, amounts and levels of development, socially, culturally and ethnically, so that the Council already determined specific strategies to be used which have to be adapted to characteristics of each region.

Furthermore, EIDC formulated nine program priorities for human resources, six for economic and natural resources, eleven for facilities and infrastructure and five for institutions. These new policies and strategies appear quite good, and are followed by programs that simply and clearly mention the activities, locations, timetable and

institutions that are involved. But something is missing here. As institutions in charge of the activities, beside government institutions, EIDC only mentions universities and that just for some activities in the human resource program. It did not consider other stakeholders to be involved. Based on interviews with the Secretary General of EIDC and the State Minister for AEID¹⁴, we know that they consider Public Private Partnerships as one of the tools for acceleration of Eastern Indonesia Regional Development. More important is that one of EIDC's general strategies is creating a conducive atmosphere to push active participation and community initiative to intertwine public private partnerships in efforts to develop businesses. In contrast, from the formulation above we can see that government, through EIDC's policies, considered that forming interregional cooperation was more important than institutional cooperation since it put interregional cooperation as a priority program with institutional cooperation as only one of its activities.

EIDC should focus on both interregional cooperation and institutional cooperation as a priority. Government should not only consider local society, local need and relevant parties at some points of its policies. It is time for government to be fostering local need, local society and relevant parties in all of its regional development policies and strategies.

The purpose of regional development is to develop regional community, so that regional development policy should express the local interest without sacrificing the national interest. Efforts should be made to establish synergies between national and local interest. Indonesians have experienced a focus on national interests rather than on local interests with, as have been studied previously, a pattern of government policies which were centralistic, uniform and sectoral. Here the important of a Public Private Partnerships approach. This approach is that all stakeholders come and work closely to synergize each interest. In contrast, the approach of EIDC has been more expressing of coordination between government decision makers with a focus on acceleration of the development of KTI. This is seen in the entire membership of EIDC being high functionaries of government. If the emphasis is to be on governmental performance and coordination, then it would be better to empower the existing channels like coordinating

¹⁴ Their comments are quoted in detail in chapter 5 (5.4) under the section about Willingness to form Public Private Partnerships.

ministers, national coordination meetings, etc. If the target is to be acceleration of development of the Eastern Region, the membership of EIDC will require the recruitment of other stakeholders, not merely from the public sector but also from the private sector. For effectiveness, there will be a need to establish similar boards at the local level to improve cooperation among stakeholders and interregional cooperation. Public Private Partnerships among stakeholders will bring a more active participation of local communities and institutions, etc. with government for the acceleration of Eastern Indonesia Development.

4.2.2.2. Program of Ministry for Acceleration Eastern Indonesia Development

In 2000, the position of Junior Minister for the Acceleration of Development of Eastern Indonesia was established by Keppres (Presidential Decree) No. 234/M/2000. In the same year followed another Presidential Decree, No. 164, about the position, duty, function, authority and organizational formation of the Junior Minister. The main task of the Junior Minister is to coordinate accelerated development of Eastern Indonesia, and carry out the functions of:

- Coordination with the Eastern Indonesia Development Council in formulating and specifying strategy and policy to accelerate development in Eastern Indonesia;
- Coordinating the execution of accelerated development of Eastern Indonesia with Departments, Government Agencies and Non-Departmental and Related/Relevant Institutions and also with Local Government;
- Coordinating operation of accelerated development of Eastern Indonesia;
- Forwarding of duty performance reports to the President and Vice President.

This Ministry is expected to lessen development disparity between Eastern and Western Indonesia and also prevent regional disintegration. The existence of the State Minister for AEID is expected to coordinate development of Eastern Indonesia for anticipating environmental strategic issues, which cover:

- Globalization which can negate inter-state boundaries especially in economic areas and with the demand of higher competitiveness; and

- Local Autonomy delegating most government authority to Local Government.

President Megawati committed to carry out AEID by improving the Junior Minister status to become the State Minister for AEID by enacting Presidential Decree No. 228/M/2001 about Cabinet Mutual Assistance formation, and followed by declaring Presidential Decree No. 101/2001 about Formation, Position, Duty, Function, Authority, Organizational Formation and Administration of the State Minister. This latter Keppres contended that the State Minister for AEID has the duty to formulate policy and coordinate in the area of AEID, and carry out functions such as:

- Formulation of government policy in the area of AEID;
- Coordination and improvement of integrity of compilation of programs and planning, monitoring, evaluation and analysis in the area of AEID;
- Coordination in formulation and stipulation of strategy and policy to accelerate development of the Eastern Indonesia
- Forwarding of reports of results of evaluation, consideration and suggestion in duty area and ministerial function to the President and Vice President.

The State Minister for AEID is expected to be an activator in the accelerated development of the Eastern Indonesia on the basis of its economic potential, such as being rich in natural resources and varieties of agriculture that have not yet been managed maximally. In 2001 there were 7 programs that had been implemented:

1. Human Resource Development Program;
2. Sustainability Natural Resource Program;
3. Law Enforcement in Investment and Promotion Program;
4. Needs Study of Investment Facility and Infrastructure Development Program;
5. Strategic Management Development Program;
6. Integrated Potential Regional Development Program;
7. Improvement of Social Economy Program.

It is expected that the Ministry for AEID will integrate and synchronize the acceleration of KTI development to solve problems from overlapping development policies, programs and activities. In reality, this Ministry's activities themselves tend to overlap with other government institutions, for example focussing on promotion and

collecting regional economic potential data that has been done by the Regional and Local Investment and Promotion Board, KAPET and other local institutions.

In order to facilitated related institutions, the State Minister for AEID successfully to facilitated¹⁵:

- Road development and to optimize the Torea Airport and Utarum Airport
- Realization of refinery development in Selayar
- Retail business development in South Sulawesi
- Levying of machine processing of agricultural products in South Sulawesi
- Development of a sugar mill and plantation of sugar cane in Tinanggea, South-East Sulawesi
- Development of a sugar mill and plantation of sugar cane in Merauke
- Lembaga Adat (Custom and Tradition Institute) Rongkong, Tana Mesakke, Palopo
- Program of plantation development of palm oil in KTI
- Program of development of business diversity of PT Pelindo IV
- Program of project development of fresh tuna in NTT
- Cooperation in development of management of drinking water in Maluku
- Internet server installation and new connections
- Data collecting about local potential in 14 provinces in KTI.

One large forum had already been conducted in South Sulawesi for coordinating various parties on the issue of KTI development.¹⁶ The forum invited central government, regional and local government, bank and private companies. However, from 14 Ministers who were invited only 7 came and from 14 Governors invited only 3 came.¹⁷ Moreover, in their 2002 report, this Ministry mentioned various constraints in execution of coordination, in formulation of development policy and also in execution of

¹⁵ Kementrian Percepatan Pembangunan Kawasan Timur Indonesia, 2001

¹⁶ The Minister said that he, based on requests from many parties, had initiated this meeting.

¹⁷ More details are discussed in sub section 5.5.3 of Chapter V.

development. Up to 2001, there were not any regulations giving authority to the Ministry for AEID to invite various related parties to coordinate development strategy and policy in Eastern Region Development. To support the performance of this Ministry the existence of intensive partnerships between various stakeholders such as local government, private sector and community is very much required. The Minister needs to get authority in coordination and also to specify strategic policy in the area of AEID. Besides, technical institutions should treat the Ministry for AEID and EIDC as coordinators to avoid overlapping on policies, programs and KTI development activities. This Ministry's name has been changed several times with the changes of name associated with changes in its functions and tasks. This makes it difficult to follow and evaluate this Ministry's programs. It is especially difficult for the Ministry staff to determine the targets and how to reach them, an opinion expressed by some staff who are still confused about their role because of their changing tasks and responsibilities.¹⁸

4.2.2.3. Integrated Economic Development Zone (Kawasan Pengembangan Ekonomi Terpadu/KAPET)

In the mid-1990s, to accelerate development of KTI, the Indonesian Government attempted to change to a new strategy of Integrated Economic Development Zones (KAPET).¹⁹ Under Presidential Decree No. 89/1996, KAPET were established and became the centrepiece of the development planning. Through this growth centre concept, a centre was created and developed in one region in each province to represent that province. This region is supported by a sectoral activity/prime commodity with expectations that it will become a prime mover in the development of that particular province.

¹⁸ Moreover, this Ministry, having recently been established with a young Minister who had just become a State Minister, had not done much yet, but already had been reformed into another, similarly named, Ministry by the new Government in 2004. As usual, the change of name had consequences, being followed by changing the Ministry's structure and function. On the television news "Berita Pagi TVRI" (relay through SBS Australia 7/1/05) it was stated that KTI had not improved and was still left behind because government policies were always changing, law enforcement was weak and there was a lack of coordination.

¹⁹ The earliest main policies formulated by EIDC were (1) developing three KAPET; (2) the Investment Incentive; (3) developing of prime commodities; and (4) developing regional partnerships.

In fact government remained ‘shackled’ (terbelenggu) by the old approach with a growth bias and a sectoral development system. According to Heripoerwanto (2000: 32-35) some weaknesses of this concept are:

- Mismatches between criteria and selection of area. In operational practice, prime areas are like rubber that can be so flexible. There can be some inappropriate hidden interests and local agenda which become known only afterwards.
- Creating unhealthy competition. Investment incentives for attracting investors in practice tend to be unfair for nearby regions. A KAPET does not have physical borders, creating jealousy from regions that do not have an incentive policy and unhealthy competition among sub-regions. There is also the operational technical problem of whether it is true that companies will invest in a region that gives incentive? A demand of fairness is the main trigger of KAPET border changes.
- Developing of infrastructure, human resources, prime commodity and regional partnership have not yet been corresponding. Infrastructure as a requirement for developing the economic of region has not been provided yet. Sectoral programs are implement in KTI, but it tends to be doing business as usual. The programs are insignificant in relation to the region’s space and problems, even irrelevant to the developing of KAPET. There is not a development of human resource quality yet. The proposal for creating a land-grant university, for example, has already been implemented, but in fact just for an eligible university, not considering whether it is to be in KTI or KBI. The local productive capacity of KTI has a marine, agriculture and livestock and forestry basis, and these especially agriculture, include plantation, are very sensitive to price fluctuation and world demand. When price are high and world needs increase, KTI gains benefit, but this condition is unrelated wether there is a KAPET or not as it depends on foreign market behavior that has an effect on the local economic activity. What is needed is to stir economic activity by releasing this region

from the shackles of the old business administration system that has been implemented for years. Some KAPET have already been involved in international trade actively for a long time, especially regions in Kalimantan where the main commodity is oil, and interregional trade in Sulawesi. There is KAPET or not, does not have any effect on this activity.

- Accountability of Institutions involved is low. KAPET Working Committees (Badan Pekerja) and personnel are established, but their job descriptions are unclear. The main constraint is that some operational permits are still controlled by sectoral institutions in central government. The concept of ‘one stop service concept’ needs to be clarified and applied here.

Based on the 2002 evaluation of KAPET performance by the central government, there are two categories of KAPET, a ‘Developed group’ of seven and a ‘Less Developed group’ of three (with another just established)²⁰. The centres in two of my study locations, KAPET Parepare and Sasamba, were put into the Developed group. However, from my fieldwork findings, it appeared that the existence of both KAPET has had only a small effect on local economic activities. In a similar finding to that in Heripoerwanto’s review, many participants said that whether there was a KAPET or not did not have an effect on their activities or their region. For example, the Deputy Head of the Industry Office of Kutai Kertanegara Regency said:

In 3 districts, there are programs of computerization, so that it is easier for investors to access data. How is the program? We ask investors, they said that in reality the program does not assist them. KAPET conducted coordination for collecting and gathering data concerning regional potential twice. I think they become data collectors. No feedback for us, for example, no information about companies, which enter this region etc. So, they merely collect data and then sell the data. Generally some investors said that they would enter this

²⁰ Those put in the Developed group were KAPET Manado Bitung, Parepare, Biak, Sanggau, Batulicin, Sasamba and Sabang. KAPET that had a prospective prime sector and still needed to be focussed and more responsive, so were categorized as Less Developed, were KAPET Bukari, Bima and DAS Kakab, Batui serta Mbay. KAPET Seram was excluded as it had only just been established.

region on the condition that local government cooperates by providing facilities like providing land. But none of the investors who come here are sponsored by KAPET.²¹

Another participant said that he did not see progress from the existence of the KAPET, because it is difficult to define its authority²². Others queried how KAPET personnel could serve investors, because many of them were pensioners who had worked for 25 – 30 years as bureaucrats and who used to be served.²³

These comments express a belief that there is a lack of communication and coordination between KAPET representatives and local stakeholders. An example is the comment from the Deputy Chairman of Samarinda Municipality Parliament, who said that the program is good but they never receive any information from KAPET and did not know of KAPET improvements.²⁴ In other interviews with businessmen, some did not even know what KAPET was, some of them knew of KAPET just for the short period when they had used the facility, for example when needing assistance to buy new equipment without paying import tax or getting information about existing raw material areas.²⁵

It appears likely that the target of establishing KAPET as an approach to the integration of regional potential to accelerate development of Eastern Indonesia has taken on a different meaning. In its implementation the main role of KAPET is the giving of incentives, so when the central government cancelled some of its incentive policies through Government Regulation No 147/2001, KAPET began progressively losing their role.

²¹ Interview Code KT-15: 14. During my visiting KAPET Parepare and Sasamba, I got the same impression when I talked with some KAPET staffs about their activities, they focussed on how to manage and produce books, brochures etc., while some directors during personal communications were more concerned about decreasing their travel budget.

²² Interview Code SS-7: 2, KT-15: 28 mentioned that KAPET work in some regions and deal with some governance, but many of their activities overlap with the regions.

²³ Interview Code KT-8: 30. In some cases, KAPET merely give a chair or a place for former decision makers who are now pensioners (KT-15: 32)

²⁴ Interview Code KT-6: 6

²⁵ Interview Code SS-27: 56; KT-11: 30, PT Bangun Kalimantan got tax benefits for importing new equipment.

4.2.3. Other Regional Policies

Moreover, it is important to consider that many regional policies have unintended regional effects as described by Hill (2000: 19) “many policies have unintended regional effects, and that often these unintended policies are more important than official ‘regional policy’. For example:

- import protection will assist those regions in which the protected factors are disproportionately located and in consequence tax other regions and
- rigid national pricing policies may frustrate the ability of some regions to exploit specific comparative advantages, for example, electric power should be cheaper in energy abundant regions, but a nationally-imposed uniform pricing policy would inhibit specialization in energy-intensive activities. A uniform minimum wage policy would frustrate the capacity of poorer regions to exploit their comparative advantage in footloose labour-intensive activities. Various production and trading regulations may impact on location of certain agricultural processing activities, to the detriment of producing regions”.

Hill (2000: 20) explains further:

Indonesia is perhaps the best-documented case of the proliferation of these interventions, and how they have affected certain regions. In most cases, such interventions also had adverse equity implications since most of the affected regions had per capita incomes below the national average. A number of agricultural regulations have had adverse equity implications for KTI. One of examples is cengkeh (cloves), which are grown mainly in KTI, principally as an input into the Java-based kretek (clove-flavoured cigarette without filter) cigarette industry. The crop has long been subject to extensive government regulation, but this reached a peak in 1990 with decrees issued by the Minister of Trade to establish the Clove Marketing Board (BPPC). The effect of regulation, finally abolished in 1998, was to further depress ‘farm-gate’ prices, while driving a wedge between this price and that paid by the kretek factory whereas farmers used to receive the equivalent of about 70% of the kretek manufacturer’s price, under this arrangement the figure fell to about one-third or only getting 23% of the kretek manufacturer’s price. Another

example concerns the livestock industry, which is a prominent part of the economy of some Eastern provinces. In the interests of ensuring stable local cattle population, there are restrictions on the export of live cattle; import bans also limit the opportunity for crossbreeding of cattle.

In Australia, animal rights activists are trying to ban live cattle export too, import bans could also benefit the industry, because it would prevent the spread of foot and mouth disease.

A third example given by Hill (2000: 20) is Rattan, which constitutes about 90% of Indonesia's non-timber forest products, which is harvested principally in Sulawesi and Kalimantan. Exports bans on raw and semi- processed rattan, introduced in 1986 and 1988, were officially designed to increase domestic value added in related downstream activities, principally the furniture industry. In reality, however, the bans depressed prices sharply, by over 50% in nominal terms from the mid 1980s to 1992.

4.3. Regional Economic Indicators

There are some economic significant indicators useful to get a picture of inequality between KTI and KBI such as:

- a) Inequality of Outputs:
 - Regional Gross Domestic Product
 - Gross Regional Domestic Product by Sectors
 - Regional Gross Domestic Product Per Capita.
- b) Inequality of Inputs:
 - Government Investment: Government Budget Allocation
 - Private Sector Investment: Foreign and Domestic Investment

Firstly, this section will discuss inequality of output such as the Regional Gross Domestic Product, Gross Regional Domestic Product by Sectors and Regional Gross Domestic Product Per Capita as regional economic indicators.²⁶ The inequality of input

²⁶ As described by Badan Pusat Statistik/BPS (the Indonesian Central Board of Statistics), 1998 that the Regional Gross Domestic Product (GRDP/PDRB) is the accumulation of goods and services produced in a certain region in a certain year. It can be calculated by three approaches; expenditure, production and accumulation of production factors to create the GRDP. The GRDP of regions can be used to compare

such as government budget allocation and foreign and domestic investment will be discussed in terms of their being contributing factors to imbalance between KBI and KTI.

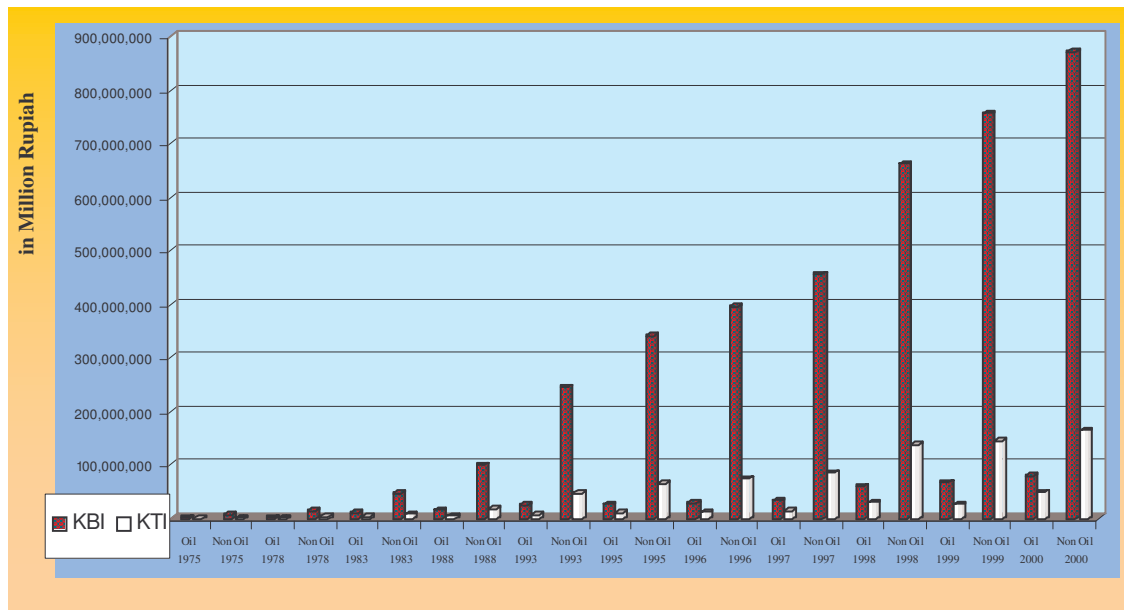
4.3.1. Gross Regional Domestic Product

Gross Domestic Regional Product is one of the economic indicators. GDRP indicator depends on the regional natural resources potential and regional production factors. The percentage of contribution shows the role of the region in national economy. Since 1975 KBI always contributed more to GDRP than has KTI.

In 2000, Gross Domestic Regional Product based on current price, KBI is still contributed more. In a total of 1,166,421 million rupiah, KBI contributed is 951,980 million (82 %) while KTI contributed 18% (Rp. 214,440 million). Graph 4.1 below show the comparison:

the contributions of the region to the national economy. The Gross Regional Domestic Product by Sectors indicates the economic structure of the region, with the structure of value added by each sector showing the dependency of the region on each sector's production capability. Growth in the economy of a region can be seen from its economic structure, as in a region which is relatively developed the tertiary sector is generally more dominant while less developed areas are generally more based on the primary sector. (Primary sector covers agricultural activity, forestry, fishery, excavation and mining; Secondary sector covers processing industry, electricity, gas, clean water and building; Tertiary sector covers commerce, transportation, communications, monetary, company service, rental of other services and buildings (BPS 1998). The GRDP per Capita can be investigated to indicate income distribution in the region.

Graph 4.1: GRDP Based on Current Price, 1975 - 2000

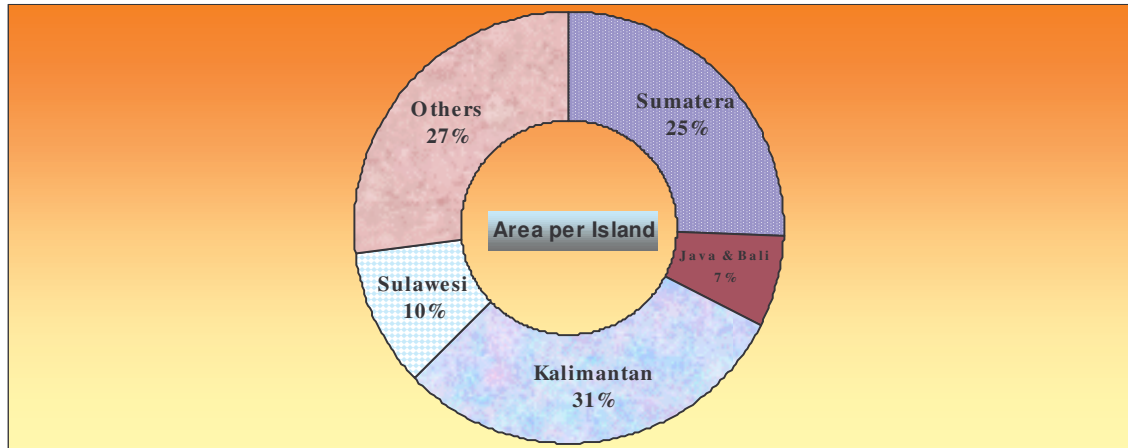


Source : BAPPENAS, 2001²⁷

Based on the graph above, we can deduce that KBI is still dominant in the Indonesian Economy, especially due to the Java and Bali islands. KTI which covers 62% of the area of Indonesia contributes less than 20 %, whereas Java and Bali which cover 7 % contribute 62 % (graph 4.2).

²⁷Compilation by BAPPENAS from BPS data, since 1999 without East Timor Province

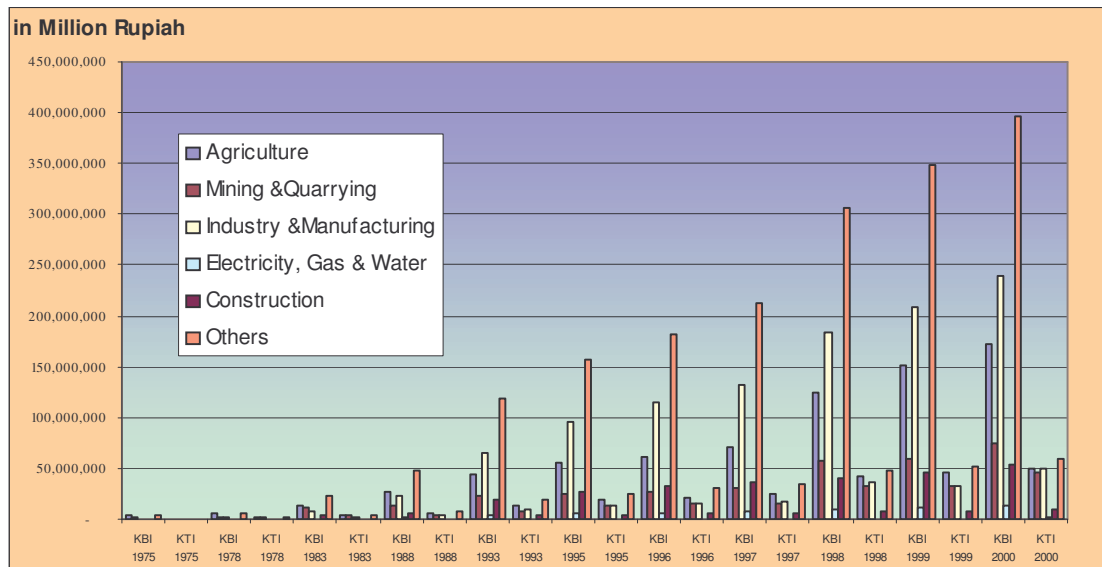
Graph 4.2: Percentage of Population per Island



4.3.2. Gross Regional Domestic Product by Sector

Based on sectoral growth rates, from 1975 to 1988 the agricultural sector's contribution to the economy was dominant. In 1975, in the Rp. 11,724 million National GDRP 32 % came from agriculture with the KBI contribution around 78 % and KTI's 22 %. In 1988 the agricultural contribution has decreased to 24 % but KBI's agricultural contribution has increased to 80%. Since the 1990s to 2000 industry and manufacturing has been dominant. In 2000, the industrial and manufacturing sector contributed more than the agricultural sector to GDRP with, in this sector, KBI being more dominant with 20 % of total GDRP while KTI's contribution was 4% (see Graph 4.3).

Graph 4.3: GRDP Composition by Sector, 1975 – 2000

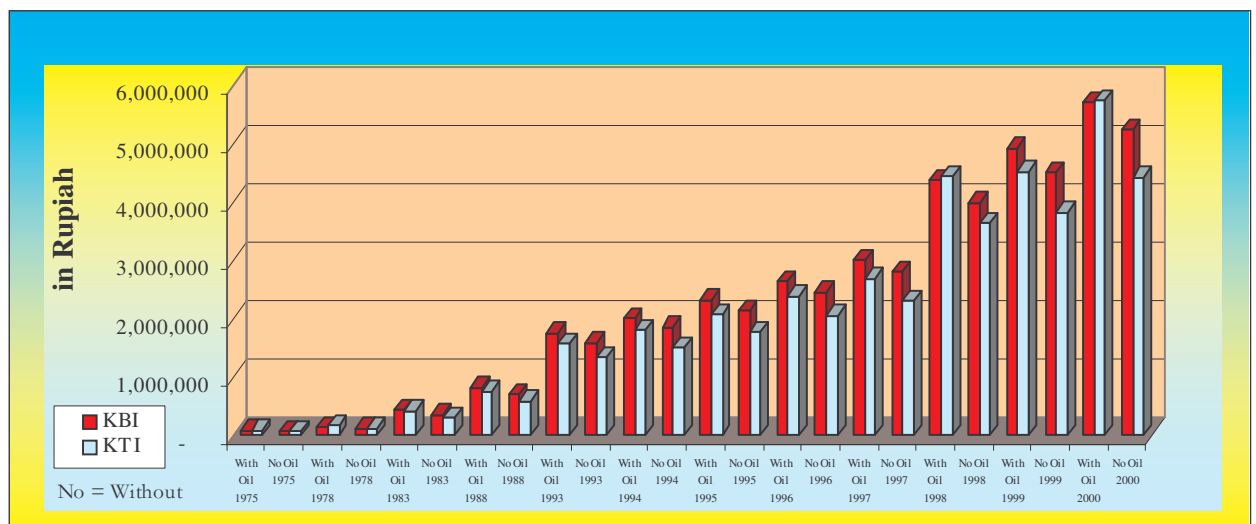


Source: BAPPENAS, 2001²⁸

4.3.3. Gross Regional Domestic Product per Capita

GRDP per capita depends on GRDP and population. Graph 4.4 below shows that up to 2000 KBI and KTI had almost the same pattern.

Graph 4.4: GRDP per Capita, 1975-2000



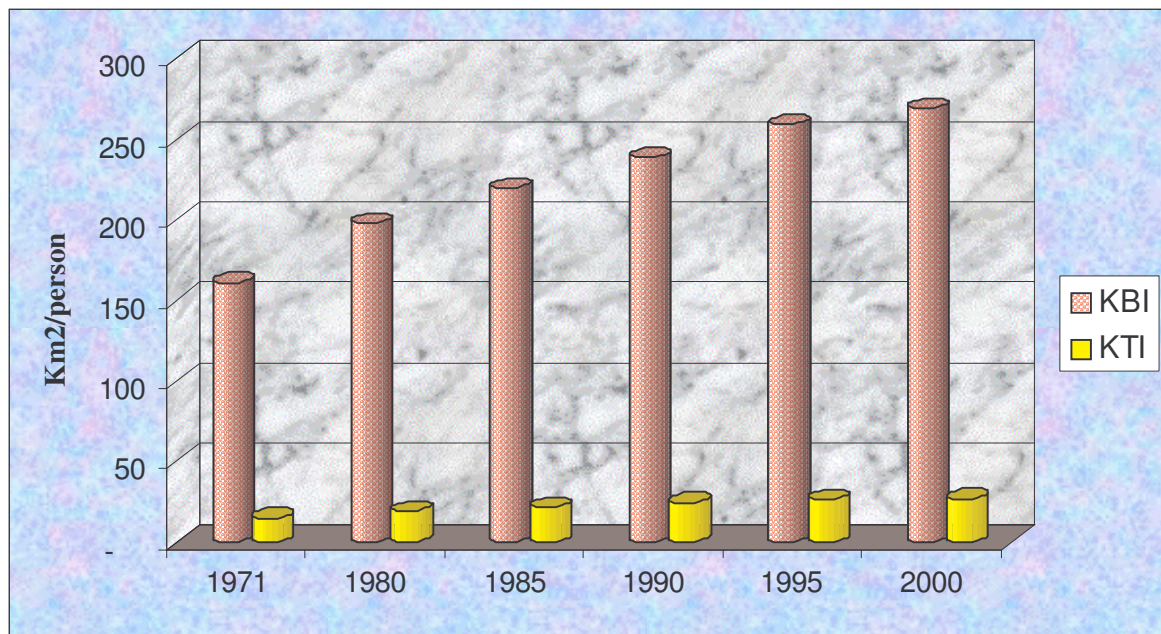
Source: BAPPENAS, 2001

²⁸ Compilation by BAPPENAS from BPS Data, GRDP per sector in series time

In 2000, there were two provinces that had high GDRP per capita; DKI Jakarta in KBI and East Kalimantan in KTI. However, even though East Kalimantan, Central Kalimantan, South Kalimantan and Papua have high GDRP per capita, it does not mean that these regions have effective economic activity, but it is more because of lower populations and the bigger contributions of the mining sector, especially in East Kalimantan and Papua. For example, East Kalimantan has the highest GDRP per capita, Rp. 29,6 million mainly coming from the oil sector while ‘non-oil’ contributed all of DKI Jakarta’s GDRP.

The pattern of population growth among islands is the same (as showed in graph below). Since 1971 to 2000, the population concentration in KBI. Kalimantan as the largest area has lowest population (Graph 4.5).

Graph 4.5: Population Density, 1971-2000



Source: BAPPENAS, 2001 ²⁹.

²⁹ Note: Compilation by BAPPENAS Based on Population Survey by BPS 1971, 1980, 1985, 1990, 1995 and 2000; in detail :

- a) Statistik Indonesia 2000, Juni 2001, BPS
- b) Penduduk Indonesia, Seri D, SP 1971, BPS
- c) Penduduk Indonesia, Seri L/Nomor 3, SP 1980, BPS
- d) Penduduk Indonesia, Seri SUPAS No. 5, Hasil SUPAS 1985, BPS
- e) Penduduk Indonesia, Seri S/Nomor 2, Hasil SP 1990, BPS
- f) Penduduk Indonesia, Seri S/Nomor 2, Hasil SUPAS 1995, BPS

KBI only covers 38 % of the total area of Indonesia and has a population density of 270/Km² while KTI covers 62 % but has a population density of just 28/Km².

Moreover, some of the local income especially from natural resources such as oil, timber, etc. are flowing out of regions to central government, to company headquarters in other regions or to foreign companies. As a result, in some regions that have high GDRP per capita, their regional and their people's incomes are low.

4.4. Contributing Factors to Imbalance between KBI and KTI Development

This section will discuss contributing factors such as: lack of capital, lack of capable human resource, lack of access to domestic and international markets, lack of communication and coordination, and lack of cooperation between government and private sectors.

4.4.1. Lack of Capital

As mentioned before in Chapter I, during the first 25 year of its Five-Year Economic Plans (1968/1969 – 1993/1994), the Indonesian government had a dominant role in economic development, it is supported by sufficient funds such as from the oil boom during 1970 - 1980 and a foreign loans. The Indonesian development was quite successful with high growth, but failed to achieve an equitable distribution of development benefits (Equal Distribution). Even though, formally in 1993 the Indonesian government realized that KTI is being left behind but it faces financial development difficulties for accelerating KTI development.

There is no longer oil boom. Oil and timber exports as well as foreign loans have become increasingly scarce and difficult. After the crisis, financial development is much more difficult than it is at present. Low exchange rates make the industrial products of Indonesia that are from “footloose industry” uncompetitive. Even some companies, for example, pharmacy industries that rely on imported raw material reduced their production capacity due to expensive imported raw material. Besides, economic activities are stagnant because of deterioration of the bank system, and the Indonesian government has lost much funding for supporting the bank system. Moreover, the Indonesian government has been under pressure on foreign loans recently, the state budget is very tough because of loan payment. It is harder with the spirit of the new Indonesian government under

President Megawati to reduce debt³⁰. Reducing debt meant tight fiscal constraint as result governments have limited development funds. For KTI the condition is worse because not only in the recent situation has KTI lacked capital, but also for years the government budget policy has been imbalanced between KBI and KTI.

Since the crisis in 1998, Indonesian economy has never recovered, creating lack of capital for the whole country. For KTI, the condition is worse because KTI has always lacked capital, and government budget policy has been imbalanced between KBI and KTI.

4.4.1.1. Imbalance in Government Budget Allocation

The budget represents an application of planning concerning future revenues and expenditures. Arrangements are made for one year and represent an application of revenues and expenditures in the future. As mentioned by Musgrave (1970) this is a means of control. The budget has 3 main functions: i) an accomplishment of public interest function, ii) a distribution of revenue function and iii) an economic stabilization function.

In fact, in terms of one element of the first public interest function, achieving regional balance, the second, the distribution of revenue, has had a converse effect. Based on the interview data, many participants are convinced that the imbalanced budget is a major factor that contributes to an imbalance between KBI and KTI. For example, the comments come from Head of Kutai Kertanegara Regency/ Chairman the Indonesian Heads of Regency Association; he mentioned that the gap between KBI and KTI development is because the system is not fair from the old era. Subsidy funding from the central government is allocated based on the size of population. The KTI population is less than KBI's, so KTI got fewer subsidies from the central government. Even though KTI is a large productive area, it faced difficulties because of the imbalanced relationship between its population and its area, thus receiving a smaller subsidy for a bigger area"³¹

³⁰ President Susilo B. Yudoyono (elected in August 2004) tends to look back to use loan as an important source for economic development. This was shown when he chose as some of his ministers, such as Head/State Minister of National Development Planning Agency, Trade Minister and Finance Minister, people who have experienced work as officers of loan donor organizations.

³¹ Interview Code KT-12: 2

Furthermore, the UNDP National Project Manager of Partnership for Local Economic Development is confident that government policy on budget allocation is one of the contributing factors to the imbalance between KBI and KTI. She said that central government has authority to allocate the fund, and can choose where and how much. She reaffirmed that, as was discussed in chapter I, for a long time the economic development was more concentrated in Java, although the funds used to develop and to build Java island were not merely from Java but also came from Aceh, Irian, East Kalimantan, etc. So those regions that have been exploited cannot enjoy the benefit of their natural resources as much as Java³².

From 1967/1968 to 1999/2000 the annual State budget, the State Cost Estimate Revenue and Expenditure (RAPBN), in Indonesia went into effect from 1 April of one year to 31 March the next year. As a stage in the changeover of the financial year as specified in Laws No. 22/1999 & 25/1999, the 2000 budget year started on 1 April and ended on 31 December 2000. From 2001 the budget year has started on 1 January and ended on 31 December of the same calendar year, as under the government in the 'Old Order' era before budget year 1967/1968.

Previously, there were two kinds of national funding, the National Budget Allocation (APBN) and Presidential Instruction Grants (Dana Inpres) for accelerating regional development. Now, all fund transfers from the central to regional governments are formulated as Block Grants (DAU, Dana Umum) and Specific Grants (DAK, Dana Khusus).

To provide a clearer picture about imbalances in budget allocation, this study will discuss the National Budget Allocation, Inpres Grants and Locally Generated Income.

a. National Budget Allocation (APBN: Anggaran Pendapatan dan Belanja Negara).

Table 4.1 shows that the Government still tends to allocate more funds to KBI than KTI. During the period after the General Guidelines on State Policy (GBHN) in

³² Interview Code J-6: 80-84

1994/1995 mentioned KTI was being left behind until the year before the implementation of decentralization, KBI had more than 60% of APBN that was allocated to regions.

Table 4.1: National Budget Allocation (APBN), 1994/1995-1999/2000 and 2000

No.	Year	CENTRAL	KBI		KTI	
		In Million Rupiah	In Million Rupiah	%	In Million Rupiah	%
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1994/1995	2,757,613	9,916,953	69	4,472,644	31
2	1995/1996	3,172,326	10,512,943	67	5,071,044	33
3	1996/1997	3,737,329	11,865,186	66	6,167,065	34
4	1997/1998	4,505,362	13,574,688	65	7,451,275	35
5	1998/1999 ^{*)}		8,349,523	70	3,549,699	30
6	1999/2000	30,729,030	13,248,469	62	8,043,530	38
7	2000	18,879,565	2,740,949	61	1,736,370	39

Resource: BAPPENAS, 2001

Note: *) = Budget for DKI Jakarta and Central Government

As mentioned before, this is not only because of the growth approach, but also because of the population basis that was used by the Indonesian government to allocate its national budget to the regions. The government had a reason for this, the necessity to adhere to its mandated objectives enshrined in the preamble of the 1945 Constitution (UUD 45). That is the state has a responsibility to improve the prosperity of its people so, as a result Java and Sumatra, as KBI³³, which has the biggest population therefore gets the biggest part of the allocation. Commenting on this situation Kasiyanto (1991: 106) said that the:

...mechanism and distribution of the Indonesian development allocation apparently uses population basis directly or indirectly. Various Inpres funds from central to local government use the population basis. A large population means longer roads, irrigations and many villages and need more pasar Inpres (Inpres-funded markets), SD Inpres (Inpres-funded elementary schools) etc.

³³ A part of Sumatra's population is Javanese, especially in Lampung Province where most of the population is Javanese as, according to Marr (1990: 1) 3.5 million transmigrants were moved, most of them to Sumatra.

Besides that, it appears that the government mismanaged the development resources. The Indonesian Government still remains tied to a sectoral development system in allocating the state budget. Underpinned by the growth approach, the Indonesian government chose sectors that were more in line with national priorities. According to this, Kasiyanto (1991: 130 –131) stated that:

The inherent weaknesses in the sectoral development system have exacerbated the limited development of the outer-islands. In the current regional development system, there is a primary focus of sectoral development: i.e. agriculture, mining, industry, trade sector, etc. Using a system of central projects through state agencies, private projects through 'the BKPM' (National Investment Board) or state departments, and also, on sectoral basis, small-scale projects through local government. The measurement of achievement for each sectoral project is production, profit, export, etc. For example, what is the level of production and profit derived from the rice project, rubber, car, oil, timber and etc? With this, capital investment projects increasingly concentrated in Java (The most obvious reason is the centralisation of political power in Java, especially Jakarta!). Alternative weaknesses of this sectoral development approach include projects cancelled because of bad results obtained from feasibility studies undertaken. For example, the development of the windu prawn farm on the west coast of Irian Jaya (Merauke) was cancelled because there are insufficient levels of labour, electricity and transportation for the farm's raw materials as well as market size and access. Nevertheless, the west coast of Irian Jaya (Merauke) is conducive for the development of other types of economic/commercial activities, notwithstanding the limitations on human resources, labour skills/expertise as well as sea and air transportation. Similarly, businesses must provide their own transportation. Developing KTI based on a sectoral approach, KTI is still left behind. In many cases, sectoral development is pushed into operation even though it is inappropriate in many instances. As a result, many projects are wasteful and inefficient. For example, industrial areas become fields used for shepherding; smallish docks

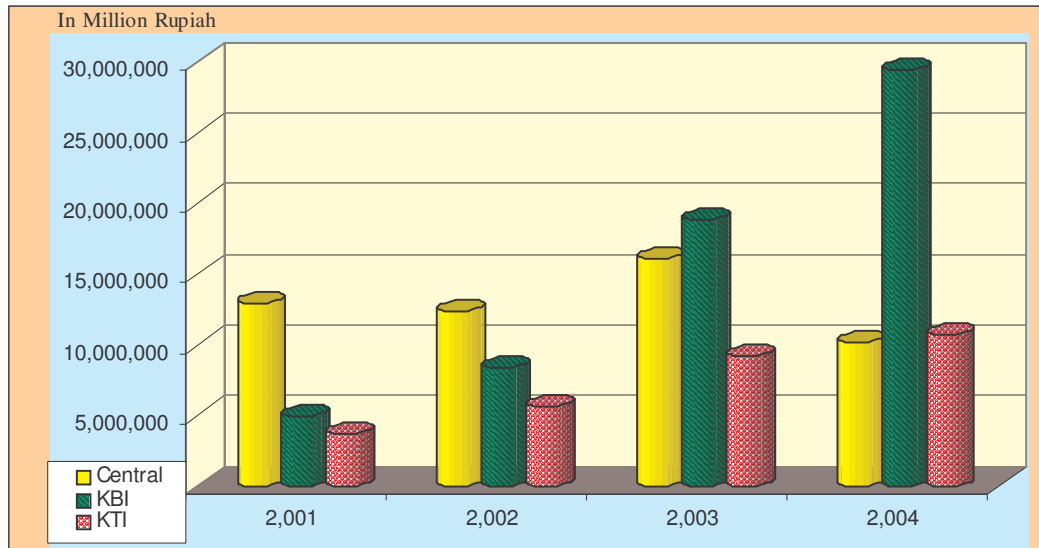
are not used by those who should be using them, that is, fishing boats. Another example is airports lie idle, used probably only once after a formal state opening/inauguration. But at the same time, if the projects are to be carried out in Java, especially Jabotabek, approval is assured, because of the greater availability of skilled labour and infrastructure. This sectoral development system has created local development inequalities.

Nowadays not only the scholars disagree with the old approach to formulate budget allocations, even government itself criticizes this approach. For example, the State Minister for the Acceleration of Development of Eastern Indonesia said that for a long time government had not realized this, government policy continuing the Dutch policy of focussing on KBI. Government always see development based on short run cost benefit. Historically, KBI has better facilities and has plenty of human resources; as a result based on cost benefit analysis KBI is more efficient for investment.³⁴

In the four years of implementation of Laws 22/1999 and 25/1999 funds to KTI increased but remain much lower than KBI. The National Budget remains imbalanced, as shown in Graph 4.6:

³⁴ Interview Code: J-1: point 1

Graph 4.6: National Budget Allocation, 2001-2004



Source: BAPPENAS, 2004

b. Inpres Grants

A significant feature of the Indonesian budget is the operation of the Inpres (Presidential Instruction) program, which is a government direction for interpenetration to accelerate regional development. The Inpres program is regarded as complementary to regional development programs for creating equality. In summary, the Inpres programs grant aid to the regions (provinces, districts and villages), some of which go direct in the form of block grants and some of which is allocated sectorally through national departments.

Type of Inpres (Presidential Instruction Grants)

- a. Repelita I (Five Year Development Plan I) include Inpres Desa (Inpres grant to villages), Inpres Dati II (Inpres grant to regencies), and Inpres Dati I (Inpres grant to Provinces).
- b. Repelita II include Inpres Desa, Inpres Dati II, Inpres Dati I, Inpres SD (Inpres-funded elementary schools), Inpres Kesehatan (Inpres-funded for Health), Inpres Penghijauan dan Reboisasi (Inpres grant for Regreening/Reforestation), dan Inpres Pasar (Inpres-funded market)

- c. Repelita III & IV including Inpres Desa, Inpres Dati II, Inpres Dati I, Inpres SD, Inpres Kesehatan, Inpres Penghijauan dan Reboisasi, dan Inpres Pasar, and Inpres Jalan Kabupaten (Inpres-funded regency roads).
- d. Repelita V include Inpres Desa, Inpres Dati II, Inpres Dati I, Inpres SD, Inpres Kesehatan, Inpres Penghijauan dan Reboisasi, dan Inpres Pasar, and Inpres Jalan Kabupaten, and Inpres Jalan Propinsi (Inpres-funded provincial roads)
- e. Repelita VI including Inpres Desa, Inpres Dati II, Inpres Dati I, Inpres SD, Inpres Kesehatan, Inpres Desa Tertinggal (Inpres-funded undeveloped villages) and other Inpres categorized in Inpres Dati I and II.

Of the Inpres programs, only three are block grants; Inpres Desa, Kabupaten and Propinsi (grants to village, regency and provincial levels of government). As block grants these Inpres programs allow greater scope for provincial decision-making (AIDAB, 1991: 39). Since 1994, government has implemented other Inpres programs such as IDT (Inpres Desa Tertinggal/Inpres grants to undeveloped village), Inpres PMT-AS (Program Makanan Tambahan- Anak Sekolah/Supplementary Food Program for Schoolchildren), and Inpres PDM-DKE (Community Empowerment). The last two Inpres are a part of the Social Safety Net Program. Table 4.2 below shows that Inpres for KBI has been bigger than KTI from Repelita I 1967/1968 to one year before new autonomy policy (law 22 & 25/1999).

Table 4.2: Inpres Fund Allocation, Repelita I (1968/1969) to Repelita VI(1998/1999), 1999/2000 and 2000

Repelita	Year	KBI		KTI	
		In Million Rupiah	%	In Million Rupiah	%
(1)	(2)	(3)	(4)	(5)	(6)
I	1968/69 - 1973/74	135,400	79.4	35,050	20.6
II	1974/75 – 1978/79	930,326	75.6	299,498	24.4
III	1979/80 – 1983/84	2,976,122	68.6	1,365,284	31.4
IV	1984/85 –1988/89	3,858,549	66.9	1,908,490	33.1
V	1989/90 – 1993/94	9,367,634.0	63.5	5,381,373.0	36.5
VI	1994/1995	3,154,044	63.0	1,849,111	37.0
	1995/1996	3,414,006	63.5	1,962,594	36.5
	1996/1997	3,765,875	59.9	2,521,684	40.1
	1997/1998	3,900,099	59.2	2,691,078	40.8
	1998/1999	3,623,271	58.3	2,588,345	41.7
Year	1999/2000	8,284,215	65.1	4,440,063	34.9
	2000	7,456,731	62.2	4,522,652	37.8

Source: BAPPENAS, 2001

Commenting on the way in which the Indonesian government had allocated the Inpres funds, Hill (2000:16) stated that

The cornerstones of Indonesia's regional policy program have been central government grants to the provinces, and the secondary authorities, municipalities (Kotamadya) and Kabupaten, together with direct payments under the Inpres (Instruksi Presiden, Presidential Instruction) program. The system was quite generous fiscally to the regions. It also provided a measure of fiscal equalization because most of the revenues from the mining enclaves flowed directly to and through the central government, and because the grant formula favoured less populous provinces, which the poorer provinces of the Eastern Indonesia happen to be. However, in other respects the system was deficient and greatly in need of overhaul. The allocation formulae contained no explicit criteria such as regional capacity or inter-regional equity. Moreover, sub-national authorities had little autonomy even in the collection of the (minor) taxes currently allocated to them. ...There was little incentive

for local authorities to improve the efficiency of their collection procedures.

The picture was little different on the expenditure side.

The Inpres program was more like a charity program; there was no comprehensive planning to develop local natural resources and human sources. Above all there was no private sector involvement. Inpres programs that were supposed to create equality in regional development instead increased regional inequality. For example, on a study that was conducted by BAPPENAS and Padjajaran University in Merauke, Irian Jaya (1999: 34-35) concluded that

The development program that was implemented by the government, especially through Inpres Kabupaten ended up creating inequalities between subdistricts and regions in Kabupaten Merauke. In the Fifth Five Year Development Plan (Repelita V), Inpres Kabupaten, which was designed to improve local infrastructure (education, health, roads, etc), tended to concentrate on the subdistrict Merauke. This situation emerged because the distribution approach of the Inpres program was based on the population. Thus, the subdistrict with the higher population ended up with more grants. This type of inequality in the budget culminated in a concentration of infrastructure in various subdistricts. At the same time, other subdistricts received little infrastructure support, therefore inequalities were further exacerbated.

Moreover Inpres Desa, for example, which is created for supporting village investment in traditional sectors to combat city bias in the economic growth because of high modern capital investment, in fact ends up with lower capital flow in villages. Many of the credit facilities that are supposed to invest in productive activities for economic growth disappear in the disbursement process and spending on consumption. Lack of success in this program is due to mismanagement and lack of village empowerment in implementation.

c. Locally Generated Income (PAD)

Sources of the Local Development Budget (APBD) come from central government and from local government itself. As mentioned above, funds from the central government in the past were transferred by the Inpres grant system and now by the DAU system. As well, the central government executes local development directly through its National Budget. The local government's own source of funds is known as the Locally Generated Income (PAD). PAD mainly comes from local taxes and levies.

Based on Government Regulation (PP) No. 105/2000, components of the Local Development Budget are:

1. Locally Generated Income
2. Government Operational Expenses
3. Capital Investment
4. Surplus/deficit
5. Local Government Assets
6. Defrayal through a) Local Fund and b) Loans from Central Government, Community and Overseas.

In fact, Locally Generated Income in the Eastern Region tends to contribute less to the National Total than the Western region. Even since Repelita III until one year before decentralization, KBI's Locally Generated Income contribution was more than 80%, KTI's less than 20% (see Table 4.3).

Table 4.3: Regional Locally Generated Income and Its Contribution to the National Total, 1973/1974 – 2000

No.	Period	KBI		KTI	
		In Million Rupiah	%	In Million Rupiah	%
(1)	(2)	(3)	(4)	(5)	(6)
1	End of Repelita I (1973/1974)	23,887	75.09	7,926	24.91
2	End of Repelita II (1978/1979)	73,303	68.37	33,909	31.63
3	End of Repelita III (1983/1984)	412,986	85.32	71,062	14.68
4	End of Repelita IV (1988/1989)	332,381	81.48	75,529	18.52
5	End of Repelita V (1993/1994)	787,617	81.74	175,901	18.26
6	1994/1995	1,034,117	83.55	203,577	16.45
7	1995/1996	1,288,361	84.14	242,796	15.86
8	1996/1997	1,542,130	84.39	285,220	15.61
9	1997/1998	1,711,208	82.58	361,092	17.42
10	1998/1999	1,953,207	83.91	374,444	16.09
11	1999/2000	2,376,278	85.15	414,430	14.85
12	2000	653,700	85.58	110,179	14.42

Source: BAPPENAS, 2001³⁵

4.4.1.2. Low Level of Domestic and Foreign Investment

As mentioned before, for a long time the Indonesian government has used a growth strategy for improving the capital manufacturing industry. This strategy is based on the assumption that through improvement in the aggregate supply of the economy, national economic growth will eventually be achieved and the mechanism of ‘trickle down’ should take affect. However, under this strategy KBI benefited greatly, with

³⁵BAPPENAS processed this data from *Statistik Keuangan Pemerintah Daerah Tingkat I* (Local Government Level I Financial Statistics) in the time series for Repelita I, II and III and from *Nota Keuangan* (Financial Notes) in the time series for the end of Repelita IV, V and the only 2-year Repelita VI. For years 2000 and 2001 BAPPENAS used data from *Gambaran Umum APBD Regency/Municipality 2001 and 2002* (General Picture of Regency/Municipality Local Development Budgets 2001 and 2002). (Note: The 2000 report only covered 78 regencies/municipalities but the 2001 covered 202)

foreign and domestic capital investment ending up in KBI rather than KTI (see Table 4.4).

Table 4.4: Investment Approvals in KBI and KTI, 1973/1974 – 1998/1999

Capital Resources	The End of Pelita I 1973/74	The End of Pelita II 1978/79	The End of Pelita III 1983/84	The End of Pelita IV 1988/89	The End of Pelita V 1993/94	The End of Pelita VI 1998/1999
<i>Foreign:</i>						
KBI	1,482.73	4,083.42	11,196.54	20,164.82	58,236.68	204,057.20
KTI	406.12	625.81	1,950.23	3,136.56	7,058.50	40,494.00
<i>Domestic:</i>						
KBI	912.33	2,686.23	17,060.75	53,587.67	208,866.10	536,901.10
KTI	106.39	396.73	3,094.50	10,275.90	45,433.00	144,822.70

Source: BAPPENAS, 2001

Up to 2000, Domestic Investment was 76% in KBI and only 24 %in KTI. Domestic Investment in KTI was mainly (about 44 %), in the primary sector, with only 9% in the secondary and 11% in the tertiary sectors. The imbalance in Foreign investment was even greater, with only 6.7 % of projects and 12.2 % of funds located in KTI (as shown in Table 4.5)

Table 4.5: Domestic and Foreign Investment by Sector, 1967/1968 to 2000

No	Description	Primer Sector		Seconder Sect or		Tertiary Sector		Total	
		Project	Amount	Project	Amount	Project	Amount	Project	Amount
1.	Domestic (in Trillion) Rp.								
1.a	National	2,244	95.40	7,550	547.50	3,110	149.08	12,904	791.98
1.b	KTI	993	49.30	700	140.00	993	9.48	2,023	192.78
2.	Foreign (in billion) US\$								
2.a	National	641	11.69	4,859	155.81	4055	65.92	9,553	233.40
2.b	KTI	314	6.62	190	17.70	155	4.11	659	28.48

Source: BKPM, 2001

The government tends to believe in an economic growth approach that assumes high economic growth will increase job opportunities, which will in turn increase the people's income. Moreover, this high income will enable people to aggregate saving for investment, and the result of high investment will accelerate the economic growth. The government has invested in KBI, especially in Java, and hoped that growth would affect the other regions (KTI). In reality, what the government previously envisaged has not worked. There are little, if any, backward and forward linkages. Large-scale business firms and conglomerates, which are predominantly based in Java, dominated virtually all sectors of the domestic economy, controlling upstream and downstream industries. The investments that were hoped to support development of other regions just stayed in KBI. As a result there are economic disparities between KBI and KTI.

Furthermore, agriculture and marine development in KTI has been implemented with very little investment and only for the sectors that are categorized as national strategies, so there is not much improvement for the local community. From Table 4.6 below we can see that the concentration of prime commodity production for export is almost entirely in KBI. For example, 92.2 % of Palm Oil production is in KBI, just 7.8 % in KTI.

Table 4.6: The Concentration of Prime Commodities

(% of total Indonesian Production)

Region	Rubber	Palm Oil	Coffee	Cacao	Tea	Pepper	Plywood	Pulp
KBI	79.4	92.2	83.5	31.8	100	84.6	89.6	98.7
KTI	20.6	7.8	16.5	68.2	0	15.4	10.4	1.3

Source: BAPPENAS and UI, 1999

Not only did government policy at national level not encourage investment improvement, but also implementation at local and regional level made investment not effective. Many businessmen are only brokers, with a large number relatives or close friends of government officers who get a permit to do business and then look for a chance to sell the permit to a real investor. The investment conditions in Indonesia became even worse after the socio-economic crises.

Since those crises, some foreign investors have withdrawn their investment in Indonesia, for example, multinational cooperations such as Nike, Reebok and Sony. In the period 1998 – 2000 about US\$ 10.9 billion investment was withdrawn from Indonesia. Table 4.7 shows that from 1998 to 2002, only in 2000 was investment growth positive.

Table 4.7: Domestic and Foreign Investment Growth

Description		1996	1997	1998	1999	2000	2001	2002 ^{*)}
Domestic	Rp. Trillion	97.4	119.9	57.9	53.1	92.4	55.8	14.5
Growth	%	-	23.1	-51.7	-0.1	74.0	-39.6	-68.7
Foreign	US\$ billion	29.9	33.8	13.6	10.9	15.4	8.4	3.6
Growth	%	-	13.0	-59.9	-19.7	41.3	-45.5	-38.7

Source: BKPM, 2001

*) Projection up to middle of 2002

Even though there have been many countries facing a crisis since 1998, Indonesia is the only one that had a negative foreign investment growth (see Table 4.8).

Table 4.8: Foreign Investment in Several Countries, 1996 – 2001

(US\$ million)

Location	1996	1997	1998	1999	2000	2001
World	386.140	478.082	694.457	1.088.263	1.491.934	735.146
Developed countries	219.908	267.947	484.239	837.761	1.227.476	503.144
Developing countries	152.685	191.022	187.611	225.140	237.894	204.801
South, East and South East Asia:	87.843	96.338	86.252	99.990	131.123	94.365
• China	40.180	44.237	43.751	40.319	40.772	46.846
• South Korea	2.325	2.844	5.412	9.333	9.283	3.198
• Malaysia	7.296	6.324	2.714	3.895	3.788	554
• Philippines	1.520	1.249	1.752	578	1.241	1.792
• Singapore	8.608	10.746	6.389	11.803	5.407	8.609
• Thailand	2.271	3.626	5.143	3.561	2.813	3.759
• Vietnam	1.803	2.587	1.700	1.484	1.289	1.300
• Indonesia	6.194	4.677	-356	-2.745	-4.550	-3.277

Source: UNCTAD, World Investment Report 2002

As another fact that makes the situation worse, instead of investment coming to this region cash flows out of it. Chairman of one of East Kalimantan Study Centres told me that:

Now, our business activity is stuck. Besides, for example, our forest is limited after having been exploited since the 1960s, residents do not get benefit from for that activity, even so there is only small effect and most businessmen come from outside. People from Jakarta forage in East Kalimantan, so finally benefits to local society are minimal, infinitesimal and most results go outside the region.³⁶

He explained that even when big companies came and invested in East Kalimantan there is small benefit for local people rather than exploitation. Outsiders

³⁶ Interview Code KT-9: 8

come and get profit from East Kalimantan, but they take all benefits outside. This pattern is known as cash out-flow from a region, where there is a region that produces profit but everything is taken out. As a result, even though this region is productive it did not improve. In my opinion, with Public Private Partnerships local interest will recover and there will be government and community control, as a result East Kalimantan will become not just a location of exploitation, but can be involved and take an active role with not only some of the cash flow remaining in the region, but also the region can take another benefit from learning by doing.

4.4.2. Lack of Capable Human Resources

Lack of capable human resources as one of the factor causing KTI to be left behind was often mentioned by participants. For example, the Head of Kutai Kertanegara Regency/Chairman of Indonesian Heads of Regency Association stated that "...distribution of capable human resources is also one of the factors that contribute to imbalance between KBI and KTI."³⁷

One of the indicators to measure the quality of human resources is the Index Human Resources Development. That addresses three specific aspects related to the quality of human resource including:

- Education, indicated by literate level and time spend at school;
- Health, indicated by life expectation, infant mortality and maternal mortality;
- and
- The relationships between production, expenditure and consumption per year.

In this section this thesis will discuss the education to get a picture of the quality of local human resources, and will focus on literacy level. Additionally, this section will discuss the distribution of literacy levels of government officers and make some comments about government performance. Finally it will discuss the quality of local businessman and focus on their characteristics.

³⁷ Interview Code KT-6:12

4.4.2.1. Education Levels

According to Soedjito (1995: 2), “Economic, social and welfare levels indicate that there is an imbalance among the regions and areas. In terms of social welfare indicators, like poverty and human development, KTI has not performed as well as KBI”. Most communities spread throughout the Eastern Region are underdeveloped and traditional. The Eastern region people’s livelihood and their main economic activity is traditional agriculture, which is depending on animal and labour power. The majority of the KTI Population possesses unsatisfactory levels of education and literacy. Table below 4.9 below shows educational performance at 2002 in all Indonesian Provinces:

Table 4.9: Total Population 10 Years Old and Above Based on School Level, by Province, 2002

No.	PROVINCE	Never Go to School	Not finish Primary School	Primary School	Middle School	Senior School	Diploma I & II	Diploma III	S1/S2/Doctor	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Aceh Darussalam	109,672	210,674	746,910	851,664	586,300	15,190	27,936	43,886	2,592,232
2.	North Sumatra	181,299	678,901	2,326,453	2,340,401	1,959,941	52,913	96,340	163,975	7,703,883
3.	West Sumatra	70,556	458,812	857,300	699,084	651,648	29,484	38,456	92,024	2,897,364
4.	R i a u	192,439	405,646	1,197,910	904,688	787,715	17,652	19,123	57,839	3,583,012
5.	J a m b I	42,300	253,038	683,523	334,374	326,856	21,264	8,085	38,475	1,707,915
6.	South Sumatra	96,781	803,884	230,759	1,023,758	752,106	42,109	27,739	76,489	3,053,625
7.	Bangka Belitung	39,460	132,900	251,746	98,600	72,054	5,718	4,854	7,780	613,112
8.	Bengkulu	65,727	191,154	370,734	239,163	200,598	14,694	14,454	34,107	1,130,631
9.	Lampung	229,790	738,430	1,872,959	219,910	637,373	38,137	23,738	44,957	3,805,294
10.	D.K.I. Jakarta	96,964	263,790	1,206,810	1,604,244	2,490,101	73,823	236,061	302,731	6,274,524
11.	West Java	1,146,112	3,581,426	11,415,690	362,833	4,333,967	216,220	290,180	416,229	21,762,657
12.	Banten	348,276	881,600	1,979,936	1,225,792	1,082,808	50,076	58,012	104,564	5,731,064
13.	Center Java	2,401,784	3,814,336	8,774,978	4,082,810	3,011,142	142,592	235,054	353,138	22,815,834
14.	D.I. Yogyakarta	315,593	249,230	605,320	470,223	673,668	23,881	42,115	91,951	2,471,981
15.	East Java	3,323,712	4,255,986	8,979,453	4,728,843	4,213,440	113,316	151,179	630,903	26,396,832
16.	B a l I	291,910	262,289	702,866	411,448	578,271	48,585	30,873	89,198	2,415,440
17.	West Kalimantan	246,854	578,857	947,661	604,665	418,206	9,291	25,455	31,662	2,862,651
18.	Centre Kalimantan	29,255	140,861	464,859	357,690	259,234	17,240	11,826	18,818	1,299,783
19.	South Kalimantan	108,265	468,131	788,695	429,464	278,620	22,497	15,562	40,950	2,152,184
20.	East Kalimantan	39,738	213,129	501,015	418,471	515,124	22,902	23,527	72,211	1,806,117
21.	North Sulawesi	13,879	162,396	490,457	391,959	369,454	14,336	17,148	18,871	1,478,500
22.	Gorontalo	7,110	113,166	255,834	106,320	73,512	3,732	3,378	5,784	568,836
23.	Center Sulawesi	20,829	241,887	638,301	299,877	242,208	16,812	11,592	25,365	1,496,871
24.	South Sulawesi	779,656	896,365	1,736,583	1,019,391	1,011,292	43,143	45,045	110,618	5,642,093
25.	Southeast Sulawesi	127,397	166,547	394,071	287,841	235,670	8,141	6,938	21,957	1,248,562
26.	West Nusa T.	550,390	450,242	804,609	471,888	394,419	18,944	20,800	61,583	2,772,875
27.	East Nusa T.	216,095	555,089	113,480	337,054	290,464	13,004	14,482	28,999	1,568,667
28.	M a l u k u	15,532	94,585	273,807	187,828	146,513	8,834	2,136	8,652	737,887
29.	North Maluku	7,239	54,030	143,538	132,705	133,782	4,554	2,706	13,797	492,351
30.	Papua	350,424	178,452	405,970	297,596	214,540	6,484	10,914	20,926	1,485,306
	KBI	8,952,375	17,182,096	42,203,347	19,597,835	22,357,988	905,654	1,207,859	2,548,246	114,955,400
	KTI	2,512,663	4,313,737	7,958,880	5,342,749	4,583,038	209,914	211,509	480,193	25,612,683
	INDONESIA	11,465,038	21,495,833	50,162,227	24,940,584	26,941,026	1,115,568	1,419,368	3,028,439	140,568,083

Source: BAPPENAS, 2003

According to this Table almost 50 % of KTI's population (above 10 years old) only have an elementary school certificate, and almost 10 % had never gone to school. In East Kalimantan, which has a high GRDP, more than 40% of the population (above 10 years old) only had elementary education or below. South Sulawesi's performance was similar, more than 60% its population (10 years old and above) never going beyond elementary school level.

In East Kalimantan not only is the population's level of education low, but also the quality of its schoolteachers is low. For example, of 4000 primary, junior and high school teachers, almost 30% are of low quality based on government standards. Primary School teachers should have a 2-year post-school diploma (Diploma II) as a minimum; in fact, for many their highest level of education was SPG, Sekolah Pendidikan Guru (High School level). Others have only the lower level Equation Exam Certificate.³⁸ School facilities are also poor and spreading around cities.

In his discussion on manpower problems and government policies, Simanjuntak (1993: 60) concluded, "Indonesian experienced rapid economic growth, however, the majority of the labour force still works in traditional or informal jobs. There have been mismatch (between) the types of education that are provided and the qualifications required to fill available jobs". For East Kalimantan this condition has not yet changed, according to the East Kalimantan Province Government (2001: 16) "one of their weaknesses in education is the quality of many graduations from schools and universities are low and mismatch with management of regional potential and job opportunities. Low (numbers) in technology and science make management of natural resources poor and inefficient. Most natural resource products are still primary products and not industrially processed; as a result value added for regional natural resources is still lower". In South Sulawesi, graduations inappropriate to job opportunities increase higher education unemployment levels.³⁹

The central government has a policy of nine-year education realized by providing free education facilities and infrastructure and fee-free schools. As many other Government policies, this education policy are not effective because the policy does not consider what really happen in communities. This policy is also adopted by the EIDC as one of its specific policies for KTI. In implementation this policy did not have much impact to encourage children go to school because a school fee is not the main problem, especially for elementary schools in villages. The main reason many children did not go to school was because they must help their parents by agricultural work to support the family. There is especially a problem with EIDC strategies of having quotas for local

³⁸ *Kaltim Post*, 27 October 2002

³⁹ South Sulawesi Provincial Government, 2001

labour in industry, as it will force industry to accumulate employees of low levels of capability only to fulfil the quota.

4.4.2.2. Distribution of Government Officers Based on Levels of Education

As described in Chapter II where Indonesia was categorized as State Corporatism, the state has a dominant role. This increases the demand for government jobs. A high demand for government jobs could also be interpreted as based on a cultural approach. In Indonesian traditional kingdoms, “priyayi” (the nobles) were an elite group in the community, which held them in high respect. During Dutch colonialism, colonial officers represented “priyayi”. This tradition continued until the announcement of Indonesian independence and the establish of a state in 1945, after which government officials represent “priyayi” in the Indonesian community. This section will not continue to discuss this matter, it only gives a background to how the community respects government officials’ position and this has the effect of increasing the demand for government jobs.

In general, for combating educated unemployment and to please educated society, the New Order had recruited government officers every year for most government departments and regions without clear criteria and appropriate testing. It was worse in some cases when the recruitment process just became a ceremony and some people used it for getting money (corruption) from those who paid to get the jobs. Unsurprisingly, the resulting huge unskilled government triggered inefficiency in public administration in many government offices. There is an anecdote that ‘Indonesian government officers must be corrupt to get back the money that they spend for recruitment and more’.

For KTI, not only recruitment procedures became a problem, but also government officials’ education, their education background mainly being senior high school or below. As shown in Table 4.10, in 2000 more than 70% of KTI’s government officers’ education level was senior high school or below. In East Kalimantan, which had 40% of its population with only elementary education or below, 68% of government officers’ education was senior high school or below. In South Sulawesi, where 60% its population (10 years old and above) had never gone beyond elementary school level, 70% of its government officers had only senior high school or below.

Table 4.10: Total Government Officers Based on Education, by Province, 30 September 2000

No.	PROVINCE	Primary School	Middle School	Senior School	Diploma I & II	Diploma III & IV	S1/S2/Doktor	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Aceh Darussalam	5,334	3,977	59,685	5,284	13,566	13,651	101,497
2	North Sumatra	13,524	12,471	140,672	7,921	27,589	21,730	223,907
3	West Sumatra	6,509	3,915	69,188	6,407	19,586	14,211	119,816
4	R i a u	5,833	4,340	50,604	3,930	11,807	8,709	85,223
5	J a m b I	3,491	2,624	35,129	5,640	8,349	6,036	61,269
6	South Sumatra	8,477	6,269	77,455	9,747	14,883	13,703	130,534
7	Bengkulu	2,240	1,614	23,790	4,668	6,602	5,746	44,660
8	Lampung	6,044	3,819	60,012	10,466	14,415	9,864	104,620
9	D.K.I. Jakarta	27,805	22,485	176,334	12,653	38,503	70,183	347,963
10	West Java	53,912	25,912	320,888	14,507	57,140	48,717	521,076
11	Center Java	50,403	30,216	310,393	15,809	55,912	38,854	501,587
12	D.I. Yogyakarta	8,105	6,776	53,204	3,635	13,357	14,352	99,429
13	East Java	52,608	32,076	306,855	13,280	58,332	53,314	516,465
14	B a l i	4,868	4,379	51,614	3,339	8,709	13,271	86,180
15	West Kalimantan	5,144	3,854	48,205	5,727	7,078	7,087	77,095
16	Centre Kalimantan	3,137	2,368	32,241	5,002	7,382	6,521	56,651
17	South Kalimantan	4,915	3,689	43,366	8,610	8,428	9,757	78,765
18	East Kalimantan	3,657	2,739	36,847	3,525	7,219	9,161	63,148
19	North Sulawesi	3,569	4,506	57,460	3,752	10,410	10,373	90,070
20	Center Sulawesi	2,824	3,052	36,705	2,426	7,610	6,339	58,956
21	South Sulawesi	10,838	8,591	115,726	7,461	27,229	22,994	192,839
22	Southeast Sulawesi	2,632	2,323	33,477	2,115	6,699	5,985	53,231
23	West Nusa T.	4,670	3,567	44,689	2,505	8,960	7,660	72,051
24	East Nusa T.	6,391	6,288	53,735	2,662	8,790	7,654	85,520
25	M a l u k u	3,311	3,933	41,048	2,639	6,534	6,973	64,438
26	Irian Jaya	7,299	7,837	44,719	2,304	8,346	7,758	78,263
	KBI	249,153	160,873	1,735,823	117,286	348,750	332,341	2,944,226
	KTI	58,387	52,747	588,218	48,728	114,685	108,262	971,027
	INDONESIA	307,540	213,620	2,324,041	166,014	463,435	440,603	3,915,253

Source: Compilation from Administration Institution Data, 2002

*) not include 30,525 government officers from Former East Timor Province

There is some training that provides for government officials to increase their performance and get a chance to get promotion, such as Adum (Government Low Manager Training), SPAMA (Government Middle Manager Training), SPAMEN (Government Higher Manager Training) and SPATI (Government Top Manager Training). Unfortunately this kind of training is ineffective. Like many graduates from schools and universities who mismatch with job opportunities, as mentioned before, the government officer training is not suitable to individual positions, tasks, duties, responsibilities and organizational problems, because it is too general. In the implementation, training becomes a routine activity. In some cases participants pay an

informal fee to instructors to cut short the time or anything they agree on (corruption). Many officers without graduation from training have promotion, and get training later just for formality. Unsurprisingly, many government officers underestimate the value of this training, besides most of the training graduates do not get promotion.

There are some examples of poor performance of government officers. First is comment from Journalist from one of the biggest newspapers in East Kalimantan, he said that:

...our government, according to me, only..., like proverb said to catch a horse you need a horse. For example, to open a branch in Taiwan we need to train people to have Mandarin language. But when a provincial government of Indonesia gave a presentation in overseas, they presented it in Indonesian, what does the government want? The video recording was also in Indonesian, how could it be workable? I think businesses do better than government...I even said to the chief of BPID, why don't you disband BPID, and found a new board. The example is Singapore; they sell their tourism through the Singapore Tourist Board. The government is mediator and facilitator, the private sector should be more active, they are more capable of selling the region as they more know about (regional) potential etc. than the government. You know, how can we rely on government who used to spend money to look for money, it is a daydream.⁴⁰

Another example was mentioned by the UNDP National Project Manager of Partnership for Local Economic Development who had run some pilot projects of local partnerships in KTI, she said that:

... for example, Irian, in Sorong, Now, they have an excess of money but do not know how to allocate the funds, there are not enough capable human resource. They built good roads, streets and markets, but they do not have enough capable human resources, so that they hired a Javanese consultant and hired human resources from other islands... they do not have local human resources who have the capability for developing their region.⁴¹

⁴⁰ Interview Code KT-8: 2-4

⁴¹ Interview Code J-6: 88

This situation is worse when local governments spend their excess of fund confusedly. For example, I found a case that local government sent a central government officer instead of their local government officer. The central officer went overseas to continue his degree using a local government scholarship. Local government should send their local officer and send a capable person. How can a central government officer be sent by a local fund, and when will their local officers improve if they spent their money to develop a central government officer. The central government has their own money and standardization for sending the officers to get education overseas. Besides, there are broader chances for central government officer to get scholarship from other governments such as AUSAID from Australia, Ford Foundation from USA, etc. Local government gives scholarship without good criteria, they even sent a person who did not have enough English and spent money for an English course. It is understandable that some capable local government officers did not have chance to develop their capability because local government gave their chance to a central government officer without good criteria for recruiting scholarship candidates. In this case local government not only misallocated their fund but also they gave scholarship to incapable officers. As a result local fund did not improve local government officer as expected. This example also showed that with a bulk of funds but a lack of capability to manage them would end with failure. Another example of misallocated funds is a local government buying an aeroplane, buying a ship and other expensive luxurious goods without considering costs and benefits.⁴²

KTI not only lacks capable government officers, based on the discussion above we know that KTI also lacks capital. Hence, all of these conditions caused a high rate of failures in government programs that should be implemented or are attempting to develop KTI region.

More comments about government officer performance will be found in Chapter V, section 5.5.2.

⁴² There are some cases of regional and local government decision-makers still involved in court processes, because there are indications that they bought luxurious goods for local government assets without appropriate procedures.

4.4.2.3. Characteristics of Local Business

As mentioned above, during my fieldwork, I found that most stakeholders, at national or local level mentioned that they consider that a lack of human resources is a main issue for KTI being left behind. Not only government human resources is a problem, but also local business human resources. For example, the Deputy Head of the Industry Office of Kutai Kertanegara said that, “human resources is the main problem of local business, human resources are still weak, and also our human resource skill level is low, so competitiveness is still low.”⁴³

There are some of characteristics of local business that become obstacles to contribute to effective local economy activity. These will be considered separately below.

4.4.2.3.1. Close Informal Relationship with Government

The relatives of Government officials own many local businesses. Even some of them built their business only with the purpose of getting a permit from the government and then sell the permit to a real investor. According to Sadli (Sadli, ed, 1997), this pattern has already existed since the Indonesian state was established, where relatives and close friends of government officers become brokers by selling permit. An example is described by a journalist from an East Kalimantan newspaper:

...,in East Kutai Regency from 92 palm oil investors only 3 are operating. As a result we have a question for the rest of them, for 89 investors. Are they really investors or just government officers’ relatives who got a permit to do business and then are looking for a chance to sell the permit as a broker to a real investor?...⁴⁴

4.4.2.3.2. Demanding Support From Government

Local business depends heavily on government projects, for example, as mentioned by the Head of the Trade Office of Kutai Ketanegara:

We have given opportunity to Gapensi, Ardin and other business associations, to get the project, the clarification, quality level and also ability, themselves

⁴³ Interview Code KT-15: 12

⁴⁴ Interview Code KT-8: 2

determining it. In Kuger there are tens of big companies while around 600 small companies are contractors. So generally CV (private companies) are contractors and expected in future to change their orientation about plantations of palm trees. Since 2001, government officers have started to encourage businessmen to have an entrepreneurial spirit. During this time they only work in the area of contracting oriented to government projects.⁴⁵

The Acting Chairman of the South Sulawesi Chamber of Commerce and Industry supported this comment, telling me that most of the Chamber's members are contractors; of 5741 local companies, 74% are contractors. As a result businesses that grow are businesses which have an orientation towards projects⁴⁶. Furthermore, he said that

Yes, government is creating a system of projects, so if government establishes a system of projects there, business will grow there, that is a problem, is not it? If the way we grow our private sector is like that, it is impossible for us to compete, ..., I can bet it is not possible. Government cannot see the difference between real businessman and 'Pengusaha Cengeng', and government tends to give many chances to this kind of businessman. No surpris that many local businessmen as key players in the local economy tend to be spoiled and uncreative⁴⁷.

Local business depending on government project is a fact, not only local business considers this as their problem, but also other stakeholders mentioned this matter during my interviews. The Secretary of Pinrang Regency blames this situation on the private sector.⁴⁸ He said, "The private sector does not realize and understand their function and role. Private sector is always looking for work in the government. They always depend on government projects." Moreover, he said that the private sector should look for other works or opportunities. The opportunity is very wide, for example, Pinrang region is suitable for palm oil plantation or etc. Pinrang local government encourages them to compete, there is no formal forum but local government meets and assists local business

⁴⁵ Interview Code KT-14: 22. From their reports, 633 companies are contractors (86%)

⁴⁶ Interview Code SS-6: 4

⁴⁷ Interview Code SS-6: 46, What he mean by "Pengusaha Cengeng" are Businessman who run the business only because the company has support from government and is heavily dependent on government projects and sometime the businessman acts as broker."

⁴⁸ Interview Code SS-15: 44

in informal forums. Pinrang regency wants to develop palm oil plantations, with business loosening its reliance on government. Business ought to look for outside chances, looking for cooperation with big companies, foreign companies, which have funds. But local business prefers government contracting. Even although profits are low, it is the easiest work, with quick results, only needing small funds and no risk.⁴⁹

However, the Chairman of the Parepare Local Parliament,⁵⁰ who has plenty of experience dealing with businessmen and government, supports the local business position. He stated that new businesses use government projects as a base to start to get capital, meaning that they start almost without capital and depend on government tender, for them a government project is the best alternative so it is no wonder they depend on government projects, because they are easy and available.

... local young businessmen need government projects as a starting point, I see so, they are looking for capital first. I learn this because of associating with young businessmen. I ask them 'why do you come here directly', they said that 'only need to provide Rp. 2,5 million, for establish company, If every year we get a project value of Rp. 100 million, after operational cost at least we already have a 10%, profit, it means every year we earn Rp.10 million. This is only for an early start, like that. If we have had better work, we will leave'.

According to the Deputy Chairman of Samarinda Parliament, local businesses which depend on government projects do not have the capability to compete with other business from outside:

Up to now they still use the previous ways and still use still old permits ... Government need to push the private sector not to depend on government projects. Even though, for example, we try to conduct tight selection of governmental clients of government projects. If there was open bidding in reality there will be a problem. The problem occurs because our local business complains that if there is open bidding they will lose and fail. It means they

⁴⁹ Interview Code SS-15: 44-46

⁵⁰ Interview Code SS-28: 66-68.

are not ready for competition with business from outside; our local business does not have strength to compete. Furthermore, we will face AFTA 2003, therefore, now we ask to business friends through their association that whether they like or dislike it they need to establish consortiums to survive. They can no longer get protection. Although till now there has been still that practice.⁵¹

This opinion was supported by the Head of the Program Planning Division of East Kalimantan BPID, who said that one of the weakness of East Kalimantan businesses is they focus their business in the construction sector which expects government projects, while concentration to create job opportunities is still low. So our target is to compete in global marketing business, that is we instruct them to create job opportunities.⁵²

In other words we can said that other characteristics of local business that depend on government projects heavily include not having a capability to compete with other businesses from outside, and having difficulties in creating job opportunities. We cannot only blame local businesses or local governments for this situation, as also foreign loans, as a main source of government projects, contribute to this situation. Foreign loans, which are oriented at programs and their implementation focus on projects which have a big influence on why this situation happened. Government has to follow certain conditions from donors, and needs to translate the donors' program into projects. This triggers negative effects where government concentrates on project implementation. Local business is more concerned with fighting over government project than creating or improving anything. By doing government projects they can start without enough capital, only based on their connections with government.

4.4.2.3.3. Averse to Risk Taking

As mentioned in discussion above, local business prefer to be government contractors, even though profit is low, but it is the easiest work, quick result, only need small fund, and no risk. All of this showed that local businessmen donot have entrepreneurship, for local business 'slow', 'low rate of return', it does not matter as

⁵¹ Interview Code KT-6: 36

⁵² Interview Code KT-7: 34

long as they still gain money without the need to provide capital. All of these showed that local business don't have entrepreneurship.

In her analysis about *Indonesia's small entrepreneurs: trading on the margins*, Turner (2003: 5) use 'entrepreneur' to refer to the owner of a small-scale enterprise, or more specifically, to the owner of an independent small enterprise who directs or organizes production on a regular basis, and who makes decisions about styles, materials, capital and marketing (Thamrin, 1993). Although one could make a link between an entrepreneur and 'entrepreneurship' in terms of innovation, the connection made in her discussion is as an enterprise *owner* and *organizer* of production.

This discussion will differentiate between merchants and entrepreneurs. What Turner defines as 'entrepreneur' will be used here to refer to 'merchant'. An entrepreneur is different from a merchant. An entrepreneur is an industrialist/businessman who has entrepreneurship, meaning innovative and long run goals, while a merchant is a businessman who is doing business for short-term goals. We can quote comment on this issue from the Head of the Innovation Centre of LIPI (Indonesia Science Institute):

...in fact our businessmen are not coming from industrial, most are from merchant (backgrounds), which in character and the way of thinking is short-range. It is meaning if they buy 10 and sold 11 that means they have benefited without thinking for long-range, investment etc. So, philosophically and culturally most of our businessmen are coming from merchant (backgrounds). And it also happened with our previous conglomerates. They invest to improve commerce, not as industrialists who prefer long-term investment. And also why our natural resource processing is likely to be finished swiftly because they have short-range goals instead of long-range.⁵³

As we know many businesses, including small enterprises, are merchants, especially in Makassar. We can even say that business in Indonesia is difficult to improve and faces some problems because many of its businessmen are merchants. As mentioned

⁵³ Interview Code J-8: 2

by the Executive Director of LP3EM (Institute for Rural Coastal and Community Studies):

... Up to now, the biggest weakness of government has been always emphasis on input. Whatever the result, as long as they can finish the funds that means they have finished implementing the project. Government and Businesses have the same point of view on that, especially for South Sulawesi. Local businessmen have principles not as entrepreneurs but as merchants, do not have industrial vision and entrepreneurship. In general local businessmen are merchants, how to get benefit (profit) by moving goods from one place to another place, and they do not need the expense of research. ...businessmen are contractors who have high dependence on government, if there is no APBN or APBD they do not get work. So in general the private sector is weakened and only a few of them have entrepreneurship vision. ...government is administrator as well as contractor, so is the DPRD (local Parliament).⁵⁴

Without industry vision or entrepreneurship, local business is difficult to improve. There are only retailers or contractors. Furthermore, he mentioned an example of one of the South Sulawesi NGOs cooperating with a private company to import and deliver hand tractors made in China. In South Sulawesi there are more than 20,000 hand tractor users. There are some businesses, which can make nicer hand tractors, there is a lot of funds in banks, all required aspects are there. According to him, “private companies have no vision, do not want to be working hard, only have a merchant spirit instead of the vision of an entrepreneur. They always want to search for easiness, do not want to face risks. RRC (China) hand tractors are ready, there is capital, no risk, and as a result they prefer to import and distribute instead of producing local hand tractors”.⁵⁵

Even though there is possibility their companies are small and cannot afford to take financial risks, I agree with this opinion of the Executive Director of LP3EM that local businesses did not want face risk to produce the hand tractors.

⁵⁴ Interview Code SS-31: 30

⁵⁵ Interview Code SS-31: 34

4.4.2.3.4. Lack of Managerial Skill

Based on the discussion above, lack of capital is one of the reasons for the failure of KTI economic development. But in some cases, even where there are funds, a lack of management skills is a reason that the local economy did not improve. The Secretary of Pinrang Regency took government loans as an example. Although government provided funds for small local businesses through KUD (Village Unit Cooperative) soft loans, in fact local businesses could hardly manage them. He said that, with much stopping and starting, the repayment process of the KUD Loans just stuck all because of a lack of human resource capability of local businesses.⁵⁶

In my opinion, there is another reason for failure of the repayment process, many people did not pay their loan back because based on their experiences they can treat government money as 'dead money'. They can use it, as there are no consequences or punishments for failure of payment. For example, in 1994 government provide 20 million rupiah per village that people borrow through the IDT program. The funds just went. Government often act as 'Sinterclass' (Santa Claus), it does not educate people, government spoiled people with money without clear objectives, people used to throw away government money.⁵⁷

If there is a consequence, it is a hope that government funds will be more effective, for example the account of a local government officer that:

...I am the former head of agriculture halls (greenhouses), when I was there I built a relationship with BUMN (State Owned Enterprise) where there are funds for developing community I still have contact. The main problem of UKM (Small-Medium Business) is marketing and capital. We facilitate them, for example, businesses need equipments, BUMN assists by providing loan. Previously UKM was provided with a cheap loan sceme by government without a guarantee but they were neglectful and cannot pay it back. The BUMN fund asked UKM to provide a guarantee although small but to make sure they will pay back. As an example, we can compare PTP (State

⁵⁶ Interview Code SS-15: 22

⁵⁷ See futher discussion on how people treat government money in 5.5.5

Plantation Enterprise) and PT Post (State Post Enterprise), last year PT Post had more problem. The difference between a PTP loan and a PT Post loan is that in PT Post UKM did not need to give a guarantee.⁵⁸

Based on his observation of local businessmen's fundamental economic structures, the Head of the Kutai Kertanegara Development Planning Board concluded that, in fact, local business effort is weakened in its management. Local businesses still manage their business with traditional management systems. Although some of them use experts as professionals, they did not yet realize how important the expert as an asset.

...In my experience, before I had worked at the Public Works Office for 30 years, businessmen start with small business and they have experts then they become bigger and bigger. But when they are bigger they reduce their expert advisors and skilled staff from 100% to 20 % even 10%, sometimes only the name was left, finally the big company was finished.⁵⁹

Their family management is one of another obstacle for local business, they only continue with their previous business and seldom to think about business diversification, and manage with their old style until, as a result, their product cannot compete in its market anymore. For small businesses that are less creative and only copying other initiatives/ideas, there is a good example that mentioned by the Head of Innovation LIPI that, if someone is successful of selling 'cilembu' roasted parsnip, everybody will make the same move in the same area.⁶⁰

Another problem with traditional management is management team is family member. If the founder is a strong figure, dies, management team difficult to achieve agreement without the strong figure. The inheritors face difficulty because the decision maker was gone, so they preferred to divide the asset. As a result the company is finished.⁶¹

Lack of human resource capability, especially in the human resources of small and medium business, was defined as one of the threats seen by the Kutai Kertanegara Industry Office of Strategic Planning. Moreover, the Kutai Kertanegara government

⁵⁸ Interview Code KT-18: 6

⁵⁹ Interview Code KT-13: 50

⁶⁰ Interview Code J-8: 14

⁶¹ Interview Code KT-13: 50

mentioned that a low level of human resource capability was not only in entrepreneurial, technical and marketing capability but also in managerial capability.⁶²

Further discussion about different management style in Chapter V (5.2.) and more comments about local business capability and performance will be found in section 5.5.2.

4.4.3. Lack of Infrastructure

As mentioned before in Chapter II, increasing infrastructure quality and facilities not only represent a development process but also will improve the market, which is one of the requirements for accelerating economic activities. Numerous studies have shown that improved transport and communications make markets work better, enabling regions to exploit more effectively their comparative advantage.

Many parties consider that availability of regional facilities and infrastructure represent supporting factors for development. For example, EIDC formulate increasing infrastructure and facility as one of its policies. Infrastructure also became a priority and needed follow up as formulated by the work committee of Pertemuan Dialogis Pemerintah, Perbankan dan Pelaku Usaha KTI (Dialog Forum among Government, Bank and Private Companies of KTI) on September 17, 2002.

As well, as stated by the State Minister for AEID, lack of infrastructure is one of the main problems for KTI development. KTI as isolated islands have different characteristics compared with KBI, especially in geography. As a consequence, it is natural if KTI faces infrastructure problems.⁶³ There are some examples of daily problems related to poor infrastructure, as told me by the Executive Director of PT Bangun Kalimantan:

...There are many facilities in Java, ... here is just a small road, and we have difficulty when we want to bring our container from port to our warehouse location. Infrastructure is limited, roadways are limited, and not enough done to support us, not like other regions. Infrastructure development is less here, government did not develop enough port facilities, road facilities.⁶⁴

⁶² Kutai Kertanegara Industry Office, *Strategic Planning*, 2002

⁶³ Interview Code J-1: point 1

⁶⁴ Interview Code KT-5: 36

Another example was mentioned by the Acting Chairman of the South Sulawesi Chamber of Commerce and Industry:

...For example like this, with bad conditions, the road between Makassar and Parepare, needing distance 2 - 3 Km for us until we can overtake other cars. Now trailers and trontons (big vehicles) may not pass. Government need to make bigger roads, but on the contrary government told us that we cannot pass because our car is big. If government can make bigger and better infrastructure, we can use big vehicles wich will be more economical...With poor infrastructure facilities like now, sending goods from Surabaya (in Java) to Manado or to Gorontalo is much cheaper than sending goods from Makassar (South Sulawesi) to Gorontalo and Manado (both also on Sulawesi island).⁶⁵

Table 4.11 below shows that since the first Repelita until fiscal year 1994/1995, development of road infrastructure (Prasarana Jalan) as one of the basic infrastructures built by government provided more roads in KBI than in KTI. Historically KBI already had better infrastructure so when government spends more to build roads in KBI than KTI the existing disparities in infrastructure facilities between KBI and KTI became larger.

⁶⁵ Interview Code SS-6: 14

Table 4.11: Development of Road Infrastructure, KBI and KTI, 1973/74–2000

No.	Year	KBI		KTI	
		Km	%	Km	%
1	1973/74	75,901	73	27,613	27
2	1978/79	35,445	57	26,860	43
3	1983/84	31,793	72	12,211	28
4	1988/89	94,619	55	76,648	45
5	1993/94	73,195	62	44,405	38
6	1994/95	21,223	62	12,739	38
7	1995/96	11,730	49	12,366	51
9	1997/98	21,220	49	22,237	51
10	1998/99	4,774	46	5,518	54
11	1999/2000	745	38	1200	62
12	2000	960	41	1362	59

Source: BAPPENAS, 2001

Since fiscal year 1995/1996, the proportion of infrastructure investment spent on road infrastructure in KTI is increasing, as shown in Table 4.11. This indicates a government commitment to increase infrastructure facilities in KTI and give a bigger portion to KTI rather than KBI. But it does not mean much; KTI does not only need a bigger percentage, but needs more roads for accessing KTI's huge region and the total of new roads has decreased significantly. Before 1995/1996 government spent infrastructure investment on 532,652 Km of road facilities, while in the period from 1995/1996 until 2000 when KTI gained more roads than KBI the total was only 82,112 Km.

Moreover, based on 2002 data, the trend of investment on road has returned to its previous one. Even excluding DKI Jakarta province (in Java), government spent more in KBI, as shown in Table 4.12.

Table 4.12: Development of Road Infrastructure, by Province, 2002

No.	Province	Road		Road Condition	
		Distance		Good	Fair
		Km	%	Km	Km
(1)	(2)	(3)		(4)	(5)
1	N. Aceh Darussalam	1,702	3.8	275	460
2	North Sumatra	2,920	6.5	783	901
3	West Sumatra	1,288	2.9	744	358
4	R i a u	2,163	4.8	989	29
5	J a m b i	1,567	3.5	1,172	131
6	South Sumatra	1,625	3.6	1,178	371
7	Bengkulu	1,500	3.3	1,037	136
8	Bangka Belitung	913	2.0	449	300
9	Lampung	2,370	5.2	1,448	363
10	DKI Jakarta	-	0.0	-	-
11	Banten	456	1.0	207	165
12	West Java	1,994	4.4	380	968
13	Central Java	2,526	5.6	720	1,042
14	D.I. Yogyakarta	690	1.5	536	90
15	East Java	1,439	3.2	596	488
16	B a l i	673	1.5	349	134
17	West Kalimantan	1,789	4.0	1,110	455
18	Central Kalimantan	1,059	2.3	224	219
19	South Kalimantan	1,056	2.3	742	225
20	East Kalimantan	1,640	3.6	667	53
21	North Sulawesi	1,311	2.9	246	865
22	Gorontalo	468	1.0	257	141
23	Central Sulawesi	2,037	4.5	446	982
24	South Sulawesi	1,619	3.6	695	419
25	South East Sulawesi	1,487	3.3	642	488
26	West Nusa Tenggara	1,764	3.9	732	275
27	East Nusa Tenggara	2,940	6.5	2,165	300
28	M a l u k u	1,612	3.6	587	306
29	North Maluku	689	1.5	131	48
30	Papua	1,873	4.1	532	683
	KBI	23,826	53	10,864	5,936
	KTI	21,344	47	9,174	5,459

Source : BAPPENAS 2002⁶⁶

Note : Excluding DKI Jakarta, data does not available

⁶⁶ compilation data from Departmen Kimpraswil (Indonesian Regional infrastructure and Resettlement) 2002

For years, many places in KTI had poor infrastructure, some of their houses and markets being built on the top of hills or in valleys. Some of the communities are somewhat isolated from urban centres and also seem to be living in a time-warp; not moving out of the same conditions that have endured for hundreds of years. The government tends not pay serious attention to properly and comprehensively solving this problem. Government appeared to not consider that the improvement of transportation networks and other forms of infrastructure are integral for supporting social and economic interaction, indeed also for attracting needed investors. IBDC (2000: 186) reported that “by 1995 a capacity of 90.1 % has been reached by power plants in KBI, while KTI has lagged behind with poor levels of capacity, i.e. 11.5%. The same result is found telecommunication facilities 88.5 % in KBI, 11.5 % in KTI”.

The following comment represents one example of the expression of complaint and jealousy of people from South Sulawesi and other KTI regions when they return home after traveling around Java

It is unsurprising that Java people are more improved than us; their businesses and other things are more improved, because they have better facilities. Their roads are very good, link to everywhere even to remote areas, they have whatever they want to. It is different with our condition. How do economic activities increase, or commercial activity increase, if our roads are only gravel roads. Even the telephone has not yet reached every area.⁶⁷

4.4.4. Lack of Access to Domestic and International Markets

During the New Order, industrialization was centralized in KBI, as well as access to domestic and international markets. As a result there were higher costs for shipping and handling because some raw materials needed to be brought from KTI production areas. This condition made Indonesian products have low competitive power in international market, besides for KTI itself selling raw material meant it didn't get value adding benefits.

It was worsened by local actors not being able to access information well and not having a have market orientation. As a consequence, they could not read market patterns

⁶⁷ Kompas 23 September 2002

or market demand, and didn't understand customer's needs and taste or price trends. The Head of the Trade Office of Kutai Kertanegara mentioned to me that farmers have to understand about searching the market first and then planting the commodity, but the recent pattern is that they plant first then, after that, look for markets.⁶⁸ Lack of market information triggers big losses for farmers, not only do prices fall dramatically because of a bigger supply than demand, even sometime farmers have to throw away their harvest because there is no market for it.

Another example is the failure of the promotion mission by the Investment and Promotion Board of East Kalimantan Province in Australia because of a lack of market information. They promoted agribusiness and the logging industry but in fact Australia was more interested in mining industry.⁶⁹

Furthermore a lack of market-orientation also hinders them from understanding the concept of competition and from avoiding being lost in domestic or international markets. KTI competitive capability is very low, high costs of production (shipping and handling from KBI as mentioned above, lack of infrastructure, minimum wages) are not followed by increased human resource capability. KTI human resources have remained the same, inefficient and incapable, as a result KTI loses in international competition.

Besides the lack of infrastructure contributing to the high cost of KTI goods and products, it also results in local products not being able to access markets. The Head of the Trade Office of Kutai Kertanegara commented:

...How will our products be marketed if we have no transportation, for example, we harvest bananas, to transports the results of a crop from the hinterland countryside to town need one month, (but) bananas only can last one week, they cannot be marketed. Another example is Kotabangun which has a large cassava production but cannot bring it out because as much as 23 km is muddy road and clay. What we regret is that we ought to develop the lower sector, the informal sector that is large...The problem is although

⁶⁸ Interview Code KT-14: 4

⁶⁹ Interview Code KT-7: 3

informal sectors' production increases if it cannot be marketed and cannot access market, yeah it is useless.⁷⁰

4.4.5. Different Values: lack of communication and coordination

Different values and lack of communication and coordination create obstacles for government development programs. For example, some of the local stakeholders said that they did not think KAPET is worthwhile for their regions. This comment gives an impression that there are lacks of communication and coordination between KAPET representatives and local stakeholders. A lack of communication will also create miscommunication; as a result government programs will not be effective.

Besides, a lack of communication and coordination makes government projects fail before they are created. One example was given by a local decision-maker about a previous experience of formulating a project proposal to central government and donors:

... Hence, we implemented a “*trial and error approach*”. Our region was wide but the budget was very small, even less than Rp. 100 million. How could we identify, categorize correctly what village needed how much budget, how should we allocate”. (He laughed again and continued). In the central development profile form for APBN proposals, we mentioned that there were (laughing again) 20 craftsmen although in reality there was only 5 craftsmen. The purpose of fictional data was to succeed with our proposal and central government allocate the program for our region. If we mention there are only 5 craftsmen the central government will not allocate this kind of project.⁷¹

Not only in the proposal stage does local government misconduct become a contributory factor but also in the implementation stage. The Head of the Local Development Planning Board of Kutai Kertanegara Regency said, “If we disagree about what we need we can ask them to revise it but if they do not want to revise it, we just implement because even if we shout, they do not care”⁷².

⁷⁰ Interview Code KT-14: 30

⁷¹ Interview Code: KT-15: 26. When he explained this he started to laugh, because this story reminded him how he fooled central government and donors. When they tell about fake data they are always laughing because they know that they talking to a representative of central government who was fooled by them before. After confessing their guilt they look like they felt released.

⁷² Interview Code KT-13: 45

After local autonomy implementation where the community is more active with their control role, this phenomenon is decreasing slowly. The logic for this argument is that transparency in governance becomes a filter for fake data.

Furthermore, lack of coordination creates ineffectiveness in government development programs as many duties and targets are overlapping. One example was given by the Acting Head of the Industry and Trade Office of Samarinda Municipality:

Our Government has a low coordination, each office runs their own activities; many duties have the same target and become overlapping. So, we might be needing to start with more sharpening of our targets by coordination meetings including BPS (Statistic Bureau Center) data problems which we need to have a meeting to coordinate managing and rechecking so data which is published is valid, as well as to coordinate activities so they do not overlap. For example there is development of UKM (Small-Medium Business) in the Cooperation Office and also in the Industry and Commerce Office. If we studied their fundamental duties and functions they are different but in their targets and implementations are overlaps. Also when proffering of programs to the DPRD (Local Parliament) and Bappeda (Local Development Planning Board) we need to be clear which area is for the Cooperation Office and which for the Industry and Commerce Office, so that in executing programs do not overlap... according to me, if this role does not become coordinated it is not effective, like now office X develop this and then office Y comes and develops this, they have the same target and similar activities, with strong coordination this role (role of local offices and the program) can be effective.⁷³

Furthermore, local government attitude that assuming their regions as battlefield setting cause lack coordination among local governments. This problem effect on overlapping activities and inefficiency. For example as described by a journalist from one of the biggest newspapers in South Sulawesi:

... Like Barru, Pinrang (regency) and Parepare (municipality), in development of infrastructure, they like to do it by themselves. ... Pare-Pare, Barru and

⁷³ Interview Code KT-18: 6 & 26

Pinrang each have intercity transport terminals defrayed with debt. Parepare has a terminal, Barru made another one, which is not far from Pare-Pare, and Pinrang made one too. This three regions are the same as Surabaya, Mojokerto and Sidoarjo which made the Purabaya terminal of Surabaya. Purabaya was arranged by one consortium, was defrayed by and operated by the private sector and profit divided between the three regions and the private sector. With a pattern of assuming the regional setting as a battlefield caused the expense of transportation costs, because Parepare asked its DLAJR (local traffic officers) to force all drivers to enter the terminal so they have to pay the levy then when the same driver reaches Pinrang, they also have to pay a levy again, then also in Barru. Finally what? Bus companies or businessmen did not want to be bothered; they also passed the charge on to their consumers. That is just one case.⁷⁴

The lack of coordination is not only between central and local government, and among offices in local government, but also among departments in central government. As stated by the UNDP National Project Manager of Partnership for Local Economic Development, in response to a question about the existence of coordination:

No, there is not. All of them have a program by themselves. As a result, it seems each of them tends to keep the information from one another. They fear other people will know what they have done, it is my work, that is your work, it should not be like that. Hence, this KPEL wish to make a partnership at national level as well as at local level. Not merely a partnership in business but a partnership in the development planning, coordination program and information. For example, the Industry Department has a program; do they coordinate with the Agriculture Department?, because industry and agriculture are close. Many industries use agricultural materials, and the industry market is agriculture market. At this time there is less coordination between both departments.⁷⁵

⁷⁴ Interview Code SS-7: 4

⁷⁵ Interview Code J-6: 68, When she said that department prefer work exclusively because they afraid others will know something. Both of us laughing because even she did not explain and may be do not want to explain, both of us understand what they afraid of and why.

Furthermore, she said that local economic development policy is not clear yet, local economic policy needs synergy of all sectors. What happens is each department creates their own policies without good coordination, without synergy, as a result each department's effort cannot be maximized for local economic development.⁷⁶

The Vice President of Unocal who has dealt with government decision makers for years agreed that there is a lack of coordination among departments, each department making decisions by themselves. He defined the lack of coordination among government institutions as weaknesses of government as their partner. He wished that interdepartmental (coordination) needs to be fixed, communication between the Department of Finance and the Department of Energy, the Home Affairs Department, etc.⁷⁷

In my opinion, in some cases the lack of coordination among government institution is affected by prerequisites of foreign loans. One of the reasons each department formulates their program exclusively is because they need to fulfil prerequisites from donors for specific loans. Loans are a major source for department's projects and most department activities. Donors have already formulated what kind of program can be and should be funded by their loan, as a consequence departments focus on sectors or programs to fulfil this requirement.

Another reason for a lack of coordination is political decisions that have an effect on changing the status or position of certain government institutions, for example as told me by the Director of Balancing Funding between Centre and Regions in the Department of Finance:

...The weakness of this Directorate is youth, entering its fourth year, hence consolidation and coordination between work units is still not yet adequate. Such coordination is not merely among work units in the internal Directorate General and Department of Finance, but also coordination with other institutions that are involved in duties.⁷⁸

⁷⁶ Interview Code J-6: 54

⁷⁷ Interview Code J-3: point 36

⁷⁸ Interview Code J-9: point 46

The lack of coordination is not only a problem for government institutions but also for business organizations. For example, as mentioned by the Acting Chairman of East Kalimantan Chamber of Commerce and Industry:

... There should be a balance between regions from the one that lacks natural resources such South Sulawesi which could buy rubber from East Kalimantan. If someone asks the East Kalimantan Chamber who are the rubber businessmen, the East Kalimantan Chamber could not answer this. We do not even know who are the logging businessmen. Based on the law, the East Kalimantan Chamber is the union body for all businesses, (so) how could people enter coal businesses without being a member of East Kalimantan Chamber?⁷⁹

4.4.6. Lack of Cooperation Between Government and the Private Sector

4.4.6.1. Low Participation

As discussed before the Indonesian government remains ‘shackled’ (terbelenggu) by the old approach with a growth bias and development pattern that tends to centralistic and homogenous sectors leading to regional disparity between KBI and KTI. According to Heripoerwanto (2000: 35):

The failure to implement regional development through growth centre concepts in many countries has failed because of ignoring industrial power linkages that should have been established before for value adding processing, industrial trees, even location linkages (economic activity specialization). Another weakness of this linkage is lack of concrete operational concepts of how the community should be involved and increase their standard of life.

As mentioned in Chapter 1, lack of cooperation between government and the private sector makes the condition worse such as business companies that put more stress on short-term profitability and infrastructure facilities choose to concentrate their investments in KBI. In Tables 4.4 and 4.5 above we can see that for years KBI domestic and foreign investment was higher than KTI's.

⁷⁹ Interview Code KT-4: 14

The central government has claimed that there is no full top-down approach anymore in economic development. In some considerations, for example availability of governmental savings as a source of national development, nowadays the former approach is no longer fully run, for example development planning processes need a community role. Development planning needs both top-down and bottom-up approaches. The implementation of this combined approach is planning through a mechanism called 'Pedoman Penyusunan Perencanaan dan Pengendalian Pembangunan di Daerah' (Guidance of Compilation of Planning and Control of Development in Region) by using 'Musyawarah Pembangunan' (Development Forums) at Village level, District level, 'Rapat Koordinasi Dati II' (Coordination Development Meeting at Regency Level), 'Rapat Koordinasi Dati I' (Coordination Development Meeting at Province Level I), and Konregbang (Consultancy of Regional Development among provinces in same islands), and, at the highest level, 'Konasbang' (Consultancy of National Development). Every level of forum performs a sectoral and regional planning coordination. With proposals or problems which pass through lower levels brought to higher levels, this process is expected to be able to sharpen analyses at the various levels of consultancy forums of development planning. Thereby planning from the bottom up is expected to be in line with the top down.⁸⁰

In reality, any kind of forum and meeting is ineffective because of low commitment from government. As discussed above, for example in Kutai Kertanegara Regency the local community was less active and rarely submitted proposals. One possibility for this condition is that the community did not think that government would pay attention to their participation. Not only at local level, even at national level people think that government did not involve them in strategic planning. As stated by the President of the Indonesian Businesswomen's Association, government often claims that private sector is already involved in strategic planning just by inviting them to a meeting or to be on a discussion forum but, in fact, government did not take private contributions seriously. In that kind of forum, government only has the purpose to publicize its program. She said, "We can say that government is always ready with their concepts.

⁸⁰BAPPENAS, <http://www.BAPPENAS.go.id/index.php?module=ContentExpress&func=display&ceid=1576&meid=-1>

They do not care what input and feed back (is given), the outcome is always similar to the previous concepts that have already been formulated. As a result the private sector is frustrated and comes to view the forum as only a ceremony⁸¹. This opinion was supported by the Vice President of Unocal who explained that even in brainstorming forums the government decision-makers were already committed on some issues but in the formulation concept, government officers did it by themselves, as a result the policy did not correspond to the issues.⁸² Also many other businessmen have similar comments, especially when 60 KADIN (Indonesian Chamber of Commerce and Industry) members were invited to a meeting with the Indonesian Vice President and some Ministers to discuss the controversial government policy about increasing prices for oil, electricity and telephones in early 2003. For example, Soy Perdede, the Chairman of Commerce Division of the Indonesian Chamber of Commerce and Industry, said that all of government explanations are normative, only explaining what government thinks has to be done, but the government's attitude is the same. One of Kadin demands was for a subsidy compensation fund of Rp. 7 billion to allocate to Pertamina (the national oil company), PT PLN (the national gas company) and PT Telkom, so they would postpone increasing their tariffs. Dewi Motik Pramono (former President of Indonesian Businesswoman Association) said that she felt fooled by the government, because the ministers only explained everything that had already read by been businessmen in newspapers. She said that she would (and did) get involved in a demonstration held by the Indonesian Businessman's Association (*Business Indonesia*, January 9, 2003). The Chairman of the Indonesian Industry and Commerce Chamber (KADIN) gave an even stronger comment because government gave the wrong response for their controversial policy by proposing to increase taxes on on luxury goods. He said it showed that government never made an effort for businessmen to get involved in public policy, even for business matters (ANTV, February 2, 2003).

Moreover, according to the UNDP National Project Manager of Partnership for Local Economic Development,⁸³ for decades central government preferred being listened to instead of being a listener. It is interesting to find that there is self-criticism from

⁸¹Interview Code: J-11: point 5.

⁸² Interview Code: J-3: point 38

⁸³ Interview Code J-6: 4

central government. She said that the central government designed activities related to the local economic development by themselves without local stakeholder participation.

According to the Acting Chairman of the East Kalimantan Commerce and Industry Chamber, because there is not cooperation between the local Chamber and government, many of the assistances to develop local business are not effective as, he said:

...We want all permits to involve the East Kalimantan Chamber, so if government needs any help, for example if there is a foreign grant to develop small and medium enterprises, the East Kalimantan Chamber will try to coordinate its members by just pushing a computer button, we could call our members. If government has a problem, we also have. Therefore, even though there is assistance to develop business, because the government did not understand and does not ask for the East Kalimantan Chamber's cooperation, it was a failure⁸⁴.

The government paid less attention toward development priorities that were based on local natural resources potential and didn't involve the private sector optimally. There was a strong statement by the Governors of Papua that even though now government had already given 'Otonomi Khusus' (Special Autonomy) to Papua Province, it does not mean the disintegration movement will stop. The real problem is that the community did not think that government policy represented their interests, especially as most of the government officers and economic development players are migrants. Government need to follow up at the implementation level by formulating relevant regulations that enhance community involvement in natural resource management.⁸⁵

4.4.6.2. Massive Illegal Logging

Furthermore, as mentioned in Chapter I, lack of cooperation between government and business on planning and managing forests has created extensive illegal logging. Even though deforestation is not only from extensive illegal logging but also from legal logging and fire, illegal logging is continuous and simultaneous activities trigger more

⁸⁴ Interview Code KT-4: 14

⁸⁵ In TVRI News ('Berita Pagi' [Daily News] relayed through SBS Australia, May 10, 2005)

deforestation. Indonesia has four big islands that are covered by forest; Sumatra, Kalimantan, Sulawesi and Irian, with the latter three located in the Eastern Region.

Forests are important because besides having economic value in such as wood and rattan, they have important functions in providing sources of such as clean water and clean air. These are not only important for Indonesia but also for the world as a whole. For example Indonesian forests can absorb more than 30 % of the world's pollution. However, Indonesian forests have recently tended to disappear. According to Wimar Witoelar:

Indonesian forest tends to disappear; the annual deforestation rate is 1.6 million hectares. More than 17 million hectares have been lost in 12 years. The area burned down in the 1997 to 1998 fires consumed more than 5 million hectares that could cover a country as large as Portugal or South Korea, and only 1 percent was caused by nature.⁸⁶

If forests disappear there are many consequences such as increased pollution, global warming, climate changes and increased ultra-violet radiation due to a thinner ozone layer. In the long run, all of these will destroy our environment, our animals and maybe even ourselves

Not only because its riches in natural resources will attract private companies to invest in the Eastern Region, but also environment motives will trigger many countries and NGOs to give support for this region in future, because they realize the importance of forest in sustainable regional development.

According to a report by Prasetyo and Obidzinski from CIFOR (the Center for International Forestry Research), East Kalimantan loses US\$ 100 million annually in timber revenue. The East Kalimantan provincial government is losing over US\$ 100 million a year in lost business tax revenue due to illegal logging and unreported timber processing. East Kalimantan's timber industry has, in total, undocumented timber processing and illegal logging amounting to a loss of Rp 856 billion a year - about \$US107 million a year - half the annual revenue of the region. "The most significant underlying cause of illegal logging is the client-patron relationship. Illegal logging is difficult to eliminate because both suppliers and purchasers benefit from the profitability

⁸⁶ *Jakarta Post*, February 3, 2000

of the trade, especially by evading tax. Illegal logging is a complex issue involving many players.”⁸⁷

Following are some cases as examples of the many parties getting involved in illegal logging.

4.4.6.2.1. Illegal Logging Done by Police, Army, Government and Big Business

In the three months to November 11, 2004, police in West Kalimantan arrested some illegal logging perpetrators, included five police officers who were involved. Two among them were middle ranking officers who got fired from their position. The Head of Regional Police of West Kalimantan, in Pontianak, hoped there would be no more West Kalimantan Police Officers involved in illegal logging in future. He said, "If there is a report from community, I will punish them. Two middle rank police officers who were fired are the Head of the Senaning Police Sector, Sintang Regency, and another one from the Ketuangau Hulu Police Sector. Three other police officers are their subordinates.”⁸⁸ As well, police in South Sulawesi province arrested 58 people, including police officers, forestry officials and businessmen, suspected of involvement in illegal logging. The South Sulawesi Police Chief Inspector General said on Tuesday, December 21, 2004 that one police officer had already been dismissed while several others were being questioned over their alleged involvement in illegal logging including four provincial forestry officials. The South Sulawesi police were still investigating the financiers and other elements involved.⁸⁹ In many cases, government officers have been involved in illegal logging, especially through the administration process, for example they gave Hak Pengusahaan Hutan (Forest Concession Rights) to their cronies who were brokers. Moreover, many documents used as evidences were not fake documents but legal documents from government offices.

Furthermore, although relevant investigation of the Governor of East Kalimantan over cases of illegal logging have been discontinued by the Public Attorney, community and DPRD (Local Parliament) representatives of East Kalimantan continued to question

⁸⁷Prasetyo and Obidzinski,
http://www.cifor.cgiar.org/docs/_ref/publications/newsonline/35/east_kalimantan.html

⁸⁸ *Kompas*, <http://www.fwi.or.id/index.php?link=news&id=400>

⁸⁹ Detiknews, 2004

the Indonesian Attorney General's decision. The discontinuation of the investigation may have been for lack of strong evidence, but at least the investigation showed an example indicating governmental functionaries' involvement.⁹⁰

The Kepolisian Resort (Police Base) in Malinau, East Kalimantan, on November 11, 2003, seized 130 cubic metres of processing wood without Surat Keterangan Sahnya Hasil Hutan (Valid Permit Statement of Forest Result) of various sizes and types. Besides the wood, police also seized good evidence such as a sawmill machine and two truck units. The Head of the Malinau Police Base said that the wood was seized from an ex-location of TPK PT Wana Bhakti sawmill in Sesua Malinau Town, which do not have a valid permit since this had been terminated in 2002.⁹¹

The State Minister for the Acceleration of Development of Eastern Indonesia (2004) in a meeting with the Borneo Tropical Rainforest Foundation Team (BTRF) said that the condition of the forests in the Kalimantan region was very concerning because of illegal logging. Ironically, the biggest actors are the companies that hold Hak Pengelolaan Hutan (Management of Forest Rights). Furthermore, Department of Forestry delivered 59 names of businessmen to be checked by Mabes (Central) Police and Public Grand Attorney related to illegal logging.⁹²

Not only did police take part in illegal logging but also the army, in the name of 'informal security', get bribes from companies (more discussion in 5.5.5.5)

4.4.6.2.2. Illegal Logging Done by Local Small-Medium Business

Izin Usaha Perkebunan (Plantation Permits) owned by KUDs (Village Cooperative Units) provide a chance of large scale deforestation in the region. In one case to open production in forest area they utilized Izin Pemanfaatan Kayu (Wood Exploitation Permit) in cooperation with a private company (CV Sakula Buana Benua Banjarmasin), using heavy equipment like tractors, etc. There has been chopping down of wood in the forest by the Lampanang River at Benangin and Wakat Village. There was no time to identify, select and cut away only appropriate wood, but a demolition and

⁹⁰ In TVRI News ('Berita Pagi' relayed through SBS Australia, 7/4/05)

⁹¹ *Radar*, <http://www.fwi.or.id/index.php?link=news&id=403>

⁹² *Media Indonesia*, <http://www.fwi.or.id/index.php?link=news&id=394>

finishing off of all of the wood. The forest has been almost flattened bald, but not replaced with any other commodity, which they had promised to plant.⁹³

4.4.6.2.3. Illegal Logging Done by Some Actors from Other Countries

In December 2003, the Indonesian Navy (TNI, KRI Tongkol 813) arrested the captain of the ship MV Bravery Falcon and punished him with 2 years jail because of smuggling 17,000 cubic metres of Merbau wood from Papua.⁹⁴ In March 2004, a Police Operational Team for Wanalaga (West Kalimantan Police Team) on the frontier of Sarawak, in West Kalimantan, caught four Malaysian citizens in the District of Badau, Upstream Kapuas Hulu Regency. They were suspected to be bosses of illegal logging in West Kalimantan (*Kompas*, March 11, 2004). Furthermore, Valentinus (*Kompas*, May 8, 2004), Coordinator of the Campaign Against Illegal Logging, stated that the Malaysian government supported its citizens in illegal logging in Indonesia by refusing to sign the Convention on International Trade in Endangered Species (CITES). Valentinus also mentioned that he and other environmental NGOs often found heavy machines which were the property of Malaysian citizens being used to cut wood in the East Kalimantan Forest Forestry which is the main source of livelihood in East Kalimantan.

Prasetyo and Obidzinski predict that if illegal logging is not properly addressed, unemployment in the region will increase due to the short-term benefits and unequal distribution of profits from the business of illegal logging. Without a whole-of-government approach and greater public and industry awareness and responsibility, illegal logging will be impossible to control. This will harm not only the environment but also the economic future of the region.⁹⁵

Existing cooperation between Government, business, police and community takes a different, negative, form in illegal logging. Furthermore, lack of cooperation between government and business also triggers a lower awareness for businesses as taxpayers to pay their obligation. A lack of cooperation with business also influences local government to consider less what, when, where and how tax and levies need to be

⁹³ *Banjarmasin Post*, <http://www.fwi.or.id/index.php?link=news&id=347>

⁹⁴ *Kompas*, <http://www.fwi.or.id/index.php?link=news&id=400>

⁹⁵ Prasetyo and Obidzinski, http://www.cifor.cgiar.org/docs/_ref/publications/newsonline/35/east_kalimantan.html

generated. As a result, this condition contributes to smaller Locally Generated Income (PAD) in the Eastern Region. Based on figures in Table 4.3, KTI PAD tends to contribute less to total national than KBI.

4.5. Conclusion

As we mentioned above, the Indonesian government has used the growth centre concept for regional development planning. The government has invested more in KBI, especially in Java, and hoped that growth will affect the other regions (KTI). However, not only government budgets, but also foreign and domestic investments that are hoped to support development of other regions just stay in KBI. In reality, there is no or only very little affect of economic growth on other regions (KTI).

Since 1975, KBI always contributed more to GDRP than KTI. In 2000 Gross Domestic Regional Product based on constant price 1993, KBI was still contributing more, 66 % to 34%. In 2000, the industrial and manufacturing sector contributed more than the agricultural sector to GDRP, with KBI more dominant in the former sector contributing 20 % of total GDRP and KTI 4%. In 2000, there were two provinces which had a high GDRP per capita; DKI Jakarta in KBI and East Kalimantan in KTI. Even though East Kalimantan, Central Kalimantan, South Kalimantan and Papua have high GDRP per capita, it does not mean that these regions have effective economic activity, but is more because of lower population and the bigger contribution of the mining sector, especially in East Kalimantan and Papua. For example, East Kalimantan has the highest GDRP per capita, Rp. 29.6 million; mainly coming from the oil sector while sectors other than oil contributed all of the DKI Jakarta GDRP.

The government still continues to formulate budget allocation with growth centres, from before 2000, with the KBI allocated 60 – 70%, KTI around 30 – 40%. With this approach KBI has better facilities and better human resources. Lack of infrastructure is one of the contributing factors to the imbalance between KBI and KTI. Increasing infrastructure quality and facilities not only represents a development process but also will improve markets, which is one of the requirements for accelerating economic activities. In Table 4.11 we see that since the first Repelita, development of Prasarana

Jalan (Road Infrastructure) built by the government showed that it built more road in KBI than in KTI. Even though KTI infrastructure investment had been increasing a little bit lately, it has not made much difference as historically KBI already has better infrastructure. As a result when government spends more to build roads in KBI than KTI, disparities in infrastructure facilities between KBI and KTI are widened.

Furthermore, one of the consequences of better facilities in KBI is that foreign and domestic capital investment ends up in KBI rather than KTI, because most of the large-scale business dominating almost all sectors of the domestic economy is based in Java. The investments that are hoped to support development of other regions just stay in KBI. Up to 2000, 76% of domestic investment was in KBI, only 24% in KTI. Agriculture and marine development in KTI that exploit potential renewable natural resources in KTI has been implemented with very little investment. Major investment is only for the sectors that are categorized as national strategies, so there is not much improvement for the local community. Based on Table 4.6 we can see that the concentration of most prime commodities that gain foreign exchange from exports is in KBI.

To accelerate the development process and equality, government should consider the regional and local needs, and encourage other stakeholders to get involved. In fact, the general government strategy for regional development such as Transmigration and Inpres could not mean much for regional development, especially for KTI. The transmigration programs are more an integral part of a broader strategy to relocate population from Java to the Outer Islands, especially Sumatra and Kalimantan, together with Sulawesi and Irian Jaya. It is far from promoting regional development or improving economic activity in other regions. Government sent human resources who have poor quality, no better than local human resources. The Inpres program was more like a charity program; there was no comprehensive planning to develop local natural resources and human resources, above all no private sector involvement. Inpres programs that were supposed to create equality in regional development in reality increased regional inequality. As with the National Budget Allocation, government allocated more of the Inpres budget for KBI than KTI.

After State Guideline (GBHN) for 1993 mentioned acceleration of KTI development, government paid more attention to KTI development and showed a

willingness to address the imbalance issue. It started to formulate some strategies for accelerating KTI economic development such as i) KAPET, ii) the Policy and Strategy of the Eastern Indonesia Development Council, and iii) the Program of Ministry for AEID. The latest EIDC strategies and policies (2002) are relevant to some of factors contributing to imbalance between KBI and KTI, focussing on the four areas of human resources, economic and natural resources, facilities and infrastructure, and institutions, while EIDC formulated specific strategies that consider the heterogeneities of KTI. One of EIDC's general strategies is creating an atmosphere conducive to pushing active participation and community initiative that intertwine public private partnership in efforts to develop businesses. Unfortunately, EIDC little considers other stakeholder roles, for example, all members of EIDC are government decision-makers. Another example is that, in formulating EIDC programs for institutions to be in charge of the activities, beside government institutions, EIDC only mentions universities and that just for some activities in the human resources program. EIDC did not consider other stakeholders to be involved. Furthermore, there is not much we can count on coming from the Ministry for Acceleration of Eastern Indonesia Development. This ministry's establishment was more based on political than development issues. Its name had been changed several times, following the changing of the government. The change of name has consequential changes in functions, tasks and responsibilities. Furthermore it makes it difficult to determine targets, how to achieve them, to evaluate and see follow-up in their program. Government formulated KAPET as another strategy to accelerate KTI development. Based on study of the literature and evidence in fieldwork, there are some weaknesses of KAPET concepts such as i) mismatching between criteria and selection of area; ii) creation of unhealthy competition. Furthermore, in implementation there are still obstacles such as i) existence of KAPET did not have any impact on developing infrastructure, human resources or investment growth; ii) KAPET management focus on collecting data and promotion activities, especially for travelling rather than focus on investment and region economic growth; iii) there is lack of cooperation between KAPET and local stakeholders, as indicated by comments from local stakeholders; iv) there is only cooperation between KAPET, but no regional partnership sponsored by KAPET; v) accountability of institutions involved is low, not only because of unclear KAPET tasks

and responsibilities but also as there is lack of communication and coordination between KAPET management and local stakeholders; vi) the role of KAPET is not effective, the existence of KAPET only has small effects on local economic activities.

There are other weaknesses of the regional development policy concept and obstacles in regional development implementation, especially for economic development where there is lack of cooperation between government and business. This lack of cooperation has the effect that economic development strategies and policies did not match with local needs and implementation of economic development is ineffective.

The discussion above showed that government policies are part of the problem. This conclusion is parallel with Dwivedi's (1999) comment that there is one newer approach 'debureaucration' in the 1990s, because bureaucracy is seen more as a problem than a solution.

Furthermore, interviews and secondary data showed that the causes of economic imbalance are systemic and span not only government policies contributing to imbalance directly and indirectly but also local conditions which contribute to imbalance between KBI and KTI. Lack of capable human resources is another of the contributing factors to imbalance between KBI and KTI. The majority of the KTI population possesses unsatisfactory levels of education and literacy. According to Table 4.9 almost 50 % of KTI's population only have an elementary school certificate, almost 10 % never having been to school. In East Kalimantan, that we know has a high GRDP, more than 40% of the population has had only elementary education or below, while in South Sulawesi performance, more than 60% its population have never gone beyond elementary school level. Not only is the education level of the population low, but also the quality of schoolteachers is low and school facilities are poor. Furthermore the quality of many graduates from schools and universities is low and mismatched with the management of the region's potential and job opportunities. Furthermore, KTI's government officers' education background is mainly senior high school or below. As we can see in Table 4.10, more than 70% of KTI government officers' highest education is senior high school or below, the percentage in East Kalimantan and South Sulawesi being similar, 68% and 70% respectively. There is some training that provide for government officer to increase their management performance and get a chance to get promotion. Unfortunately this

kind of training is not effective. Like many graduates from schools and universities who mismatch with job opportunities, as mentioned before, the government officer training is not suitable to individual positions, tasks, duties, responsibilities and organizational problems, because it is too general. Furthermore, not only is KTI dominated by a low literacy level of its population and incapable government officers, KTI local business human resources are low and weak. The characteristics of local business are dominated by close informal links with government officers, having a mentality for demanding contracts for government projects, merchants who are short term profit oriented, do not want to take risks and lack managerial skill. They always want to search for easiness, do not want to face risk, prefer to import and distribute instead of producing goods and depend on government projects heavily. These conditions produce local businesses that do not have the capability to compete with other businesses from outside, and have difficulty in creating job opportunities. Furthermore, its lack of entrepreneurship and industry vision and of managerial skill makes local business difficult to improve and to compete in markets. It was worse during the New Order, when industrialization was centralized in KBI, as well as the domestic and international market. As a result there were higher costs for shipping and handling because some raw materials needed to be brought from KTI. Indonesian products not only found it difficult to access the domestic market but also have low competitive power in the international market. Lack of domestic and international market access are among the other factors contributing to imbalance between KBI and KTI.

Lack of communication, coordination and cooperation create obstacles for government economic development programs and difficulties for the local economy to improve. Lack of communication will create miscommunication and without good coordination government development programs will not be effective, as many duties and targets are overlapping. Lack of coordination is not only between central and local governments and between offices in local government, but also among departments in central government. Local economic development policy is not clear, local economic policy needs synergy of all sectors. What happen is each department creates their own policies without good coordination, without synergy; as a result each department's effort cannot be maximized for local economic development. Lack of cooperation between

government and the private sector make the condition worse, for example business companies that put more stress on short-term profitability and infrastructure facilities choose to concentrate their investments in KBI.

Considering contributing factors, the economic development imbalance between KBI and KTI is understandable. Based on ALGA and the National Economic Reports' 2002 and 2003 discussion comparing development in Australia, America and Europe, the regions that are most successful economically also have high levels of social capital, high-level local participation in decision-making and high levels of diversity of people and ideas, high levels of education and high levels of information and technology. An analysis of the reports stated that:

- a. Areas with high levels of talent, technology and tolerance provide supportive environments for business and creativity, mobile professionals are attracted to places that provide a lifestyle conducive to free thinking and open communication;
- b. The message for governments, non-government sector (both business and volunteer organizations) is clear - conceptual diversity thrives in environments that are open to new ideas and that support open communication;
- c. Local government can provide a context for fostering a sense of geographical, face-to-face community, by providing opportunities for people to become “makers and shapers of their community, rather than being just users and choosers”⁹⁶ through participating in the design of space and place, rather than merely voting or using services;
- d. Social and business networks develop in these environments. As relationships are fostered over time, tolerance develops communication across diverse groups of people and trust develops. Usually higher levels of education lead to higher levels of social and economic capital, more democracy and trust.

Public Private Partnerships is one of the alternatives to fulfil these criteria for KTI. More discussion about the relevance of this approach to counter imbalance will be discussed in Chapter V, section 5.2.

⁹⁶ Gaventa & Valderrama, 1999 and Gaventa, 2001

CHAPTER FIVE

OPPORTUNITY FOR LOCAL STAKEHOLDERS TO IMPLEMENT AND DEVELOP PUBLIC PRIVATE PARTNERSHIPS

5.1. Introduction

Several factors determine the potential and opportunity for Public Private Partnerships to be developed and implemented to accelerate the economic development of KTI. These include:

- a) Conducive regulatory conditions⁹⁷;
- b) The potential of the region⁹⁸;
- c) The potential of local actors.

This thesis focuses on the potential of local actors and will discuss, present and analyse the themes that emerged from my interviews. These included willingness, mutual trust and confidence and other themes relating to whether local stakeholders have the opportunity and capability to develop or implement Public Private Partnerships. There

⁹⁷ There are some regulations that show that conducive environment are already exist for implementing and developed Public Private Partnership such as

1. Legal Framework & Regulatory Systems:
 - a. Law Number 7/1998: Government and Business Partnership on development and or management of Infrastructure
 - b. Government regulation number 44/1997 on Partnership
2. Macroeconomic Environment
 - a. Financial, Monetary & Banking Deregulation 1983, 1988 & 1989
 - b. Tax reform 1984
 - c. Trade & Investment Reform 1986 & 1987
 - d. Capital Market Reform 1988
 - e. Investment Reform PP 20/1994
3. Coordination System between Local and Central Government
 - a. Home Affair regulation 41/2001: Repressive Control on Local Policy
 - b. Law 25/2004 BAPPENAS: National Development Planning System

⁹⁸ See Appendix 4 “The Economic Potential of East Kalimantan and South Sulawesi”.

will also be a discussion of Law 22/1999 on Decentralization as one of the supporting factors for local actors to successfully implement Partnerships.

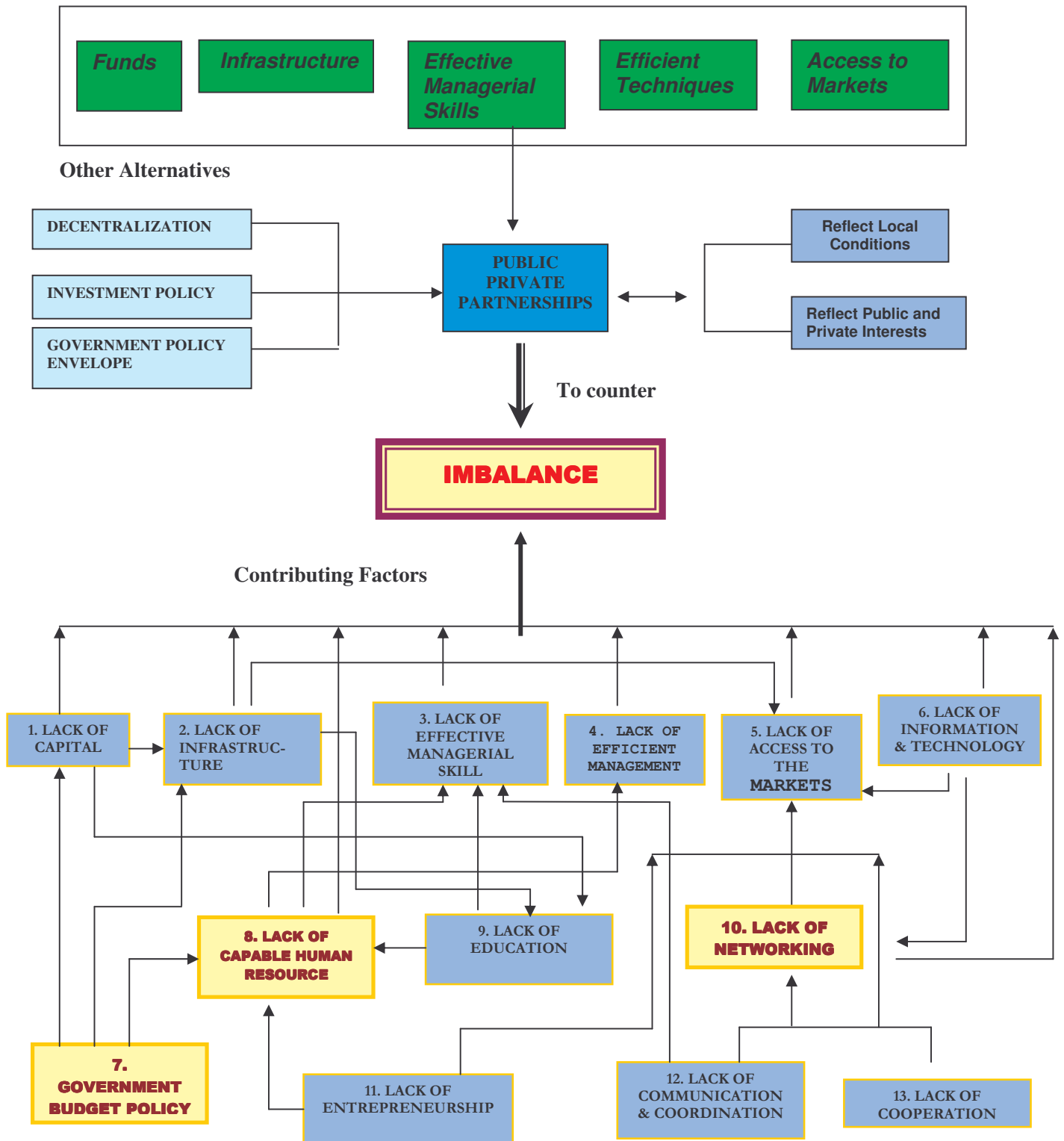
First, this chapter will discuss the relevance of implementing Public Private Partnerships in KTI.

Chapter IV presented a clear picture of the extent of the imbalance between KBI and KTI and of the factors that impact on and contribute to this. Based on content analysis of primary interview data and on secondary data, it argued that government policy has remained 'shackled' by the growth centre approach characterized by a growth bias, a centralistic approach, and a homogeneous policy with a sectoral focus. The previous government approach has been one of the factors contributing to the imbalance between KBI and KTI. Under the New Order, the government tended to focus on sectors rather than regions, and to allocate a bigger portion of its budget to KBI (especially Java). Not only the government budget, but also foreign and domestic investment remained principally in KBI. In reality, little economic growth occurred in other regions (KTI). As a result of this approach KBI has better facilities and better human resources. To accelerate the development process and enhance equity, the government should consider the regional and local needs, and encourage other stakeholders to get involved. In fact, as has been noted, general government strategies for regional development, such as Transmigration and Inpres, did not have much positive effect on regional development, especially for KTI. Government policies did not include comprehensive planning to develop local natural and human resources, and did not encourage private sector involvement. Inpres (Presidential Instruction) programs that were supposed to create more equality in regional development, in reality increased regional inequality. After Law 25/1999 becoming effective in early 2001, government changed the fund allocation system, but the national budget remains imbalanced (see Graph 4.6). In fact it seems the implementation of this Law has had similar consequences to the Inpres program. Instead of increasing equality, it increased regional inequality, especially budget imbalances between regions. For example, in 2004 East Kalimantan gained more than 1 trillion rupiah compared with the other three other provinces in Kalimantan that only received around 600 billion rupiah (BAPPENAS, 2004).

Although there are some current strategies especially formulated for accelerating KTI economic development such as the Policy and Strategy of the Eastern Indonesia Development Council and the Program of the Ministry for AEID, there is a lack of cooperation between government and the private sector, especially business. Moreover, the government strategies and policies did not match local needs and the implementation of economic development is ineffective. Furthermore, my interviews and secondary data showed that the causes of economic imbalance are systemic and span many years. Until 1993, government paid less attention to KTI economic development and demonstrated no apparent willingness to accelerate it.

In theory, some alternatives to counter the imbalance in development between KBI and KTI include: decentralisation policy, investment policy, government policy envelopes and Public Private Partnerships. Based on the literature review in Chapter II it appears that Public Private Partnerships offer some contributions that could be beneficial to KTI's economic development. These include funding, more efficient methods, more effective managerial skills, and improved access to markets and infrastructure. Considering these were factors contributing to imbalance, this study argues that Public Private Partnerships might be a useful alternative to counter the imbalance. The argument is summarised in diagrammatic form in Diagram 5.1.

Diagram 5.1: The Logic of Public Private Partnerships, as One of Alternatives to Counter Imbalance



5.2. The Relevance of Public Private Partnerships

5.2.1. Reflect Local Conditions and Public and Private Interests

As mentioned by Bennet and Krebs (1991:12) in their study on Public Private Partnerships in Britain and Germany:

Local actors do, however, have to take on new roles within the emerging economic context. No longer can they depend on national governments and national companies to assimilate the economic signals and transmit them downwards – to ‘manage’ local economies and business investment decisions and strategy. Instead, local actors now have directly to take a greater responsibility for responding to changed market stimuli. As a result, the key economic development activities that must be followed are ones of receiving information, organizing responses and developing flexible delivery frameworks. This requires a greater emphasis on ‘bottom up’ rather than ‘top down’ approaches to economic development.

The announcement of Laws Number 22 and 25 in February 1999 should provide momentum and a positive factor for implementing Public Private Partnership in KTI. The laws emphasize the ‘bottom up’ approach, both are representative of the effort to manage local development based on local conditions and also to develop local capability to respond and address issues locally, faster and accurately. Public and Private Partnerships could enable both sectors to support each other, jointly face challenges and changes and reach appropriate decisions that reflect local conditions and public and private interests. (This will be discussed further in Section 5.8.)

5.2.2. Capital/Funding

Even though in 1993 the Indonesian government formally recognised that KTI was being left behind, the government still faced financial difficulties in accelerating KTI development. Adding to that, since then many economic activities have stagnated because of the deterioration of the bank system. The Indonesian government has lost much funding in supporting the bank system since the economic collapse of 1997/1998.

Moreover, the Indonesian government has been under pressure on foreign loans⁹⁹, especially as a consequence of the IMF dictating their programs for Indonesian economic recovery. Reducing debt has meant tight fiscal constraint. As a result government has limited development funds. As mentioned in Chapter IV, for KTI the condition is worse because for years the government budget policy, as well as foreign and domestic investment, have been imbalanced and the government still tends to allocate more funds to KBI than KTI. 'In' 2000, Domestic Investment in KTI was only 24 % of the national total while Foreign Investment was only 12.2 %.

Budget limitations such as these are one of the main reasons why many countries have become involved in public private partnerships (Pearson and McBride 1996, World Bank cited in Juoro, et al, 1997). Inviting private companies to be involved in partnership may bring more capital into this region.

5.2.3. Infrastructure

Since the first Repelita, even though KTI has a bigger area, covering 62 % of Indonesia, government built 60-70% of roads in KBI (see Table 4. 11). In KTI, many places have poor infrastructure a problem exacerbated because some of the traditional community houses and markets are on the top of hills or in valleys, with many of these communities isolated from urban centres and not having modern electricity and telecommunication facilities. IBDC (2000) reported that by 1995, a capacity of 90.1 % of the national total was provided by power plants in KBI, while KTI was supplied with only 9.9%. Similarly, 88.5% of all telecommunication facilities were in KBI. The government tends not to pay serious attention to comprehensively solving this problem, increasing the difficulty to attracting needed investors, and improving the markets.

As mentioned in Chapter II, increasing infrastructure quality and facilities not only represent development process but also will improve the market, which is one of requirements for accelerating economic activities. Infrastructure is one of the most popular areas that many countries work together in Public Private Partnerships. The

⁹⁹ Based on the report of the Bagian Administrasi dan Analisis Pinjaman Luar Negeri Direktorat Luar Negeri, Bank Indonesia (Division of Foreign Loan Administration and Analysis Foreign Directorate, Indonesian Reserve Bank), until 31 March 2000: Total original loan commitment = US\$ 119,673 million; already drawn = \$ 98,078 million; principal repaid = \$ 23,042 million

private sector can help with their funds for the expensive facilities, and also has effective human and institutional resources for project design and development (World Bank, cited in Juoro, et al, 1997).

5.2.4. Effective Managerial Skill and Efficient Management

a. Effective Managerial Skill

Hodgetts (1986: 22) defined “Management (as) ... the process of getting things done through other people”. In more detail, Megginson et al (1989: 5) defined “Management as working with human, financial, and physical resources to determine, interpret and achieve organizational objectives by performing the functions of planning, organizing, staffing, leading and controlling”. The term ‘managerial skill’ used in this thesis covers the terms ‘conceptual skill’ and ‘administrative skill’ described by Megginson (et al, 1989: 40-44)¹⁰⁰:

The term conceptual skill refers to mental abilities needed to acquire, analyse, and interpret information received from various sources to make complex decisions.¹⁰¹ To implement complex decisions, managers use administrative skill that refers to the whole range of skills associated with planning, organizing, staffing and controlling. These skills include an administrator’s ability to follow policies and procedures, process paperwork in an orderly manner, and manage expenditures within the limits set by a budget.

In KTI, there are two main factors that contribute to the lack of managerial skill amongst local bureaucrats. These are poor educational background and the inefficiency in the public administration system. Table 4.10 showed that in the KTI administrative structure bureaucrats who have a university degree are still few and far between. Most, around 70%, have only finished high school, some have only finished elementary school. This reflects the situation in wider society in that almost 50 % KTI’s population above 10 years old only have elementary education, and almost 10 % have never gone to school (see Table 4.9). It can be argued that this situation has arisen because most communities

¹⁰⁰ A study of 2000 executives found that “superior managers” have 64 basic skills that can be grouped into: i) conceptual skills, ii) human relation skills, iii) administrative skills and iv) technical skills (Megginson et al, 1989: 39).

¹⁰¹ A survey of the “Fortune 500” companies tends to confirm the conclusion that these conceptual skills are used more by people in top management than in any other level of management in an organization (Megginson et al, 1989: 40-42).

spread throughout the Eastern Region are underdeveloped and traditional. Their main economic activity includes labour-intensive traditional agriculture.

According to Gerth and Mills (Hughes, 2003: 150-151):“The public sector has a system characterized by rigid hierarchy, and promotion by career and seniority”. Furthermore, Ingraham (Hughes, 2003: 152) mentioned that “public service systems generally create administrators not managers and implement rule and regulation against culture and managerial skill”.

In Indonesia, hierarchical structure and promotion based on career combined with a centralistic, top-down approach and limited educational background reinforce a low level of managerial skill among local bureaucrats. Furthermore, ineffective managerial skill has caused a high rate of failures in programs that should be implemented or attempt to develop their region.

Through Public Private Partnerships, government could have an opportunity to increase their knowledge and effectiveness by integrating managerial concepts and practice and improve their capability and capacity by learning from private experiences. As stated by Vecchio (et all, 1997: 73) “improvement would come through the integration of the scholarly and practical learning styles. When the process works well, participants finish their educational experience with new intellectual insights and an understanding of their own learning style. This understanding of learning strengths and weaknesses helps in application of what has been learned and provides a framework for continuing learning on the job. Daily experience becomes a focus for testing and exploring new ideas. Learning is no longer a special activity reserved for the classroom, but becomes an integral and explicit part of work itself.” According to Fukuyama (2004), through building capacity and introducing governance programs bureaucrats will learn new techniques¹⁰². Especially, as mentioned by Mascarenhas (Stanwick, 1999), “government will gain additional skills and competencies such as service excellence and commercial business skills.”

In KTI, not only government but also local business lacks managerial skill. Learning by doing is difficult. As a way of achieving this, encouraging national or

¹⁰² Governance is discussed further in Sections 5.5.5 and 6.2.

international business into such partnerships could help to overcome the skill shortage, in order to give action-learning experience to participants.

This approach has already worked in the form of Public Private Partnerships between government and private foreign companies. For example, partnerships between Pertamina and multinational companies have brought knowledge transfer, and although initially many expatriates worked for Pertamina, many of them have already been replaced by Indonesians¹⁰³.

b. Efficient Management

As a Bureaucratic-Authoritarian and State Corporatism, the Indonesian government was not only involved in policy making, but also did almost all of the development activities. This included doing business through BUMN (State-Owned Enterprises) and BUMD (Locally-Owned Enterprises). Inefficiency occurred due to monopolies on producing and delivering the services. Besides, as stated by Behn (Hughes, 2003: 34), the “word ‘bureaucracy’ today is more usually regarded as a synonym for inefficiency”.

Furthermore, the huge proportion of unskilled government officers with little to occupy their time triggered inefficiency in many government offices. Moreover, there was little incentive to improve efficiency in government. As stated by Caiden (Hughes, 2003: 181), there was ‘low productive work because of routine and not much difference in reward for good performance and poor performance’.

Also many local businesses tend to run their businesses inefficiently. The majority of these are contractors and merchants who focus on short-term profitability. They lack entrepreneurship and industry vision. Local businesses are uncreative and inefficient. For a variety of reasons, as discussed in Chapter IV, they prefer to make small profits instead

¹⁰³Interview Code J-10: point 8. Klingner (1993), based on data from The Kaltim Prima Coal (KPC), mentioned that under the terms of agreement KPC committed to the progressive Indonesianisation of the work force. The Indonesian Government required 100 % of unskilled labour, skilled labour and clerical workers to be Indonesian by 1999, with KPC actually fulfilling this requirement by 1992. For technical & supervisory staff, 85% were required by 1999, and the actual figure by 1992 was 81%. This performance contrasted with that for Management and Professional staff which also had a requirement for 85% but an achieved figure of only 22%. Similar to another Multinational company that operated in East Kalimantan, based on the figures for 1993, most, about 85%, of KPC labourers were migrants from other islands.

of greater profit because of the bigger risk. With these characteristics, the local economy is difficult to improve.

Many countries, for example, the United States, the United Kingdom, and Australia have been inspired to use Public Private Partnerships to get better services at a lower price. Public Private Partnership is one of the ways to improve the efficiency of the services and their financing (World Bank 1997, Partnership Victoria 2001). The key to efficiency in public service management is the separation of responsibility for provision from that of production of public services. The government should change its role as a leading actor in economic development to being a catalyst and facilitator and contract out some of its service delivery provided it is non-core.

5.2.5. Access to Domestic and International Markets

As discussed in Chapter IV, during the New Order, industrialization was centralized in KBI, as well as the domestic and international market. As a result there are higher costs for shipping and handling because some raw materials need to be brought from KTI. This condition makes Indonesian products have lower competitive power in international market, besides if KTI itself sells only raw materials this means it doesn't get the value added from processing. Furthermore, KTI local businesses tend to continue their previous approach, for example seldom thinking about business diversification, and managing their company using a compartmentalized management style. It is worse when local stakeholders cannot access the relevant information and do not have a market orientation. As a consequence, they cannot read market patterns or market demand and do not understand customers' needs and tastes or price trends. Hence, KTI products are less fashionable and less competitive in the market. For example, one of the reasons of Barru Regency Government seeking private partners is that their agricultural products such as potatoes and nuts are low quality and cannot access markets because they are less competitive (see 5.3.2).

Derived from Gibbons and Limoges (1994) and using Banathy's (1996, 2000) Maps of Ontology and Epistemology, in Table 5.1 McIntyre (2004: 56) compares approaches to thinking and practice based on closed and open approaches to governance.

We need to move from working only in the public or in the private sector. We need to be more accountable across sectors.

Table 5.1: Comparison of Open and Closed Approaches in Thinking and Practice

No.	Closed	Open
1.	Compartmentalization	Systemic, integrated thinking and practice that uses both qualitative and quantitative methods
2.	Short-term horizon profit and economic capital	Long-term horizon environmental and social sustainability and social and environmental capital
3.	Thinking in terms of the meanings of one culture or one interest group	Addressing multiple sets of meaning when undertaking development
4.	Either or thinking in narrow terms, i.e. specifically about social or political or environmental issues	'Both and' thinking in social and cultural and political and environmental terms
5.	Hierarchical structures for management, communication and program delivery	Web-like team approaches (matrices) that span sectors and disciplines in order to address issues
6.	Citizenship models stress individual and family responsibility	Citizenship models stress social and environmental responsibility
7.	Expert-driven by special, lists working within a single discipline	Community-driven by a range of stakeholders, interest groups and professionals representing multiple disciplines and sectors who contribute to research, problem solving, the development content and process
8.	Individual responsibility for problems	Social and environmental responsibility for problems
9.	Management stresses efficiency and outputs	Management stresses effectiveness and outcomes (the qualitative perceptions of the impact of a development intervention)

Public Private Partnership is an open approach that could give an opportunity for both working together and formulating what is appropriate within the market, what the trends are in the market, etc, how to maintain a domestic market and how to access the international market. In particular, it is important to encourage involvement of international business, which has experience in competitive markets. Moreover, partnership with international business will encourage local government and business to

understand the concept of competition, implement the concept in market and access the market. Bennet and Krebs (1991: 158) point out that:

'going it alone' in economic development was not an option likely to achieve success except in small-scale or very specific activities. At the local level the response to change in global economic development generally will require adaptation and learning. For each institution and actor to continue doing exactly what it has been doing is bound to lead to economic stasis, failure in competition with emergent firms and economies elsewhere, and steady degradation of relative productivity and economic growth. It is unlikely that successful development can occur unless each actor is fully informed about the new needs of the market-place, or the needs of other actors. This should act to stimulate each actor to respond in new ways.

5.3. Public Private Partnerships in the Study Location

The following forms of Public Private Partnerships are evident in the study location and are discussed in detail as examples from which an argument to support the value of Public Private Partnerships will be developed.

5.3.1. Central Government and Third Parties

According to article 33 of the 1945 Indonesian Constitution, all branches of production which are important to the state and which affect the life of many people are controlled by the state. Central government, through its state-owned enterprises, established partnerships with domestic and foreign companies in oil, gas, mining and the quarrying industry. Therefore, Pertamina¹⁰⁴ is one of the state-owned enterprises that

¹⁰⁴ In 1968, to consolidate the oil and gas industry for its management, exploration, marketing and distribution, PERMINA (Apprentice Technical School in Brandan) and PERTAMIN (Oil Academy in Bandung) merged and became PN PERTAMINA. Pertamina has been legally transformed to be PT PERTAMINA (PERSERO) since September 17, 2003 by the enactment of Government Regulation No.31/2003. Pertamina is now under the coordination of the State Minister of State-owned Enterprises. Like other contractors, as a business player Pertamina also holds a Cooperation Contract to Oil and Gas Regulatory Body. Due to the transformation to be a Limited Liability Company, Pertamina became a pure business entity which is more profit-oriented (Pertamina Portal, <http://www.pertamina.com/englishversion/companyprofile/history.html>)

control and managed oil and natural gas industries. Many of these are in East Kalimantan, which has long been recognised as a region that attracted foreign investors because of its natural resources. Public Private Partnerships across national level government and international private companies were established in East Kalimantan a long ago, especially in the oil industry, which produces one of the main products of East Kalimantan. Some forms of partnerships across Pertamina and the private sector are:

a. Contract of Work (Perjanjian Karya) replacing the Concession System.

The Contract of Work became valid after being enacted as law. This form of contract of work was applied only up to 1963. In the following years the Production Sharing Contract was used. However the Contract of Work that had been signed at that time continued to be applied until it ended in November 1993.

b. Production Sharing Contract (PSC).

This is a form of partnerships between Pertamina and the Private Sector Company in the framework of oil and gas exploration and exploitation. In its development and implementation, the modifications were made as the result of the national and international oil industry situation. Because of modifications, the principles of PSC now are grouped into:

- First Generation Production Sharing Contract (1964 –1977)
- Second Generation Sharing Contract (1978 – 1987)
- Third Generation Sharing Contract (1998 – now)
- Incentive Package of 23 September 1988 (Minister of Mines and Energy letter No. 3985/139/M.DJM/88)
- Incentive Package of 23 February 1989 (Minister of Mines and Energy letter No. 0857/39/M.DJM/89)
- Incentive Package of 31 August 1992 (Minister of Mines and Energy letter No. 3052/39/M.DJM/92)
- Incentive Package of 1 January 1994 (Minister of Mines and Energy letter No. 01/39/M.DJM/94)

c. Technical Assistance Contract

This is a form of partnership between Pertamina and the private sector in the framework of rehabilitation of abandoned oil wells or oilfields in Pertamina Mining Authorization Areas (WKP).

d. Enhanced Oil Recovery (EOR) Contract

A form of partnership between Pertamina and the private sector in the framework of increasing production from oil wells or fields that are still operated by Pertamina but have suffered production decreases, by using high technology such as secondary and tertiary recovery.

e. Joint Operation Contract (JOC)

A form of partnership between Pertamina and private sector for geothermal exploration and exploitation for electricity generation.

These examples showed that Indonesian central government has been familiar with Public Private Partnerships for a long time. The forms of Partnerships and agreements are changing over time as they follow both parties' interests. The oil industry in East Kalimantan brings high capital, high technology and international market experience. Moreover, as mentioned by the General Manager of the Pertamina Tanker Fleet previously, partnerships brings knowledge transfer and many expatriates in Pertamina now have been replaced by Indonesians.

Local stakeholders were previously not involved in this kind of partnership. As a result, Pertamina has benefited but there was no direct impact on the local economy. East Kalimantan is one of the producing locations, although the actors involve only central government representatives and Multinational Companies (MNCs). For example, oil industry royalties are negotiated between the central government (Department of Energy and Mineral Resources) and the MNCs. Furthermore, some of the production is sent to MNCs's countries with the remainder for domestic use. It is controlled by Pertamina and sent by their Tanker Fleet directly to wherever central government sells it .

Before Laws 22 and 25/1999, as producing locations the region did not get a share of the royalties from the oil and gas industry. One hundred percent of the Oil and Natural Gas royalty as well as Personal Income Tax, Tax on Fisheries Operations and Tax on

Fisheries Output went to central government. After Law 25/1999, under Law 17/2000 and Government Regulation 104/2000, regions which are rich in natural resources get direct concessions under certain criteria from the central government, as can be seen in Table 5.2:

Table 5.2: Share of Royalties After Law No. 22/1999 and No. 25/1999

No	Revenue	Percentage of Share			
		Central Government	Provinces	Regencies/Municipalities	Other Regency/Municipalities
1	Property Tax	20%	16%	64%	-
2	Property Title Transfer Tax	20%	16%	64%	-
3	Levy on Forestry Right to Operate	20%	16%	64%	-
4	Commission on Forestry Resources	20%	16%	32%	32%
5	Land Rent on Mining Sector	20%	16%	64%	-
6	Royalties from Mining Sector	20%	16%	32%	32%
7	Personal Income Tax	80%	8%	12%	-
8	Tax on Fisheries Operation	20%	-	-	80%
9	Tax on Fisheries Output	20%	-	-	80%
10	Oil	85%	3%	6%	6%
11	Natural Gas	70%	6%	12%	12%

Source: Government Regulation 104/2000 and Law No 17/2000

5.3.2. Local Government and Third Parties

Based on information obtained during my interviews, some functional models of Public Private Partnerships have lately been implemented between local government and third parties. The following are examples of Public Private Partnerships in Barru Regency in South Sulawesi and Kutai Kertanegara Regency in East Kalimantan. As mentioned before, the main reason to choose these examples is to fulfil the purpose of this thesis to investigate how to develop existing Public Private Partnerships and how to implement institutional models for Public Private Partnership that have not been established yet. For example, from Barru Regency's experience, we can learn the usefulness of networking to

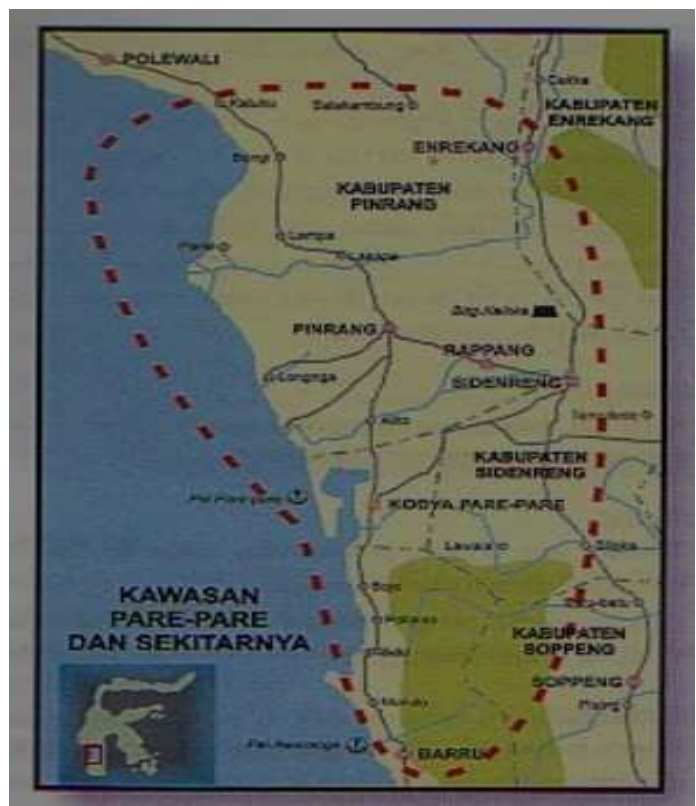
establish Public Private Partnerships; formal channels need to proceed by an informal channel.

5.3.2.1. Barru Regency and Third Parties.

45% of Barru Regency's topography is sloping, 27% is flat and 28% steep. The main uses of Barru are forest with around 57%, rice field 9% and plain field 14%; the rest is used for residential areas etc. Barru Regency's economic structure is dominated by agriculture, which produces more than 48 % of GRDP, but the capacity of this agriculture is poor, for example, only 15 % of the rice fields are equipped with mechanical irrigation. The Deputy Head of the regency mentioned that poor technical capacity, human resources and capital resources have triggered a decision by local government to focus on agribusiness commodities other than rice such as peanuts and potatoes.

Two Memoranda of Understandings (MOU) were signed by Barru Regency during 2000 – 2001. The first was with a foreign company from Western Australia, Manjimup Horticultural Advisory Group Inc. The company will help to improve potato production, quality of land and other agriculture projects in this regency. The company will support and train farmers to produce potatoes on 1000 ha. Lately, experts from Manjimup came to Barru Regency to look at and evaluate a pilot project sample of potato cultivation.

MAP 5.1.: Study Location in South Sulawesi
Barru, Pinrang, Sindarp, Enrekang Regency and Parepare Municipality



Source: BKTRN (1999: 71)



Picture 5.1.: Expert from Manjimup Company accompanied by Head and staff members of the Agriculture and Plantation Office of Barru Regency evaluating and perceiving pilot project sample of cultivation of potato, at Harapan village, Taneteraja district, Barru Regency

The second MOU is with China State Farms Yunnan Import & Export Co. Ltd. The company will help Barru Regency to increase peanut production quality and 3000 Ha of land reclamation.

Barru decision makers search for partners actively, by offering cooperation such as financial cooperation and share of income to prospective partners. The process is that they ask ‘native sons’ (people originally from the area) in other regions, in central government even in overseas who have channels to give information and make an offer private companies to cooperate with the Barru Regency. If there is a positive response it is followed up by the Head of Barru Regency or representatives who approach prospective partners to negotiate and try to get the deal.¹⁰⁵

The Deputy Head of Regency informed me that there is a prospective partnership with another foreign company from Belgium. The investor is Chinese and is a friend of one of their native sons who studied together a long time ago in Makassar. The investor

¹⁰⁵ Interview Code SS-34: 36

moved to Belgium 30 years ago, established a company and achieved success. Through the native son, the local government informed the potential investor that their region needs his help to establish the same business in Barru. He came to discuss the matter. The region's problem is that their chicken egg, prawn and fish production has decreased because of the increased livestock food price. Barru Regency depends on an external supply of livestock food and the hope was that the investor would set up a local livestock factory. In a meeting, the investor asked local government to provide supporting data, which it did after the meeting such as collecting data and sending it to him by fax and preparing for other investor requirements. This process saved money compared with promotion (seeking partners through expos) because it reduced travelling cost and delays caused by inexperienced local negotiators. Furthermore, the local government contacted other local governments from other provinces and informed them that there would be a livestock food processing factory in Barru Regency. Other regions responded positively and supported the idea. Other regions informed him that their farmers faced the same problems, their productions are successful but cannot access markets, because of uncompetitiveness due to expensive livestock food they had no market. Following this initial success, Barru Regency was ready to establish another Public Private Partnership.

5.3.2.2. Kutai Kertanegara Regency, Communities and NGOs

Kutai Regency, well known as a region that is rich with natural resources, is also known as one of the oldest kingdoms in Indonesia. Most of the regional topography is undulating wavy and hilly with steep and non-steep angles, but there are some steeper slopes in several parts, in coastal regions and in most of the Mahakam River flow area. The middle and borders in general are mountainous with altitudes of 500-2000 m above sea level. The topographical conditions could be an obstacle for economic activities. For example, cassava harvests in Kotabangun, East Kalimantan ended up as garbage because markets were 23 km away, along a muddy clay road. Although production increased it cannot be marketed and cannot access markets.¹⁰⁶ Kutai Kertanegara Regency's land area is 27,263.10 with $\pm 4.097 \text{ Km}^2$ of rivers and lakes within all the districts in this regency.

Most of the land in this region still has thick forests, with an area of 1,034,850 Ha. 192,058 Ha is used for agricultural land, as rice fields, crop estates or dry agriculture land; the remaining areas are used for housing and industry. Much of the land remains underdeveloped, and could be used to support sustainable food crops. However, with the large area of forests, local government has to consider forest sustainability, hence, this

MAP 5.2: Study Location in East Kalimantan
Kutai Kertanegara Regency, Samarinda and Balikpapan Municipality.



Source: BKTRN (1999: 52)

¹⁰⁶ For more detail see 4.8.4.

becomes a part of an integrated effort for sustainable development.¹⁰⁷ The previous forest policy that focused on exploitation of forest for increasing national income and state devisa (foreign exchange) and the existence of illegal logging practices caused deforestation. To enhance forest sustainability, besides for the elimination of illegal logging, local government needs to manage the forested areas based on their allocated functions such as hutan lindung (protected forest), hutan produksi (production forest) and hutan konservasi (conservation forest) and on local stakeholders' potentials and interests. The main source of income for people in this region is mostly in the agricultural sector (52%), with the trade and service sector providing 25%, the industry and mining sector 15%, and the other sectors making up 8%.¹⁰⁸

After the announcement of Laws 22 and 25 in 1999, the Kutai Kartanegara Regency APBD (Local Annual Budget) was one of the largest in Indonesia. Kutai Kertanegara will not have difficulty funding its economic development. For example, in 2002, most of Kutai Kertanegara's Annual Budget came from balancing funds, 94% of the total of Rp. 1.693.031.012.000. The Regency's Balancing Funds for 2002 were Rp. 1.597.918.740.362 (see Table 5.3):

¹⁰⁷ Kabupaten Kutai Kartanegara dalam Angka 2000 (Kutai Kartanegara in Figures 2000), BAPPEDA and BPS Kab. Kutai Kartanegara, 2001

¹⁰⁸ Pemerintah Kabupaten Kutai Kertanegara 2001 (The Government of Kuti Kertanegara Regency 2001), p. 3.

TABLE 5.3: Budget 2002 of Kutai Kertanegara Regency

No	Description	Rupiah
1	<i>Residue from previous year</i>	77,587,562,237
2	<i>Regional Origin Income</i>	14,528,500,000
	1. Regional Tax	4,503,000,000
	2. Regional <u>Levies</u>	3,225,000,000
	3. Regional Business Profit Portion	6,000,000,000
	4. Other legal Regional Income	800,500,000
3	<i>Balancing Funds Portion</i>	1,597,918,740,362
	1. Tax Sharing	50,800,000,000
	2. Non Tax Sharing <u>Natural Resources</u>	1,229,054,000,000
	3. General Allocation Funds	297,810,000,000
	4. Special Allocation Funds	20,254,740,362
	5. Emergency Funds	0
4	<i>Regional Loan Portion</i>	0
	1. Domestic Loans	0
	2. Foreign Loans	0
5	<i>Other Legal Income</i>	2,996,209,401
	1. Income from government	0
	2. Income from Province	2,996,209,401
	3. Income from other Regencies	0
	4. Other Income	0
	Total	1.693.031.012.000

Source: Pemerintah Kabupaten Kutai Kertanegara, 2002

Even though now Kutai Kertanegara Regency holds a big budget, its local government considers that there is economic imbalance in its region. For example, 52% of its population work in agriculture but the income from this contributes only 10%, whereas only 5.9% population work in mining but this contributes 80%.¹⁰⁹ In 2001, the Kutai Kertanegara government, through a program called “Gerbang Dayaku” (Gateway of My Capacity), provided Rp 1 billion funding to every village. This fund was allocated for human resources development (30%), peer development (30%), and infrastructure development (40%). In 2002 the Regency government doubled the fund to Rp. 2 billion

¹⁰⁹ Perspective and Development Strategy Kutai Kertanegara Regency through Gerbang Dayaku, 2001

per village. The program gives the grant to the village small entrepreneur, as much as Rp. 500 million for the village in the form of credit without interest.

Furthermore, government also gives authority to the District and Village to manage the small-scale projects. As an example, activities or projects valued at less than Rp. 100 million shall be managed by the village, while project valued at up to Rp. 200 million shall be managed by the District. Such projects also involved an NGO, as a partner and controller of the project's implementation.

Based on the monitoring of projects (implemented from 2001), "the principle of self-management, executing the program or activities from and by the people has been operating. There is an expansion of the business environment for small and medium businesses, with more funds available. There are also some problems needing to be considered. For example, it was reported that village infrastructure projects that should have been tendered were executed by appointing with no transparency. There was evidence that small and medium businesses gave bribes to the Head of the Sub-District to get the project. Furthermore, the main focus of this program is private sector interest. But in implementation such projects are difficult to control. The role of the NGO in expanding the involvement of the local private sector in development is ineffective. For example, in some cases, NGO involvement did not guarantee good performance, and there were some projects, controlled by the NGO, were not completed. Another problem found was that the value of the grant was too big for several villages because there were insufficient human resources in some villages. Moreover, in some villages there was an interesting statement from people that whether or not there is a government does not matter for the village inhabitants who were neglected by the government".¹¹⁰

This is one example, which showed that government needs to be more involved as well as community and NGOs to implement government projects effectively. Local government not only needs to give finance but also needs to involve itself and evaluate the project's performance.

Furthermore, Kutai Kertanegara's human resource development is hindered by educational factors. Based on information from the Head of the Population Centre of

¹¹⁰ BAPPENAS and PT Multi Area Conindo (2001)

Mulawarman University¹¹¹, although there are available teachers to staff all schools sometimes these do not wish to live in remote region/hinterland areas. School buildings exist in some of these remote areas, but in poor physical condition because people to manage them are scarce. Besides, poor infrastructure in the isolated area trigger misuse of maintenance fund without control. For coastal areas there are fewer problems because there are adequate teachers and school buildings, but for the remote area they are insufficient. Furthermore, the Mahakam River is an artery way for local transportation. This situation makes many people's housing concentrate on the edges of the river and its branches (see picture 5.2).



Picture 5.2.: An Example of Kutai Kertanegara Resident Resettlement Along the Mahakam River¹¹²

Regions far from the Mahakam River edges do not have land roads access; hence the population is relatively lower. Local government has a free school bus for students, but this has no benefit for people that live in villages in isolated area because there is no road for this free school bus. Kutai Kertanegara that has a land area of 27,263 Km² has only 1,503 Km² of road.

¹¹¹ Interview Code KT-9: 20, using his words, the condition of some school buildings in the hinterland is worse than a sheep cage with leaking walls.

¹¹² In their Perspective and Development Strategy 2001, Local Development Planning Board put this picture in discussion of regional economic imbalance, to illustrate the poor population condition.

Based on Magenda's study (1991:1), not only has the focus of settlement been riverine, but also the major towns and large settlements of East Kalimantan were established at the mouths of rivers. Rivers have provided the main, and sometimes only, line of communication between various towns and human settlements.¹¹³ When I did my last fieldwork at the end of 2002, there were some new roads developed and built, but rivers remained dominant as lines of communication and community access between places.

Although there are also some seminars being held to discuss problems of education in the hinterland, few improvements have been made. Another policy in education, which is supposed to be one of educational problem-solving, was considered unfair. There are scholarships for all students at Kutai Kartanegara University as much as Rp. 400,000 each per semester. However, there are not any criteria for standards in granting the scholarship. All students are given the same amount of scholarship without considering their achievement or their relative economic conditions.¹¹⁴ I think government tends to choose a short cut to allocate its fund, it is easier for government to distribute grants without criteria. Government needs to give attention to increasing the quantity and quality of community education. As mentioned in Chapter IV, in general the quality of many graduates from schools and universities is low and mismatched with the management of regional potential and job opportunities. Having qualified graduates involved is one of several conditions required for successful implementation of Public Private Partnerships (see 5.6)

Many people in Kutai Kertanegara are enthusiastic about Public Private Partnerships but they do not understand the scheme. For example, there were discussions about creating regulations for a bridge toll between local government, university, local parliament and community. Local stakeholders conducted a seminar to discuss the possibility of implementation of a toll system as in Jakarta, for Mahakam Bridge. This case is a good example of misunderstanding about the role of 'private sector' in partnerships and that the concept of 'private sector' must be profitable.

¹¹³ A senior general practitioner told me the story that when the government sent him to the hinterland to help isolated people, he spent 3 days without taking bath in a small traditional boat, and the community paid him with fruits and vegetables such as coconut, bananas etc. (Pers. comm. October 7, 2002)

¹¹⁴ BAPPENAS and PT Multi Area Conindo, 2001

According to the Head of Kutai Kertanegara BAPPEDA (Development Planning Board) who was formerly project manager of the bridge project, there is no chance for commercialisation of the bridge. The prestigious bridge is already built and funded fully by government and people use it as the only access as there is no alternative road. He said that: {Footnote marker moved to end of quote }

About this, I now speak as a person, not as head of BAPPEDA. Firstly, according to Law no.13 any kind of form, is it contribution, is it levy or obliged or charity, if we take money that is toll. Secondly, a toll road is an alternative road; our bridge is not an alternative, but the only one, no other way. A toll fee can only be charged if there is an alternative route, this is law, contributions from the bridge toll is not appropriate because it disagrees with the law. If we force to implement it that opposes and is against the law. My specialization is in road, bridge and transportation, so we calculated the bridge economic analyses. We calculated 20 years for its economic value, we earn net benefit 20 billion during 20 years. Rp. 20 billion earning from reduction of travelled distance from Samarinda to this place more or less from 50 km to become 20 km. Reduction of vehicle operating expenses, reduction of time expense etc, can be Rp. 20 billion. The ratio also more or less depends on its interest 1.2 until 1.8 because its IRR is 1.6 etc. The benefit all returns to people, if we put toll on it that means we take people money.¹¹⁵

He told me that he already had presented his argument¹¹⁶, but nobody cares and still continue to discuss the idea. The argument is not about shifting the management of bridge but according to the law a toll road has to be an alternative road, so if the road is the main and the only one for access, nobody is allowed take the fee.

5.4. The willingness to Form Public Private Partnerships

Following Alter and Hage's (1993: 39) argument that "the first and most basic condition that must exist for interorganizational collaboration is the willingness to

¹¹⁵ Interview code: KT-13: 29

¹¹⁶ He also discussed this matter with two of the local parliament members.

collaborate”, this section will present findings based on interviews showing in the willingness of decision makers and business players toward Public Private Partnership. This willingness offers more than economic potential.

Factors that increase the willingness of stakeholders were: awareness problem solving advantage; awareness of private sector role, especially business as a key player in economic activities, long-run benefit orientation; political instability; economic crises experience and the geographical location and the attitudes towards the private sector.

Furthermore, Walgito (1983) stressed that how the individual responds to the external world is selective, relating to each individual's perceptions and methods that could be used by the individual in response to a given objective. By asking the questions in interviews, it would help to elicit the perception of local stakeholders toward Public Private Partnerships. Furthermore, based on this perception this study can discover the attitude of local stakeholders to Public Private Partnerships, if there is any willingness among local stakeholders to implement and develop Public Private Partnerships in their regions.

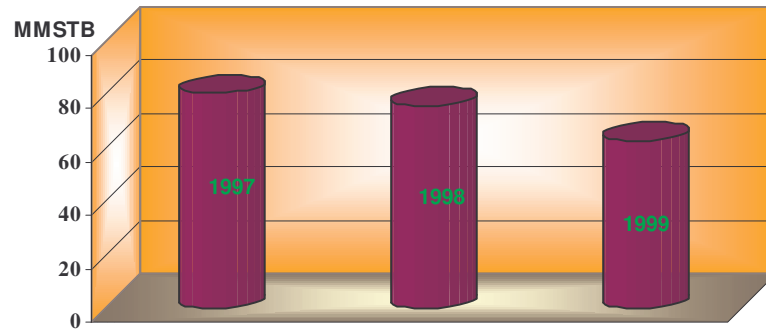
The interviews were conducted with local stakeholders and they show that there is a positive and strong response for Public Private Partnerships. Local government understands that they cannot count on unrenewable natural resource forever. Even the head of the prosperous Kutai Kertanegara Regency who is also Chairman of the Indonesian Regency Heads' Association, said that local government needs partnership with private sectors, as government cannot do everything. Natural resources are the main revenue for the region, but these will not last forever. In next ten or twenty years there might be no oil and gas anymore¹¹⁷. Local government understands that they cannot count on non-renewable natural resources forever¹¹⁸. This opinion is supported by the information from On Fleet General Manager of Pertamina who said that even now it is difficult to explore and exploit oil. The Pertamina Fleet not only transports oil for domestic use and for export to other countries, but also carries oil that is imported from

¹¹⁷ Interview Code KT-12: 33. Lately (July 2005) world oil price has increased shaply, between \$ 50 - \$ 60 per barrel. It is not need to wait decades for Indonesia faces the difficulty. The Indonesian President declared Presidential Decree No. 10/2005 considering to Energy Efficiency, because 30% of Indonesian oil consumption is import.

¹¹⁸ Interview Code KT-14: 16

the Middle East to Indonesia¹¹⁹. During 1994 to 1999 oil gas production in East Kalimantan decreased from 80,128 MMSTB to 64,377 MMSTB, as shown in table Graph 5.1.¹²⁰:

Graph 5.1 : East Kalimantan Oil Production, 1997-1999



Source : Energy and Mineral Resources Office Province of East Kalimantan (in Bappeda Kalimantan Timur, 2001

Not only has oil production decreased but also other problems have emerged. Because of these problems, the company prefers offshore over onshore exploration. In the reform era, community claims for compensation and complaints about environment pollution have increased. Offshore production is considered safer because the location is far from the community, according to the Vice President of Unocal¹²¹. After the start of reform, there was some activism and other problems in the oil and gas industry in East Kalimantan which need to be considered by government and managed wisely to decrease their effect on existing Public Private Partnerships and the willingness of existing partner and prospective partners to establish new Public Private Partnerships. The activism and problems include:¹²²

¹¹⁹ Interview Code J-10: point

¹²⁰ BAPPEDA, Propinsi Kalimantan Timur, 2001

¹²¹ Interview Code J-3: point 9

¹²² Office of Energy and Mineral Resource, East Kalimantan, in Badan Perencana Pembangunan Daerah (Regional Development Planning Body) (BAPPEDA) Propinsi Kalimantan Timur, 2001

a. Environmental Pollution

The communities around the mining locations demand compensations from pollution from the oil and gas companies such as: i) Unocal Indonesia in Marang Kayu, Tanjung Santan and ii) Vico Indonesia about seismic activity in Muara Pantuan.

b. Land Claims

In some areas such as that of: i) Vico Indonesia in Muara Badak, people blocked the road to Nilam Facility Location so that the work was hindered. Community dissatisfaction with government and company existed because the company got the land legally through a government committee in 1982, ii) Total Indonesia in Handil-Muara Badak and Anggana, people claimed the land used for the mining pipelines from Muara Badak to Muara Jawa, even though the land had been bought in 1982 by the company. The claim triggered delays in the piping work, which cost around US\$ 600,000.

3. Worker's Strikes

For example, at Vico Indonesia, where some workers from sub-contractors who were members of the SBSI (Serikat Buruh Seluruh Indonesia/Indonesia Labour Union) struck to demand a rise in their wages which was considered too low compared to those of Vico's full-time employees.

d. Pipe Lines

For example, the case of PT Ekspan Nusantara in S. Dondang Muara Jawa, Kutai Regency. The community and local businessmen protested regarding the finding out that the pipelines were to cross the Dondang River.

e. Looting/Stealing of old metal in mining locations

For example, there are some reports from mining companies that people in the local community looted old metal and oil pipes, which were functioning at the oil and gas exploration location of PT Ekspan Nusantara in S. Dondang Muara Jawa. Kutai Regency.

f. The Mining Industry Inspector

There is no PIT (Mining Industry Inspector) in the regions so that any cases have to be resolved and wait for a decision from the central PIT; also there are Inadequate Human Resources for Mining Industry Inspector.

Similar conflicts with local communities are faced by Mining and Forestry activities. In mining, for example, some companies cannot operate because the community took over the mines. For example, there is exploitation in the location of PT Lana Harita by the local community and KUD (Village Cooperative Unit) Kewarta, including the use of mechanical tools. In my opinion this may have happened because much of the land taken-over by the previous government for transmigrations, plantations, mining, etc. had been without appropriate procedures. In the post-1998 reform era, communities consider that they now have more power so have claimed for compensation for their heritage lands or they took back the land by force.

Central government cooperates with the Samarinda Municipality to solve the problem by proposing a partnership concept, between PT Lana Harita and KUD Kuwerta¹²³. Even though for months the company could not operate the General Manager of PT Lana Harita as a representative from its central office in Thailand was still optimistic due to the massive mining reserves in East Kalimantan.¹²⁴

At the local level, not only did stakeholders assert to me a willingness towards Public Private Partnerships but also they showed local initiatives. For example, the Secretary of Pinrang Regency in South Sulawesi thought there was a good chance for this Regency to enter a partnership with East Kalimantan. Pinrang has an over-production of rice whereas East Kalimantan has fertilizer and an exchange could be arranged.¹²⁵ A similar idea came from the Head of the Program Planning Division of the Investment and Promotion Board, East Kalimantan Province. He said that Medan and East Kalimantan needed to establish partnerships in which Medan prepares seed and East Kalimantan prepares land.¹²⁶

¹²³ The Deputy Head of Samarinda Municipality told me that central government and local government share in this company. A company document mentions that the Indonesian government's royalty is 13.5%.

¹²⁴ Personal communication, October 11, 2002.

¹²⁵ Interview Code SS-15: 12

¹²⁶ Interview Code KT-7: 22

These two comments show that not only is local government willing but also realizes that partnerships could be develop among government bodies and state enterprises to maximize local outcomes. Moreover, as the Deputy Mayor of Samarinda Municipality said, there is a possibility government does not recognize opportunities, which may be obvious to business.¹²⁷ For example, the Acting Chairman of the East Kalimantan Chamber of Commerce and Industry spoke of the irony in the panic when the Malaysian government deported illegal Indonesian workers to East Kalimantan. East Kalimantan has a similar geography to Malaysia and because of the deportation now it also has plenty of palm oil workers who have gained experience in Malaysia. According to local business people this presents an opportunity for government and private companies to develop the oil palm business in East Kalimantan. In their opinion what was needed was government and businessmen to manage the problem together, with government needing to provide around 6000 hectares area of palm oil farm for private companies that employ all of the illegal people who were deported from Malaysia – although in fact, this plan is not possible¹²⁸.

Interviews conducted with central government decision-makers indicated support for Public Private Partnerships, especially for KTI development. This was stated by the General Secretary of the Eastern Indonesia Development Council (EIDC):

EIDC has just finished the formulation of its strategic policy 2010. Now I try to develop a Business Plan such as how to encourage and manage all of stakeholders, government, businessmen and working relationships for KTI's development. So, for example, businesses said they will invest if government provides the port, everybody signs the agreement. Based on good coordination between central and local government, a private company build the port as a government project. For decades, government just threw money around, project performance based on 100 % loan or grant reimbursement not based

¹²⁷ Interview Code KT-16: 2

¹²⁸ Interview Code: KT-11: 32. This idea is supported by the Acting Chairman of South Sulawesi Chamber (Interview Code: SS-6: 20). In fact this idea cannot be implemented because almost all of the illegal man power ('pendatang haram' (illegal arrivals) as they were called by the Malaysian government) chose to get legal documents and go back to to Malaysia, ignoring the alternatives offered by the Indonesian government such as a transmigration program. More recently (November, 2004) one of the government's programs is to cooperate with the Malaysian government to bring illegal immigrants back to Indonesia and to prepare legal documents for people who want to return to Malaysia.

on output, even less outcomes, it is far away. Private companies need to be involved in government projects because their research is commercially-based.¹²⁹

State Minister for the Acceleration of Development of Eastern Indonesia similarly commented as follows:

KTI as isolated islands have different characteristics compared with KBI, especially in geography. As a consequence, it is natural if KTI has faced infrastructure problems. For long time government have not realized this fact, and government policy tends to continue Dutch policy that focussed development on KBI. Government always see development based on short-term cost-benefits. Historically, KBI had better facilities and had plenty of human resources; as a result based on cost-benefit analysis KBI is more efficient for investment. The Action Plan for acceleration of KTI is to change the opinion. Develop infrastructure not based on cost-benefit for the short-term but to think of infrastructure as investment. We need to search for alternative funds for infrastructure because APBN (National Budget) and APBD (Local Budget) cannot cover it. Now it depends on the heads of regencies and the heads of municipalities, they need to be creative to find alternative sources from private funds. Government funds cannot cover it anymore, we need Public Private Partnerships, there are some models of partnership such as BOT, BOOT etc. And I think Public Private Partnership is very relevant for KTI's issues.¹³⁰

Even though the reasons for establishing Partnerships are different in these two quotations, both agree that this kind of approach could be appropriate for acceleration of KTI's development. Another factor that supports the willingness toward Public Private Partnership is its long term benefits, as mentioned by a manager from PT Philips Sea Food Indonesia:

In Bali there is partnership with local government. We always come to government to establish partnerships because we do not want to do short-term

¹²⁹ Interview Code J-4: point 2

¹³⁰ Interview Code J-1: point 1 and 2

business and momentary profits. We pay attention to the continuity of our Rajungan crab, for example, we never catch Rajungan crab below standard measurement, let crabs grow before they are caught. In Singaraja (the Bali Government) has land, we rent what has been allocated and approved by the President. We do not exploit marine products in an unsustainable manner.¹³¹

However, different opinions exist. One example was from an advisor to the Minister for National Development Planning. He has influence in government policy and showed his antipathy to big private companies. He thinks that the source of the Indonesian financial crisis and difficult recovery is big national private companies. He said that irresponsible businessmen not only dominate business in Indonesia, but also misuse BLBI fund (reserve funds from Bank Indonesia). Again, corruption is a disincentive for many. He argues they have destroyed the bank system as whole and he described them as “Pengusaha Hitam” (Black Businessmen). He strongly rejects the idea of Public Private Partnerships, instead meaning to encourage relationships between Government and “Pengusaha Putih” (White/Clean Businessmen), “Koperasi” (Cooperative economic enterprises), and “economy rakyat” (social economy).¹³² However, it is possible his objection is not against the idea of Public Private Partnerships but the corruption that involved public and private sectors and became a disincentive for many (see 5.5.5 about corruption).

Another interviewee argued that partnerships already exist. He is an executive director/owner, a businessman for decades in the Parepare regency, who has had involvement with various Indonesian governments such as the Old (Sukarno’s) Order, the New (Soerharto’s) Order and the Reform (Current) Order. He has found that government always supports business, and they have good relationships¹³³. His business is in various fields, since early 1990 focussing on shipping and handling, land and sea transport.

Many of the private representatives at local and national level mentioned that it is time for government to encourage the private sectors in economic development,

¹³¹ Interview Code SS-27: 46

¹³² Interview Code: J-2: point 1-4. The term Pengusaha Hitam or Black Businessman was used for the first time by the Minister for National Development Planning when he pointed to businessman who do business without honesty and integrity, whereas Pengusaha Putih is an honest businessman.

¹³³ Personal Communication, September 30, 2002. What he means by working together is in term of “Kerjasama” instead of term “Kemitraan”. In this study we can translate the term “Kerjasama” as “cooperative relationship” and “Kemitraan” as “Public Private Partnerships”.

especially in strategic planning. The Acting Chairman of the South Sulawesi Chamber mentioned that, based on Law 1/1987, private companies are already considered a government partner. However, they have not been involved in the public policy decision-making process yet. If government included the private sector in the decision-making process and treated private businesses as partners as stated by the law, he believed that public policy would support and match market needs for recovery.

One example of private sector participation being included is Thailand, which established Joint Public and Private Sector Consultative Committees/JPPCCs. This provides a good example for Indonesia to follow. To establish the partnership, we can learn from other countries' experience, in this discussion we can take Thailand experience as an example. As mentioned in Chapter II, 2.6.1, in the early 1980s Thailand installed a system of Joint Public and Private Sector Consultative Committees (JPPCCs). Three leading business associations; the Thai Bankers Association, the Thai Chamber of Commerce and the Association of Thai Industries, had been lobbying for the creation of a national forum for policy dialogue between the government and organised business. The National Committee consisted of the Premier, Ministers in charge of economic portfolios and leaders of the three flagships business associations, with the official National Economic and Social Development Board (NESDB) serving as its secretariat. Paralleling this national level arrangement were Provincial Committees, each comprising the Governor, officials in charge of the province's economic and business affairs and provincial affiliates of the national flagship business associations.

In Indonesian strategic planning matters it seems government still tends to act independently. For example, based on Presidential Decree 44/2002 there is a strong will from government to accelerate KTI's development by placing the nation's President as Chairman of EIDC, but all members of these councils are from government institutions (see 4.2.2.)

Furthermore, according to article 10 of Law 1/1987, passed as one element of the New Order regime, the Indonesian Chamber of Industry and Commerce is the main organization for business and private company organization. The Chamber facilitates communication and consultation among Indonesian businesses, between business and government and between Indonesian and foreign business in matters of commerce,

industry and services, including all economic activities. In article 8 subsection 2, the Law states that one of the aims of the Chamber is to create and to develop a conducive environment for encouraging Indonesian business to be involved in national development actively and effectively. In other words, Indonesia already has a policy for a conducive environment for establish Public Private Partnerships, but it has not been properly implemented.

Based on their comments, we see that the private sector is keen to be involved in productive working relationships with government, especially in strategic regeneration issues. This is a motivation to move towards Public Private Partnership from private companies at local and national level not only because the law provides for this, but also as they realise that neither they nor government can go alone.

The attitude of government and businesses shows a willingness toward Public Private Partnerships. People in different institutions with different actors, with different reasons realize that they need each other, and it is time to maintain and establish productive working relationships between government and business players as equal partners. In other words there is willingness amongst decision-makers and business players toward Public Private Partnerships. For some of them partnerships can be said to be regarded as a requirement.

In my opinion, there are more positive responses compared with negative ones, although this might be due to the crisis in the economy that still faces Indonesia. This condition tends to be supporting conditions that trigger some stockholders to have a willingness to establish Public Private Partnerships as one of the solutions. This conclusion parallels the lessons of research by Swinburn (2002) at the Municipality of Grimsby, Humberside, England. This city suffered a severe economic and employment crisis in the 1980s and for most of the 1990s; it was designated by the European Union as an “Objective 2” area, as an area in industrial decline. The local government of the Municipality of Grimsby feeling something had to be done encouraged new ideas. They encouraged the involvement of the business community; as a result they could take more advice and gathered more resources. By developing a full Public Private Partnership the Municipality of Grimsby changed from an area in industrial decline to achieve what the city campaign proclaims: Grimsby - Europe's Food Town.

5.5. Mutual Trust and Confidence

The concept of trust is a quite universal subject; widespread literatures discussed trust using an economic approach while others discussed it using a psychological or sociological approach. In this subsection we will not discuss trust itself in detail but trust as one of the prerequisites for establishing Public Private Partnerships. Some people argue that trust in government does not really matter, because we depend on government, so the relationship is not dependent on who we trust or we do not trust. As mentioned by Warren (1999: 6 – 9):

This argument comes from Hardin and supported by Inglehart. Hardin argues that it makes little sense to speak of trust in the institutions of government. We have to depend upon government. We may find government reassuringly predictable. But we should not trust government. We simply are not in a position to trust or not because we can't know the relevant interests and circumstances. Thus, regarding the relations between people and government in large-scale, complex societies, not even democracy can generate trust, nor should we expect it to do so. On Hardin's account, if trust is a good thing, it should be sought, identified, explained, and encouraged in arenas where there is a chance that its basic cognitive conditions might exist - and this is typically not the case in distant relations between individuals and government, or even between individuals and their elected representatives. In this sense, the decline of trust in political institutions is not a problem. Indeed, it may even be a sign that citizens are becoming increasingly sophisticated about the conditions of trust. On the other hand Offe argues that it is difficult if not impossible to solve the numerous collective-action problems that confront societies today. With the increasing interdependence of large-scale systems, the state has become more and more involved in solving problems that were once solved by spontaneous organizations of civil society. In many countries today, however, the state has become too weak to implement and enforce its policies and must rely increasingly on civic trust and cooperation. In complex societies, the issue cannot be conceived as a problem of re-

establishing trust based on face-to-face relations. Rather, the kinds of trust appropriate to major problems of social coordination are unavoidably institutional, because such problems are, as Offe puts it, between "me" and "everyone else," with no personal dimension to the "everyone else." Offe seeks to locate precisely the sense in which institutions might speak to this particular deficit of trust by conceiving what it might mean to "trust institutions." He agrees with Hardin that trusting institutions is not the same thing as trusting individuals, but argues (as do Harre and Patterson) that nonetheless there is an important sense in which the idea is intelligible. "Trusting institutions" means something different from "trusting my neighbour": It means knowing the "basic idea" or good of an institution. If this idea makes sufficient sense to people, it will motivate their support for the institution and their compliance with its rules.

In this discussion, we will not distinguish between personal trust and general trust, but we look at trust as accumulation of individual perception, perspective and opinion to explore people's trust toward public or private institution. This study will discuss trust between the public and private sectors. In general, the term 'Private Sector' includes Business, NGO, Community, etc. This study focuses on exploring trust between government and businesses as one of the key players in economic real sector activity.

This study follows the argument that trust is the basis for successful cooperation (Putnam, 1993, Alter and Hage, 1993, Fukuyama, 1995, and Kramer & Tyler, 1995, and Misztal 1996), especially cooperation in economic activities as mentioned by Arrow (Azfar et al, 1999). He argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.

To get a clear picture about mutual trust between government and businesses, this study will analyse the content of my interviews with decision-makers and business managers and other participants to explore how they feel and what they think about each other and to understand the motivation and the background of their opinions.

Based on the interviews that were conducted with various respondents, this thesis concludes that mutual trust between government and business is affected by Time and Experience, Corruption Practices, Assessment of Performance and Capability of Each

Party, Assessment of Attitude of Each Party, Assessment of Communication. Following is a detailed discussion of factors that effect mutual trust and confidence between government and business.

5.5.1. The Time and Experience

As stated by Misztal (1996: 84) that “although it is assumed that trust is rather difficult to produce at will, many of the contributors searched for conditions which facilitate trust. Among many of these conditions, time and experience are mentioned as critical for deciding whether to trust or not to trust”. This study found that this argument is true. There are some experiences that have an effect on trust between public and private sector and among private sectors such as:

5.5.1.1. ‘Bapak Angkat’ (Foster Father) Program

Based on her experience as the UNDP National Project Manager of Partnership for Local Economic Development who had been involved in some pilot projects for establishing Local Partnerships between Public and Private Sector, the National Manager of KPEL concluded that business (especially big business) had traumatic dealings with government and small business. The project that she had been involved in was launched in 1999 by KPEL (or was known as PARUL) which is one of the community empowerment programmes supported by the National Development Planning Board (BAPPENAS) to build self-reliance and promote local economic development. The approach focuses on establishing partnerships, which promote local economic development through identifying new market opportunities, adding value and improving backward and forward linkages for export commodities. The project strategy has been crafted taking into account the Republic of Indonesia Law No. 25/2000 on Propenas (National Planning), especially Chapter IX on regional development, Law No. 9/1997 on small-scale enterprise and Regulation No. 44/1997 on partnerships. Based on the significant impact made by the pilot in six regions i.e. South Sulawesi, South-East Sulawesi, North Sulawesi, Lampung, Jambi and Irian Jaya, KPEL is one of the models being offered by BAPPENAS to assist local governments to address poverty by boosting

local economic development and strengthening democracy and community empowerment through the facilitation of partnerships (KPEL, 2002).

Big companies tend to be afraid to be involved with “forums” (open discussion among big companies, small-medium companies and government and others). Because based on their experiences, dealing with government and small business can lead to their being out of pocket as a result of supporting small business for no return. For example, she told me that there are some local businessmen who do not want to get involved with partnerships because there are government representatives. She quoted what they said to her: "I am afraid that if I sit there I will be asked by government to assist small industry, I am not earning enough to give out money to set up small producers", "I do not really understand what benefit I get. Matters like that make us not want to get involved in partnership".

Furthermore, she said that she was not surprised to hear local business responses because business is profit oriented, they would have to sit there, spending so much time in forums (meeting/open discussion) discussing problems but they did not feel their interests are also fulfilled.¹³⁴ I understand what she explained; it is true that in the past business, especially big companies, obliged the government by having partnerships with middle/small business. They said that they got no benefit from it, but released funds and time to them. That is why they do not want to get involved.

The form of such partnership that is supported by the government is known as the ‘Bapak Angkat’ program. In fact, the idea came from business. It was first created through ‘The Hilton Agreement’, which was initiated by former Chairman of Indonesian Chamber of Commerce and Industry (KADIN), Sukamdani S. Gitosardjono. That agreement contained encouragement for any big business ready to assist and push the role of small business and ‘cooperation’ (Koperasi). This declaration was followed by the recommendation of Suharto at his cattle ranch at Tapos, consequently recognized with the term ‘The Tapos Declaration’. The declaration recommended big business contribute some of their profit (2%) to assist middle and small business. Moreover, after finishing Pancasila (P4) training conducted by government on 24 - 27 August 1995 in Jimbaran, Bali, all big businesses of Indonesia present committed to assist small and middle

¹³⁴ Interview Code J-6: 108

business. This recommendation was recognized as 'The Bali Declaration'. A number of elite figures held an interview with *The Republika* (newspaper) stating that in general, they supported this Declaration on condition that it will be followed by real actions. They also recommended that government needed to respond and accommodate the business initiative (*Republika*, August 29, 1995 and September 4, 1995). But in reality 'The Bali Declaration', similarly to 'The Hilton Declaration' and 'The Tapos Declaration', has up to now not been formulated or put into practice.

In Kutai Kertanegara, for example, this kind of relationship only works with state enterprise not big private companies. As reported by the Head of the Industry Office of Kutai Kertanegara Regency:

For some time we have recognized the term 'Bapak Angkat', where big companies and BUMN assist middle and small companies. Existing partners have intertwined, there are 70 Small Industries and 8 Foster Fathers. These 8 big companies are active to help small companies for example Pupuk Kaltim, PT Post, PT Telkom, Pertamina, Inhutani and BNI. All of them are almost entirely BUMN, before that many other big companies got involved but they assisted only once. Its aid is mostly in the form of soft credit with low interest that is 6%. Most partnerships are in the capital area, there was a partnership in marketing conducted by Pupuk Kaltim where products of Kutai Kertanegara Fertilizer were marketed by Pupuk Kaltim, but it has not continued.¹³⁵

Moreover, he explained that he had been advised by Pupuk Kaltim (East Kalimantan Fertilizer) that UKM (Small-Medium Business) was unable to fulfill orders in either quantity or quality, especially for exports. In another failed example, in September 2001, there was cooperation between businessmen from Yogya and local UKMs on 'Caterpillar of Doyo'. The first agreement was for 1000 sheets to be marketed to Japan. But this cooperation was terminated because UKMs only fulfilled 200 sheets; they broke the commitment and both sides lost.

These two cases show that the Bapak Angkat program is not effective, not only because of big business not committing to assist small and medium businesses but also

¹³⁵ Interview Code KT-15: 14

because these small and medium businesses have insufficient resources to use the opportunity appropriately.

Another experience is in the property business. Government has been asking property companies to allocate some of their area to develop cheap houses for low-level consumers. We can imagine that in the same environment there are some people who have very little houses and see their neighbours who have very big luxurious houses and get different facilities. It does seem to create more social jealousy than to provide the same opportunity. In the long run, it will create problems for property companies to manage the location. In the name of people's need, government forced this scheme for years without considering the property community's objections.

5.5.1.2. Formality and Lip Service

Trust of some businesses in government is often low, based on their experience in dealing with government, as we mentioned before. Moreover, government seems unhelpful; only responding in the form of formality or lip service. One example told me by the manager of some sawmill companies concerned an objection to increasing the UMR (Minimum Wage at the regional level). Business asked for an elimination or reduction of the 16% tax. In the meeting government promised to consider the objection, but after almost one year, there was no action¹³⁶. Another example that was cited by many of the businesses was the government inviting them to a meeting to discuss a problem, but many meetings ending up merely as a formality, with government rarely encouraging them to get involved. As mentioned by the President of the Indonesian Businesswomen's Association and the Vice President of Unocal (see 4.4.6.1), government often claims the private sector is already involved in strategic planning just by inviting them to a meeting or discussion forum but, in fact, does not take private sector contribution seriously and only has the purpose of presenting its program. This is another example of policy being rhetoric and not properly implemented, with the government wanting to show that its decision is participative while in fact it is not, the policy does not correspond to the issues.

¹³⁶ Interview Code KT-11 : 18

5.5.1.3. Dealing with ‘Inaccurate Data’

In Indonesia dealing with inaccurate data, besides misleading analyses or calculations related to data, has consequences of decreasing trust among the actors who use data.

It is well known in Indonesia that different institutions can produce different result in data collection; even where the subject and the time of collecting the data are the same. The Head of the Centre for Innovation in the Indonesian Institute of Science (LIPI) acknowledged this in my interview with him, admitting, “who can say our domestic data is good?” Moreover, he added that if we compare data from various industry institutions, we would become confused about which is real or correct.¹³⁷

People seemed to have less consideration for the importance of data, with low awareness of the consequences of inaccurate data. Low law enforcement makes it easy for people to manipulate data. One of the consequences of inaccurate data becomes one of the reasons why government projects failed. Even some of my interviewees confessed they sent inaccurate data on purpose to gain funds from central government. One example, as mentioned before (see 4.4.5.), was the Deputy Head of the Industry Office of Kutai Kertanegara Regency claiming that local government sent inaccurate data to central government in their development profile form for their APBN proposal. They mentioned that there were 20 craftsmen although in reality they had only 5. The reason for using fictional data was to succeed in their proposal with central government allocating the program for the region; with only 5 craftsmen the central government would not have allocated this kind of project to them.

It is understandable that in some cases, whatever program is inappropriate and ineffective because of inaccurate data.

5.5.1.4. Learning from other experiences

Trusting other institutions is not only affected by previous experience dealing with that institution but also from others’ experience in dealing with it, especially in businesses. The more people who have good experiences with the institution, the more it could increase the credibility of the institution.

¹³⁷ Interview Code J-8: 106

Following is an example of how LIPI's Innovation Centre gained trust from its prospective partner by learning from other partners' experiences. The Head of the Centre¹³⁸ said that when he invited business to become involved in such partnership, for example, launching new technology, businesses always ask if the technology has been tried or is to be tested? This question means two possibilities, have others used the technology or is there any research proved at a pilot project stage. If the technology has been used, it means that it is not possible for LIPI to pass it to another company. If implemented in only a pilot project this means LIPI has to invest on a big enough scale. What LIPI usually does to solve this dilemma is to give an explanation to a prospective partner that is based on the literature and research indicating that this technology is feasible to be applied. The problem faced by almost all research institutions is how gain businesses trust in it. Prospective partners require effort to build trust to assure them that LIPI is capable. To build new partnerships, LIPI asks current partners to share their experience with others. As the result LIPI can convince the prospective partner and gain their trust¹³⁹. Based on his case, something that we can learn is that trust is not only effected by their own experience but also from others' experience.

5.5.1.5. Law Enforcement & Reward and Punishment System

Some business people told me that if we talk about trust in government, we need to talk about the government's role in implementing law enforcement as well as a reward and punishment system. If government's role is appropriate, progressively the community will trust it. So the problems faced today are undefined and unclear rule of law and an unfair reward and punishment system decreases people's trust in government, even having counter-productive effects.

Following are some examples of weakness on law enforcement and a lack of reward and punishment led to decreases in trust in government. First of all, one businessmen in my interview gave an illustration of how they think that the rule of law is unclear. He had been given the required permit and built a factory in a region, with a very big investment. Ten years later the location expanded resulting in a negative

¹³⁸ For years, he had been involved in LIPI partnerships with third parties.

¹³⁹ Interview Code: J-8: 10 –12

environmental impact to a village. According to him, it is not his factory coming near the village but the village is growing and coming near the factory. Although industry was located outside town ten or fifteen year later that location has become town, and the government just blames the business¹⁴⁰.

Furthermore, weak law enforcement and the lack of a reward and punishment system triggers the flourishing of copyright infringement in Indonesia. In Indonesia, people are used to copying ideas without consequences. Moreover, copying is a real problem for Indonesia; this is an obstacle for trust in general. As mentioned by the Head of LIPI's Innovation centre that there are two issues. People are not yet trusted with intellectual property. Who can guarantee if I talk with Mister X, Mister X does not copy my idea, and claim that is his idea? Indonesian intellectual property law was introduced only around 2000/2001, so this is a new matter. Many people have not yet understood it. Secondly, copying is not only on intellectual property, it also occurs in daily economic activities. For example, if someone is successful in selling 'Cilembu Roasted Parsnip', everybody will make the same move in the same area, selling Cilembu Roasted Parsnip. This causes our business circles to be not transparent.¹⁴¹ What he mean is there is no transparency, business people hard to share their company information because afraid that somebody will steal their ideas or initiatives. Some business people tend to act negatively, for example, create two kind of financial report based on their interests.

I agree with this opinion, and add that copying has another consequence in economic activities. For example, if cassava price increases, everybody will plant cassava and next the price will decrease because of over supply, as a result of copying farmers often suffer. Weak law enforcement and lack of reward and punishment not only trigger business's lack of trust in government but also has counter-productive effects, as the following quotation from one of my interviews with businessmen indicates:

...Based on my experience, for example, dealing with banks, bad debtors get good treatment, but I as a good debtor did not have concessions like them. Those bad debtors get discounts; I who pay regularly do not get such discount. Hence, in my opinion that government does not understand. We can

¹⁴⁰ Interview Code: SS-6: 12

¹⁴¹ Interview Code J-8: 14

earn money 300 - 400 million because we are dishonest, so why don't we be dishonest, so that we will earn those discounts.¹⁴²

In cases of big businesses that misused the Bank Indonesia Reserve Funds and then went 'bankrupt', instead of punishing the corrupt, government paid their obligations with state money and only took over their 'over-valued' assets.

Furthermore, based on his observation of some government departments in South Sulawesi, a journalist from South Sulawesi's largest newspaper mentioned that many government officers were undisciplined and did not do their task, but without punishment.¹⁴³

It is a well known fact that many government officers leave their duty without consequence, they can even leave office for months without clear reasons and still get paid. In some cases, government officers go overseas for doing casual jobs without a formal permit. Or some of them use an English course as the reason to get formal permit and come to the course centre once a month. It could happen with no consequences because none of the government institutions or bodies evaluate or monitor government officers' performance effectively. Weak law enforcement is one of the reasons for secrecy and lack of transparency in Indonesian business. Besides, as mentioned previously, Caiden stated that in government institutions there is not much difference in reward for good performance and poor performance.

On the other hand, appropriate implementation of law enforcement, and a fair reward and punishment system encourages trust in government. According to the journalist, the Head of Bulukumba and Selayar Regency is an example of a decision maker who implemented a reward and punishment system, he demoted or dismissed his officers for misconduct or corruption. A regency head who is more progressive and has vision and integrity will create a conducive environment and encourage people to trust government. This was demonstrative when businesses asking government to move KAPET from Parepare to Selayar.¹⁴⁴ According to the journalist there is a correlation between this community demand to move management and a trusted government because

¹⁴² Interview Code SS-6: 50

¹⁴³ Interview Code SS-7: 56

¹⁴⁴ Interview Code: SS-7: 14 &18

Bulukumba and Selayar Regency government had shown its commitment to law enforcement.

5.5.2. Assessment of Performance and Capability of Each Party

5.5.2.1. Local Government

Some comments from business people mentioned that they lack trust in government because many government officers are poorly trained. One complained: ...in monitoring and evaluating our environmental impacts, Amdal (government Environment Office) sent personnel with no ability to measure the barometer or assess company performance. We need to prepare personnel to work together to evaluate, but corrupt government merely recruited other people, and we pay for that...¹⁴⁵

Furthermore, she said that many government officers did not understand the specific problems, as a result government tends to make inappropriate interventions: ...for example, government determines quota for our export, though our ability to export is beyond government determination. If we were free to decide we can maximize our production. There is a quota for the plywood industry. Government's target is to give chances for other companies to export too We work based on market demand, we rent quota from other companies which are unable to export. This means putting another cost on our product, expense again.¹⁴⁶

Moreover, there is doubt about the management capability of government, for example to manage Badan Usaha Milik Daerah/BUMDs (Local Government Owned Enterprises). BUMDs' performances are poor and they always run at a deficit. The Deputy Mayor of Samarinda Municipality commented on the East Kalimantan government establishing a new BUMD, the Perusahaan Listrik Daerah (East Kalimantan electricity enterprise) as follows:

...I hope that this enterprise is not the same as our other local enterprises that always ... deficit. All are nonsense I think it is no different if it is under

¹⁴⁵ Interview Code: KT-11: 48

¹⁴⁶ Interview Code: KT-11: 50

government, always high cost I think Samarinda does not need to make local enterprises [he meant BUMD] anymore. The existing local enterprises would be better if they are handled by business, because it will be more professional. I disagree with idea government owns many local enterprises, it will only become a parasite.¹⁴⁷

5.5.2.2 Local Business

Some interviewees mentioned that many of the local business people do not have a good educational background. For example, the Deputy Chairman of the Samarinda Chamber, who is a local businessman and a local decision maker, said that:

...to be an official member of this Chamber of Industry and Commerce is very easy, because without having enough educational background, because of good luck and his own company, then the businessman joins the Chamber. The businessman gets involved continuously, and then it is possible to be an official member, so it is very easy.¹⁴⁸

Some interviewees were self-critical as shown in that comment. In my opinion, his comment reflected his own experience in becoming Deputy Chairman of the Samarinda of Chamber of Commerce and Industry and he was a member of the East Kalimantan Chamber of Commerce and Industry for more than a decade. He was an office bearer although only has a high school certificate, starting as a clerk. One of the alternative explanations for the unclear criteria for recruiting managers of the Chamber may be because businesses do not really care about the association. They do not believe that the Chamber is important or that they will gain benefit from the association. This is another example that business is not confident that they are government partners and that their aspirations are channelled through the Chamber. In some cases, business experience may be more important than university education; this is parallel with this study's argument that learning by doing is important as a classroom for improving on managerial skill.

¹⁴⁷ Interview Code: KT-16: 24 and 56

¹⁴⁸ Interview Code: KT-3: 14

A second comment came from the Head of the Trade Office of Kutai Kertanegara that “For non Migas (other than oil or gas) business, the capability of local business needs to be improved. In Kutai Kertanegara many of the companies are CV (Commanditaire Vennootschap) and most of the local businessmen only have high school education.”¹⁴⁹

Even though entrepreneurial spirit and expertise are important as characteristics of business people a good educational background is also important to support them to manage their business. More knowledge will help them to be innovative and creative. Besides gaining knowledge from education, as we mentioned before, people can gain knowledge by experience or ‘learning by doing’. In this case, both government and business will gain knowledge in Public Private Partnership processes.

Furthermore, it seems both local government and local business prefer prospective partner companies from outside the region or other countries. When they were asked about prospective partnerships, they stated that they put more trust in the capability of company from outside than local company. As an example, the Deputy Mayor of Samarinda Municipality commented:

No, not yet, up to now we prepare farm and land, which is ready to use and we must partner with other parties from outside of region. For example, a partnership between the Perusahaan Daerah Air Minum/PDAM (local water company) and a company from Tangerang in a BOT [Build-Operate-Transfer] system... If it relates to high technology, high capital that needs experts, they come from outside East Kalimantan. Many of our mining technology experts graduated from ITB (Bandung Technology Institute) and UGM (Gadjah Mada University).¹⁵⁰

Even local government thinks they need to encourage businessmen to have entrepreneurial spirit¹⁵¹.

Another reason for saying that trust in local business is low is related to the fact that, as mentioned before, many of the local business only work as contractors and are oriented to government projects. As mentioned by the Secretary of Pinrang Regency, “In

¹⁴⁹ Interview code: KT-14: 20. Based on Trade Office data 2001, from 633 companies in Kutai Kertanegara 544 (86%) are CV.

¹⁵⁰ Interview Code: KT-16: 14 & 38

¹⁵¹ Interview Code: KT-14: 20

my opinion, local businessmen seldom are real businessmen. In fact, many of them are contractors. So what is hard is they are not self-supporting, need a guide continuously.’¹⁵²

Besides the capability of local business being low, as discussed in Chapter IV section 4.4.2.3, the characteristics of local business present obstacles to their contributing to effective economy activity. Local business depends on government projects, and prefer to be a government contractor, because it is the easiest work, with quick results, only needs small fund, and has no risk. This means local business do not have the capability to compete with other business from outside, and it is difficult to create job opportunities. Furthermore, business in Indonesia is difficult to improve and faces some problems because many businessman are small merchants, do not have industry vision and entrepreneurship. They prefer to import and distribute goods instead of producing local goods. Many still manage their business with a traditional management system, and only continue their previous business. They seldom think about business diversification. As a result their product is often unfashionable and unmarketable.

5.5.3. Assessment of Attitude of Each Party

5.5.3.1. Government Attitude

5.5.3.1.1. Narrow Focus Without a Sense of a Broader Development Picture

There is doubt from business about government capability in development planning, because government is more focussed on implementing projects. An interesting comment came from the Acting Chairman of the South Sulawesi Chamber of Commerce and Industry who said “I have an impression that it is not about development of the economy but development of projects. I do not know how it is in BAPPENAS, in BAPPEDA they are not economic planners but project planners”¹⁵³

During my interviews, I was also impressed that some participants gave similar comments but his comment is simple and precise. Government officers, in this case local planners, focus more on projects than on their mission as local economic development planners. They did not care that a project is only one of the tools for implementing their development planning. It may be because a mark-up project is one of the easy ways to do

¹⁵² Interview Code SS-15: 26

¹⁵³ Interview Code SS-6 : 2

corruption, project becomes the priority, create the project first, think how to integrate the project into a broader development picture later.

Furthermore, as he said before (4.4.2.3.2) that the government needs to consider carefully and should not establish partnerships with the wrong players. He warned that government cannot see the different between real businessmen and “Pengusaha Cengeng”¹⁵⁴, and government tends to give many opportunities to this kind of businessman. This can discourage private investors and reduces trust in local business which has influences on public and private interaction.

5.5.3.1.2. Unfairness and Self Interest

Some of the businessmen tend to be resistant and do not cooperate with government because in their opinion the government tends to be unfair and focus on its own self interest. One of them told me that even when there is partnership between businesses and government, there is no defined target. Government is motivated by self-interest, does not think how to support the private sector, how the private sector can improve and expand their business¹⁵⁵. One example of their comments was: “...the government tends to establish a partnership on something for which it has no money in order for the private sector to pay.”¹⁵⁶

One businessman from East Kalimantan complained that it is hard to get the projects from government, because even before the project is launched; it is often already awarded to a contractor who is closest to government.¹⁵⁷

5.5.3.1.3. Ignoring People’s Needs

Many participants comment that government tends to ignore people’s need and to work by itself. One example is government determining export quotas without consulting with related industry/business actors. To make a change, there should be discussion about the continuity of existing business. What happens now is whether you want to or not, you

¹⁵⁴ ‘Pengusaha Cengeng’ are businessmen who depend on government projects and sometime act as a broker.

¹⁵⁵ Interview Code KT-11: 24

¹⁵⁶ Interview Code SS-6: 16

¹⁵⁷ Interview Code KT-3: 74

have to run with the government decisions. Even when the private sector is involved, there is an element of KKN (Collusion, Corruption and Nepotism)¹⁵⁸ with government only considering their crony's interest. Government institutions criticize one another about this matter.

There are some other stories about how central government and donors are fooled by local officers and others by the provision of fake data because local government thinks that central government often ignores their needs (see 4.4.5). Local government functionaries formulate project proposals and fool central government and donors.

In September 2002, there was a 'Dialog Forum between Government, Banks and Private Companies of KTI' conducted in South Sulawesi (*Kompas*, September 21, 2002). Many participants expressed pessimism about this kind of forum because from their experience many KTI forums only produce commitment without actions. Yusuf Kalla¹⁵⁹, in the forum's opening ceremony stated that this meeting was the 501st concerning KTI. There had been numbers of meetings concerning KTI but he expected this meeting will be different with other previous meetings, which did not have clear conclusions and no follow up.

Even though the idea of the forum was good, in reality government did not pay much attention. This forum invited 14 Ministers but only 7 came (Coordinating Minister for Economic Affairs, Coordinating Minister for People's Welfare, Governor of Central Bank of Indonesia, Minister of Manpower and Transmigration Minister, Minister for Resettlement and Regional Infrastructure, State Minister for the Acceleration of Development of Eastern Indonesia and Minister of Energy). 14 Governors was invited, only 3 came (North Maluku Utara, South Sulawesi and Gorontalo), and many Heads of Regencies only sent their subordinates.

According to one functionary of the Indonesia Central Bank the purpose of the forum was coordination to support development of the real sector in KTI. The main purpose of forum was to give opportunity to develop direct dialogue among local and central policy makers, bankers and businesses, to formulate and to agree on the policy-

¹⁵⁸ Interview Code KT-11: 54

¹⁵⁹ He is one of the famous businessmen from South Sulawesi. In this forum he was chairman of the committee. Now he is Indonesian Vice President for the period 2004 – 2009. He mentioned it was number 501 meeting to express the frustration because so many similar meetings were failure.

making process, so that business can do their businesses in a conducive atmosphere and with certainty. The forum's dialogue was strategic and important because it aimed to give input from stakeholders for formulating policies and actions in order to cure the economic crisis especially in KTI.

In fact, the forum consisted of complaining and listing requests from local businesses.¹⁶⁰ Meanwhile forum participants complained because discussion was unfocused. Participants were disappointed because the agenda had been prepared by central government, and did not represent regional problems.

Furthermore, in my interview with the UNDP National Project Manager of Partnership for Local Economic Development, she said that not only did business think that government ignores them but also communities and NGOs. There is antipathy between government and NGOs and private companies no longer believe government. They think that government manages everything and does not want to accommodate community needs or interests. Government does not want to listen to small producers who complain about inappropriate policies, and their ideas are never adopted by government. Hence, at the beginning of the partnership forum they faced the same situation so it needs to be developed slowly and also needs the willingness of stakeholders to develop trust and confidence.¹⁶¹ In other words, we can say that there is less trust in government because it often ignores other stakeholders' needs.

5.5.3.1.4. Counter-productive

Some of participants were concern about the attitude of local government as a resistor of investment and contraproductive.¹⁶² For example, as stated by the journalist from South Sulawesi that attended the September meeting¹⁶³, the meeting was discussing many problems especially supporting the local economy, which must be pushed. What is need first is to push the investment climate and then what also appears to be of concern to

¹⁶⁰ In paper work of the working committee. It is similar with Kompas Journalist comment who attended the meeting (Kompas 21 September 2002).

¹⁶¹ Interview Code J-6: 19

¹⁶² Interview Code KT-11: 50 and SS-6: 40 & 50

¹⁶³ 'Dialog Forum between Government, Bank and Private Companies of KTI conducted in South Sulawesi (see 5.5.3.1.3.)

business is that local government is a resistor of investment. According to him, local businesses complained that to increase locally generated income, some local governments become resistance to investment by using local tax regulations. He use the proverb ‘we should make our cow fat first, after that we squeeze the milk, but now we squeeze milk first, do not care about the cow.’¹⁶⁴

Not only local government but also central government shows a similar attitude. According to the UNDP National Project Manager of Partnership for Local Economy Development that “...all this time, we found that government created some regulations that damage the private sector, they have not grown yet but government has burdened them with various things.”¹⁶⁵

5.5.3.2. Business People’s Attitude

5.5.3.2.1. Spoiled, Uncreative and Uncompetitive

In some ways, government officers themselves considered that their previous policies had spoiled business, for example, the Deputy Head of Barru Regency stated that in fact business people still always think as previous days, how government gives facilities, whereas government do not want act like that anymore. He explained that the dependency of business on government is very high, and that local businesses, for example, KUD/Koperasi Unit Desa (small village cooperative businesses) always ask for government facilities such as how government can give and provide cheap loans for them.¹⁶⁶ This comment is similar with the Acting Chairman of South Sulawesi Chamber of Commerce and Industry (see 4.4.2.3.2) that government creating system that leads many of local businessmen to be spoiled and uncreative. This situation has grown from the previous government and private sector relationship in which the paternalistic government was like a father who spoils his child. The spoiled child always asks for facilities, never grows up and stays dependent. In the case of Public Private Partnerships we can see this as an equivalent relationship between partners, how spouses each have their role and rights and responsibilities wherever possible to support each other. As

¹⁶⁴ Interview Code SS-7: 12, 30 & 54

¹⁶⁵ Interview Code J-6: 29

¹⁶⁶ Interview Code: SS-24: 16 & 18

mentioned in Chapter II, adopting Agency Theory, there are two models of Public Private Partnership, institutional and functional models. There is a horizontal relationship between government and the private sector in the institutional model, whereas there is a vertical relationship in a functional model but it is still an 'equal' relationship. Government is the owner but private sectors do not depend on government and have bargaining power because both of them need to follow the agreement that has already been set up. Each party has the right and responsibility to carry out their roles.

I suggest that the reason for business always asking for facilities from government and becoming spoiled was not only because of the government policy. As mentioned before, the state controls natural resources so, as a result, people demand compensation.

There has been another example of how government spoiled businesses, especially small and medium business. Only a few weeks after the new central government had been formed in August 2004, the Minister for Social Welfare Coordination announced government plans to provide 5% of State Owned Enterprise dividend to allocate to Small Medium Business¹⁶⁷.

This plan showed that government tends to underestimate business and felt happy with the role of "Sinterclass" (Santa Claus). For example, government continues provide loans for Small Businesses or community groups, when they cannot pay it back, there is no consequence. To solve the problem government often offer 'pemutihan' program, loans becomes grants. In this case government did not educate people. On one hand what did state enterprises feel about this policy, they work hard and some of their result are to be just given away to another business player that should compete in working hard for profit. In another hand some claim that small and medium business they are spoiled and always expect charity and facilities from government. This condition did not encourage competition, creativity and hard working among business players. As a consequence, in some cases, this situation could make some government officers and other business players think that small and medium businesses are their inferior.

¹⁶⁷ TVRI, Berita Pagi (relayed through SBS Australia on October 7, 2004). The previous government had already stated this commitment.

Government could help small and medium business not by give away the money but by creating a conducive environment for business and use the money for developing business infrastructure that can be used by all business players. Mentality is the problem for people and government makes it worse. For big business, the case is similar. They expect government facilities. Some of them even start business without enough capital; they use “Katabelece”¹⁶⁸ for banking support.

5.5.3.2.2. Inferior to Government

As mentioned before, local businesses mainly focus on construction business, and demand government projects and facilities. In some cases, businessmen feel afraid, unconfident, hesitant and shy when they are dealing with government. Unsurprisingly, some businessmen are passive, difficult and rarely give comments/objections/feedback to government as the project owner.¹⁶⁹ Complaining to government directly is uncommon for them. The Deputy Chairman of the Samarinda Municipality Parliament said “the businessmen are always ‘yes men’ in front of bureaucrats. But behind the bureaucrats, they are always complaining and grumbling”¹⁷⁰.

“One of the weaknesses of the local business is the still low concentration in areas that create job opportunities. With this situation business will face difficulties in competing in global marketing”.¹⁷¹ In Kutai Ketanegara, the government has started to encourage businessmen to have an entrepreneurial spirit and expand from the government contracting area¹⁷². Most of the local businesses that focus on government projects are small and medium size businesses. They are contractors who create an inferior position for local business in relation to government. Local businesses are not considered as main players in local economic activities that are needed to create job opportunities. As a result, there is less economic activity because the real sector did not work.

¹⁶⁸ ‘Katabelece’ is term commonly used in Indonesia for an informal letter (note) from the powerful, by which their cronies influence a decision based on their self interest, for example, to get funds from a bank without fulfilling requirements to be a credible creditor. (The term possibly comes from ‘Carte Blanche’.)

¹⁶⁹ Interview Code KT-3: 32 & 84

¹⁷⁰ Interview Code KT-6: 60

¹⁷¹ Interview Code KT-7: 34

¹⁷² Interview Code KT-14: 22

5.5.3.2.3. Lack of Commitment

In the above discussion, some of the business people had questions about government commitment. In fact, both government and business mistrust each other because of a lack of commitment from other parties. As an example, the Deputy Mayor of Samarinda Municipality¹⁷³ told me his experience in trying to establish Public Private Partnerships in his region. He said that commitment and seriousness is a factor that he believes is needed to establish partnerships. A lot of businessmen come and present their proposals. There are so many proposals that have been presented, but no follow up from the presenter. He said that if private companies wish to have private partners they seriously need to bring money and to have capital, but they expect partnerships with government to gain them money by getting resources from the government. The government does not know whether they already have funds or they just come searching for investment opportunities. As he said “I can have a notion, because I am a private sector representative too, I am a businessman, that they simply might be offering to other parties possibly only searching for an opportunity”¹⁷⁴.

5.5.4. Assessment of Communication

5.5.4.1. Barriers to Communication

Talk of miscommunication is unacceptable to some government officers; for example, one said “there is no constraint in government and businessman relationships. But in another comment he said that, only previously, it might be that it was limited communication that created miscommunication between the public and private sectors”¹⁷⁵.

In fact, both government and businessman tend to mistrust each other because of lack of communication. For example, the Deputy Chairman of the Samarinda Chamber said that even though he is one of the Chamber of Industry and Commerce managers, it is difficult to see senior bureaucrats. He told me of his experience when he had wanted to see one of the senior local government officers. Businesses had been promised aid by the central government and this had been affirmed by a letter signed by the Minister. An

¹⁷³ Interview Code KT-16: 16 & 18

¹⁷⁴ Interview Code KT-16: 18

¹⁷⁵ Interview Code KT-7: 32

official member of the Indonesian Chamber of Commerce came to assist the members (in this case blacksmiths) to approach the Local Government Department about how to follow up their requests. . But they only had a chance to meet a low level manager of local government, their request to see the senior officer was rejected and they were told that if they wanted to see him, they have to propose first through the assistant. The business people felt devastated that they could not see a government functionary even for a discussion. Local government rejected their request for aid.¹⁷⁶

I think it is because of miscommunication or that they did not have any interest in each other and did not realize how they need each other. For example, in my own experience, it is easy to access not only senior bureaucrats, even local decision-makers, not only because of my background but also they have an interest in my research subject.¹⁷⁷

5.5.4.2. Complicated and Bureaucratic Procedures

The Acting Chairman of the South Sulawesi Chamber said that Government does not understand the requirements of its people. For example in the September Forum meeting between the Chamber of Industry and Commerce, bank directors and Ministers discussed above, government officials stated that the concept of supporting Small-Medium Businesses (UKM) was good, but its implementation was poor. He said that in the microeconomic financial sector private sector institutes are effective, but they cannot access the system. The example, UKM can access credit/loans provided by government but need to provide an application of up to 450 pages. Many UKM are incapable of dealing with complicated documentation. What we need here is something simple that answers the requirements of the community.¹⁷⁸

¹⁷⁶ Interview Code KT-3: 100

¹⁷⁷ One example is that I interviewed the Secretary of the United Nations South Sulawesi Office unplanned. When I went to the United Nations Office in South Sulawesi Province for field study permission, the staff of the Secretary of this Office asked me to meet and talk to him because he was interested in my proposal. For the field study permission I did not need to meet him because I just needed to submit my proposal. When I met him, I found the answer. He was a former Head of the Pangkep Regency Development Planning Board, and he thinks that Public Private Partnerships is a good idea.

¹⁷⁸ Interview code SS-6: 8, 52, and 54. He said that he is tired of discussing these matters. Furthermore, he said that it is not only his own opinion. He and his colleagues often discuss this kind of matter. Besides a

Another example is tax procedures. The Deputy Chairman of the East Kalimantan Chamber mentioned that businesses need to fill out monthly reports. Every time they get a project business pays tax directly, but they still need to pay other taxes and make reports monthly. They prefer to pay a bigger tax directly once than to pay many other small taxes and with monthly reports.¹⁷⁹ Not only are procedures bureaucratic and complicated, but also bureaucracy involves a big cost almost as big as labour cost. In “The impact of business opportunity in AFTA 2003” seminar, one of the presenters said that bureaucracy cost around 10% of total company component cost, while labour cost only 11% (*Suara Pembaharuan*, February 17, 2003).

Less bureaucratic and more flexible procedures in fact increase trust in local government, as described by the Acting Head of the Industry and Trade Office of Samarinda Municipality:

There is progress in these few months, we build the connection. For example, export and of import permits, now there is a regulation that mentions that local government (municipality and regency) can release permits for export and of import, we socialize with a prime service. Previously (if someone) wanted to export and the stock of export forms has been finished the only way is to wait for the centre to send more forms. Now, if Samarinda finishes their forms Samarinda can borrow from Kutai Kertanegara. Business now has more trust in government, now bureaucratic requirements are short only needing to go to the head of division, before there had been a long bureaucratized process.¹⁸⁰

5.5.5. Corruption Across Government and Private Sector

ADB (1998: 15) defines corruption as illegal and improper actions by some officers of the public or private sector for the benefit of themselves and those close to them or the persuading of others to do so by misusing their position. However, the Oxford Unabridged Dictionary, Webster’s Collegiate Dictionary, the World Bank and Transparency International define corruption as only involving public sector actors.

formal meeting, members of the South Sulawesi Chamber have an informal meeting (chat) every Saturday afternoon/evening.

¹⁷⁹ Interview Code KT-3: 52

¹⁸⁰ Interview Code KT-18: 18

In Indonesia, corruption not only done by government officers but by almost all parts of groups in societies, corruption has become a culture and a system. The definition of corruption used in following discussion is “illegal and improper actions by public and private sector actors for their self-interest or persuading others to do so by misuse of their positions or functions.”

Some businesses do not trust government because they believe that many government officers are corrupt. They said that government rarely helps them, only in some cases do a few government apparatuses assist them with various tendencies (self interests). Some of the business people I interviewed claimed they do not want to involve themselves with corrupt government, one of them saying that:

We did not want to do business with government; I know that there are still many good officers but also many corruptors. In private sector also there is bad and good. ... for example, government needed 40 million rupiah of funds to conduct one workshop for one day. With the same amount we can conduct 4 workshops.¹⁸¹

As mentioned in previous discussion (5.5.5.1), based on the reason that government does not have experts to assess a company, government asks the company to provide the expert. In the implementation, government hires an expert and the company must pay for that. If the company does not use the expert who is chosen by government, even though the assessment is good, the evaluation report is failed. On the contrary, although the assessment result is bad as long as the company use an expert chosen by government, the evaluation report will be good.¹⁸²

Regulations require that land acquisition needs approval from a team which consists of three government bodies: local government, BPN (National Land Agency) and Police. In one case¹⁸³, one private company had agreed pay Rp. 50,000 per square

¹⁸¹ Interview Code: SS-6: 44 & 58

¹⁸² Interview Code: KT-11: 48

¹⁸³ This example is one case of what has commonly happened elsewhere in Indonesia. Especially under the New Order, government had big power, with some corrupt government officers misusing this power, taking over community land in the name of government. There are many similar cases when the government changed, and some communities translate it in their own ways. Many people or communities express their freedom by claiming some land and taking over the land illegally, including some government plantations. This is understandable because the previous government had taken over some land without negotiating with the relevant community.

metre but the team offered the community Rp 25,000 per square metre. The community agreed, as long as their children could work in the company. Although the private company has released the fund of Rp. 50,000 per metre to the team the community did not receive the money, it never got paid. It is understandable that the community complained and did not like the company PMA (Foreign Investor), some of them taking counter-productive actions, menacing it. Because of people complaining, the team returned the money to the investor from Germany. The investor did not lose their money, but they were disappointed, having spent preparation cost and time for nothing¹⁸⁴.

Moreover, the Deputy Chairman of Samarinda Parliament stated that “A corruption mentality is still dominant among bureaucrats, for example, if a business group or business community want to establish businesses, the investors need to pay some informal fees, which carries a high cost. Government officers need to be responsible and not to exploit businesses for self-interest. Apart from ethical considerations, business must treat this as expenses that have to be calculated. So, Indonesia faces higher expense because of informal fees. This informal fee often exceeds the formal fee.¹⁸⁵ Moreover, the Executive Director of the Institute for Rural, Coastal, and Community Studies mentioned that his NGO faced difficulties dealing with government project because they do not want to pay these informal fee. Many of their World Bank projects cooperate with government, usually the government needs to pay a down payment and pay the rest gradually based on the percentage of project work. But because they did not cooperate with corrupt officers, they had experienced corrupt government officers postponing all of the payment, until the World Bank intervene.¹⁸⁶

Furthermore, according to Harahap (1999: 3), “corruption in Indonesia is endemic. Political and Economic Risk Consultancy Ltd ranked Indonesia the most corrupt of twelve Asian countries. Rizal Ramly from Econit Advisory Group estimates that 30% of Indonesia loans have been lost in corruption.”

Even worse, as stated previously that corruption is not only done by government officers but almost all parts of groups in societies. A survey on corruption done by

¹⁸⁴ Interview Code SS-7: 52 & 54

¹⁸⁵ Interview Code KT-6: 42

¹⁸⁶ Interview Code SS-31: 18

LP3ES¹⁸⁷ (Harahap, 1999:3) found that “68.5 % believed that the law, from police to judges, could be bribed.” As stated in Chapter IV, Transparency International (*Tempo Interaktif*, 2004) ranked Indonesia number 5 among 146 countries as the most corrupt country. The following are some examples of corruption by different organizations/institutions which most of them were told during interviews¹⁸⁸:

5.5.5.1. Corruption by Some Communities

There is an example of corruption by a community in Kutai Kertanegara Regency, which got a contract from the local government to make a ditch that was costed at around Rp 30 million. However, the ditch already existed, the community just needed to clean it.¹⁸⁹ Other examples occurred with IDT funds. By Presidential Instruction 5/1993, the central government had provided 20 million rupiah per village for 20,633 villages through Dana IDT (Presidential Instruction Fund for Undeveloped Villages). The Fund is a rolling fund, which should rollover among community groups.¹⁹⁰ The IDT program that was designed to allocate funds directly to communities deliberately to eliminate leakage of funds if they were allocated through the government apparatus. Some communities lost their money through unprofitable businesses, but some other community groups corrupted this kind of fund. In reality the fund was gone, as usual there were no consequences of mis-using government funds.

¹⁸⁷ One of the oldest Indonesian NGOs, focussing on economy and social issues.

¹⁸⁸ Cases in this discussion as examples are mostly based on information from fieldwork and program/activities that the researcher has experience with. Furthermore, respondents told their experience with corruption in informal conversation, they don't want researcher to record or take notes or some of them mumbling into the tape recorder. They only want to tell other people's corruption experiences or corruption in general during formal interviews.

¹⁸⁹ BAPPENAS and PT Multi Area Conindo (2001)

¹⁹⁰ I had worked as a trustee for the IDT project for 3 years. One of the project responsibilities is to provide graduates (in this case, the project recruited, trained and paid their salaries and monitored their activities in village) to accompany and help communities as advisors establishing or empowering their economic activities. We found that some of the graduates who has responsibility to accompany communities daily often left the villages and visited only rarely. Even some of them only drew their wages every month but never accompanied the community or came to the village. They can do that, especially for isolated villages, which can only be accessed by walking and need days to reach the village. It was difficult and hard for us to supervise. Finally we found the facts and stopped their salaries, but no more official action was taken against them.

5.5.5.2 Corruption by Some NGOs

According to one interviewee, a case of corruption by a NGO occurred in the dredging of the Losari coastal area in Makassar. Initially NGOs assembled people from environment research centres opposing dredging of the coast because it was improper, damaging environment. But after some NGOs got projects from government, they turned their backs and agreed with the government, there was no more complaining from these NGOs.¹⁹¹ This attitude showed that some NGOs forget their functions, in this case to enhance a sustainable environment, for their self-interest in getting benefits from government projects.

5.5.5.3. Corruption by Some UKMs (Small-Medium Businesses)

Government used to provide soft loans for helping Small-Medium Business. However, many government funds for UKM are gone. According to Secretary of Pinrang Regency the problem is people's mentality. Government used to give facility to community, but people or some community used to be irresponsible. In some cases many Village Cooperative Units (KUDs), which get loan from government did not pay back their loan.¹⁹² In some cases the availability of cheap funds that often provided by government made businesses prefer these funds, deposit the money in the bank and take benefit from interest rate. Hence, real economy activity did not improve. Some time even worsened. Some of the Cooperatives only existed on paper or were established through informal support from corrupt government officers to get government soft loan, with very limit activities and personnel. Sometime, as stated by Secretary of Pinrang Regency, KUD personnel used to ask government official to 'smooth the process'.¹⁹³

5.5.5.4. Corruption by Some Journalists

I asked my respondents: "How about journalists? In other regions, some government officers are complaining about corrupt journalists. One example of their responses was: "Even more. Before there was not so many. Sometimes journalists

¹⁹¹ Interview Code SS-7: 62

¹⁹² Interview Code SS-15: 20

¹⁹³ Interview Code SS-15: 24. Smooth the process has certain meaning; one of the possibilities is mean KUD personnel with corrupt government officer help get loan without fulfil requirements or criteria.

criticize too much, sometimes their opinion is without evidence, and we just retreat because if not, something bad can happen”.¹⁹⁴ Since the start of the reform era journalists are no longer controlled by government censorship. Some bureaucrats accuse journalists of using their position to ask for bribes. For example, I was told that some journalists requested payment in return for not publishing unfavourable stories about government officials. In some cases, the corrupt journalists are unqualified and unregistered. Based on my informal chats with some decision makers, I was also told that there are many fake journalists looking for rumours, and then attempting to blackmail decision-makers or government project managers.

5.5.5.5. Corruption by Some Army/Police and Government Officers

As mentioned in Chapter II (2.3.1.), the Indonesian military regime justified a double role (*dwifungsi*) for the Indonesian military. In practice this dual role was misused, the military actively and directly was itself involved in the government, either in executive, legislative or judicial teams. Concentration of power in the government and military is one of the contributing factors to the massive corruption in Indonesia.

Furthermore, in East Kalimantan, beside formal fee that created by some regencies for increasing their locally generated income after decentralization, ‘informal fees’ become a real problem, especially for lodging industry. For example, as mentioned to me by one of private company managers, “when we have to load material from upstream by river; we have to pass some security posts. Every post we pass we have to give a bribe (to the officers).”¹⁹⁵ Furthermore, there is an interesting experience that is recounted by a general practitioner, from a public health clinic¹⁹⁶ who had experience helping police work at a First Aid Post. Every time a truck with full loading passes the post, the driver stopped and gave an envelope to the police officers. It does not matter if their truck was overloaded or was transporting illegal logging, almost all trucks stop and gave a bribe. The difference may have been in amount of money, overloaded truck and illegal logging giving more. The general practitioner was very shocked, upset, and he rejected when the police offer to share the bribe.

¹⁹⁴ Interview Code SS-15: 41-44

¹⁹⁵ Interview Code KT-11: 6, some of criminals in the name of community even set unpermanent post to ask money as informal fee because pass their areas.

¹⁹⁶ Personal Communication, October 09, 2002

The business people treat these informal fees as expenses. This supports the argument above that informal fees increase costs. The private companies always calculate cost, so this cost and other informal fees are included in their expenditure, no wonder many products have high costs, lose and cannot compete in the international market. For the plywood industry it is even worse, not only are informal fees high but also are formal fees. According to the Head of Program Planning Division of East Kalimantan Provincial Investment and Promotion Board:

One of example is the plywood industry, which has the same size measurements, same thickness and also acquisition of raw material from similar natural forest, however, in competition our price is uncompetitive compared with Malaysian price. Before the crisis Malaysia could sell at a price of 300 dollar per cubic metre whereas Indonesia sells at around 385 dollar". ...The problem is that East Kalimantan represents the biggest plywood industry in South-East Asia, which feel threatened. The production process of plywood in another country is cheaper than Indonesia. Because production process in Indonesian manufacturing use more labour with higher salary and expensive raw material.¹⁹⁷

But the bigger problem of high expenses is informal fees (bribery). To draw on and paraphrase the Deputy Chairman of Samarinda Municipality Parliament, business pays an informal fee to celebrate the anniversary of Kodam (Regional Army Office) or the Provincial Office. Another thing, timber businessmen need to spend money to get a permit for cutting forest (HPH) from mainstream to downstream industry. They need to pay an informal fee to army for security reason and even the must (sometimes) provide a travel fee for army commandant going to Jakarta or elsewhere. The company calculates all of these as component costs, which hinders their international price, competitiveness. Like it or dislike it the government needs to stop this kind of informal fee. If, as a result we can solve the problem, we can increase labor wages and at the same time companies can still compete.¹⁹⁸

¹⁹⁷ Interview Code; KT-7: 16 -18

¹⁹⁸ Interview Code KT-6: 60

He went on to say that business pays huge informal fees to corrupt government and corrupt army/police for different reasons. Some of the other informants also said that they pay informal fees to corrupt government for facilities and short cut processing, and to the army for security reasons as mentioned above. They pay the army to get protection or use it as an informal bodyguard. In many cases they pay the army because they are frightened. There are even monthly informal payments collected by corrupt military who will share them among their boss and member group. Many corrupt military do not get enough from bribery and they establish their own business under other people's names.¹⁹⁹ It is understandable that many corrupt government officers and corrupt army officers are so rich and their informal revenue is so huge.

In many cases business enjoys this situation because they also get benefits and facilities. As stated by the Deputy Chairman of the Samarinda Municipality Parliament

Some businessmen even enjoy the extortion; a case example, in the timber industry. I even told my friends in timber business that now they are shouting and complaining because they cannot rob the forest again. But if all of you could still rob you would not complain loudly, never tell what happens. It means that my businessman friends are enjoying that extortion.²⁰⁰

5.5.5.6. Corruption by Some Parliament Members, Government officers and Business People

Corruption in Indonesia is similar to the description of corruption in India by Dwivedi and Jain (Henderson and Dwivedi, ed., 1999: 172): "The morality of some politicians, businessmen and bureaucrats seems to have declined to the point that there is virtually no aspect of public life today which is free of corruption."

In the reform era parliament is stronger and more effective than before. But they are counter-productive in implementing their budget power. In informal chatting some of my respondents told me that since legislatures have a real role in national budget

¹⁹⁹ Government and army are forbidden involvement in business, but they get involved using other people's (such as relatives') names. Under the New Order, the military created many of their own businesses as "Yayasan" (Charity Institutions) because of minimal government funding.

²⁰⁰ Interview Code KT-6: 60

allocation authorisation, some legislature members at national level have offered to mark up the budget for both sides' interest.

At the local level the Head of the Population Center of Mulawarman University commented:

East Kalimantan, supposing it is seen from a distance, is beautiful and gaining high earnings but in reality the East Kalimantan community is poor. It was proved by IDT (Undeveloped Village Inpres) research a few years ago, that East Kalimantan sits in number 2 from bottom as poorest after East Timor.²⁰¹

Furthermore, he said that people only consider the existence of Pertamina and multinational companies when representing East Kalimantan as a wealthy region, yet the inland region is very different. He blamed local government and parliament. Corrupt local government officers and parliament members give government project to their own people. Even most local parliaments have links with contractors. It is not surprising that many government projects have problems.

Corruption changes community values, so people do not feel guilty anymore. In government, corruption has systems that are difficult to trace. Government projects have not only spoiled businessmen, but also become places for corruption where government officers carry on their corruption. It is known that to get a project from the government, businessmen need to pay an informal fee of around 10 – 15 % as a down payment to the government office that “owns” the projects. It is said that after regional autonomy the percentage has been increased in some regions to around 20 – 25%. There are other informal fees that businessmen need to pay to certain government officers depending on the process that they want to short cut, from allocating the project budget to reimbursement of money from the project. The informal fees are not only a corruption by the “owner” of projects, but also involve giving to some government officers who have the power to approve the project forms for reimbursing funds.

How the latter form of corruption can take was described in a World Bank (2003: 27-28) working paper on Combating Corruption in Indonesia:

²⁰¹ Interview Code KT-9: 4 - 6

In Indonesia, a central controller function does not exist. The responsibility for exercising financial controls gets split between the project treasurer at the grass roots, central MOF (Ministry of Finance) staff at the treasury offices that disburse money, and the accounting units at different ministries. Project financial staff often lack accounting education and training. Sector ministries lack a central controller function that brings together budgeting, accounting, reporting and payments. As a result, accountability for maintenance of appropriate internal controls is rendered unclear and ineffective. This is one reason why controls fail consistently. This issue is recognized in the recent MOF White Paper and an organizational response is to be developed. KPKN (State Cash Payment Office) of MOF carries out ex-ante reviews of all transactions in its 161 offices spread all over the country employing over 7,000 staff. The SPM (Request Order Letter) is issued by KPKN within one working day of receiving the SPP (Payment Order Letter, the payment request, a service standard that is closely monitored. However the system suffers from a heavy dependence on paper-driven processes and verification processes that are largely ineffective and create opportunities for corruption. The focus of the verification checks is on consistency with regulations and laws, adequacy of supporting documents and accuracy. Evidence from World Bank supervised projects and BPKP (Financial and Development Supervisory Board) audits suggests that such supporting documentation rarely includes independent verification from third parties confirming the detailed quantities and specifications of goods delivered or works completed. Documentation provided typically includes an internal document called a BAP (Payment Memo) giving details of the payment request and confirming its legitimacy. Sometimes contractors' formal invoices are not attached; nor are other relevant third party documents such as transportation documents, certificates of origin, measurement sheets and measurement certificates for civil works. Keeping the more direct evidence of work completion or goods/service delivery separate from payment documents greatly increases the risk of collusion and corruption in the disbursement of project funds.

Furthermore, Rose-Ackerman (Harahap, 1999: 3-4) argues that “incentives for corruption are provided by the high level of funds and resources under the discretionary control of officials, combined with poor formal laws on corruption, the lack of credibility of law enforcers, and the poor conditions of civil service employment. Other contributing factors include the limited extent of auditing and monitoring within government, the lack of public awareness of government activities and a tendency not to file complaints, the low level of press freedom and the controls preventing individuals from forming non-government organizations, and the poor level of active political opposition.”

The limited extent of auditing and monitoring within government is not only because of a lack of National Accounting Standards²⁰² for the public sector, but also some government auditors/controllers, for example, some BPKP officers did not audit projects so as to be able to give suggestions for better implementation, but looking for a ‘mistake’. They use ‘mistake’ as their bargaining power to get a bribe. This fact is well known but difficult to eliminate because corruption is not only as culture but, as was mentioned above, has become a system. Clean government officers even find it difficult to survive among corrupt government officers. Beside poor formal laws on corruption and the lack of credibility of law enforcers as mentioned by Rose-Ackerman above, there is also no reward and punishment from the community for silent corruption. As a result, the people who do not corrupt are only those who have good morals. According to this, Alatas (Harahap, 1999: 5) suggests, “the most important factor in combating corruption is the moral and intellectual stature of leaders.”

5.5.5.7. Corruption by Some International Institutions

Klitgaard (Harahap, 1999: 4) “asserts that almost everyone who lives and works in Indonesia goes along with corruption including foreign investors, aid donors, and international financial institutions.”

²⁰² I have personal experience related to National Accounting Standards issues. In my meeting with Kepala Badan Keuangan Negara (Head of the Supreme National Audit Agency) and some experts from Australia in 1999/2000, I argued that it is inappropriate and ineffective to only use Australian Accounting/International Accounting Standard for Indonesia. What we need is to formulate National Accounting Standards first. We can adopt these from International Accounting Standards. Many of discussants were surprised because they did not considered about this matter before.

One example of modus operandi is done by some corrupt donor officers, for example, some of donor officers executed some of project activities by themselves or organization/institution link to corrupt donor officers and report the activity integrated with loan under Indonesian government name. Another example, there was one project forced to move to another government institution because the project manager rejected to pay a consultant who has link with donor and did not fulfil their responsibilities. There is incentive for international institutions to do corruption is their link with donors. For example, as mentioned by Fukuyama (2000:90) that USAID is infamous for spending large sums of money on overhead and contractors-many of them U.S.-based-and seeing relatively little assistance going directly to groups in the client countries.

Corruption in Indonesia is difficult to eliminate because it is culture and system and related with moral issue, is involved across actors and spread in many activities. According to Harahap (1991:3), “there are two strategies need to put in place to address endemic corruption. The first involves prosecuting high profile public officials. Such action will serve as a powerful symbol of the end of an era where corruption was acceptable. The second involves increasing public sector wages to remove one of the major incentive for corrupt activity as well as contributing to improvements in service delivery.”

Corruption in government projects as one of corruption resources involves many actors and huge money. In order to decrease corruption in government project, government need to focus on management government project and law enforcement. Following discussion is some suggestions for government to manage government project and why using Public Private Partnerships more relevant than Donor’s Loan/Grant that could decrease corruption in government projects.

a. To Decrease Loans and Grants for Non-physical Projects

Most of the corruption happens in government project management. It is well known that there is mark-up of government projects for physical projects, for example, in infrastructure a mark-up of a bridge cost. In some cases, a non-physical project is also easy to manipulate, for example, there are invisible officials and invisible activities. In this case decrease government projects that use loans or grants from donors for physical

projects and shift these to become Public Private Partnerships.²⁰³ Government projects should use commercial funds in Public Private Partnerships. This fund has some consequences if misuse and it needs responsibility to shareholders. To gain benefit from donor soft loans and grants, government still can borrow soft loans and accept grants and allocate them directly to the poor, for example, by providing food stamps and free health and education facilities.²⁰⁴ One of the difficulties in implementing this policy is that donors will disagree. Every loan has requirements, some of them related to the political interests of donors. According to Tendler (Fukuyama, 2004: 90), “the problem of the politicization of aid at bilateral agencies like the U.S. Agency for International Development (USAID) have been well understood for decades but do not seem to be readily fixable.”

Another difficulty to shift donor loans and grants to being allocated to the poor directly is the donor focus on production. As stated by Fukuyama (2000: 89), even for capacity building, there is a conflict in donor goals between building institutional capacity and providing end-users with the services that the capacity is meant to produce. In the end, everyone wants the factory to run at full output, but it matters critically

²⁰³ I have experienced finding an allocation budget draft from a technical department that allocated funds for two people for 365 days per person. How can one person be travelling for a whole year without a break. Of course we rejected this proposal but the question is how many government officers consider this or care enough about this to prevent such corruption.

²⁰⁴ Indonesia has experience in allocating its own funds directly to the poor. For example, after crises based on IMF requirement, government reduced the BBM (Oil) subsidy by selling oil at the market price, and allocating profits to subsidize a different price of oil for the poor. In fact, this policy was ineffective, funds were not received by those who needed them. As well as there being fund leakages through corrupt officers, the IMF did not realize that there is not national ID (Identification) in Indonesia. In many cases one person can hold many IDs, because ID produced by local districts are not computerized on-line, so are difficult to monitor. This policy would be effective, for example, using food stamps as one of the alternatives to allocate funds for the poor effectively as in the USA. It could be implemented in Indonesia if a National ID program works. This is also one of the reasons why a reward and punishment system did not work, there is no black list for corruptors and criminals. Based on my experience living in USA and Australia, a small example would be that somebody who gets their phone line disconnected because they did not pay the phone bill to one company cannot reconnect with other phone companies. Australia has not implemented National ID yet, but they have better data system. as reported on Evening News 19 July 2005 by Australian Television (Channel 9, South Australia) that after London Bomb at early July 2005, Australia considers to create National ID to combat international terrorism. This idea was rejected by John Howard 4 years ago, consider individual privacy and possibility data could be misuse. Despite these objections, National ID is important for Indonesia. For example, a few week ago (early July 2005), Head of Indonesian police stated on Berita Pagi TVRI, police predicted that some terrorist suspect had already flight to overseas because easy for them to get or change Indonesian ID. In Indonesia, many people also benefit from double ID, for example, it is easy for them to hide their properties from tax officers, with this situation and corrupt officers having an effect on government tax revenue.

whether local people can operate the factory to meet local needs. It is hard to be optimistic about whether donors can ever be patient enough to focus on capacity-building at the expense of actual service provision, since their backers usually demand visible results.

Moreover, people tend to have the perception that loans and grants are generosity funds from government. As mentioned by the General Secretary of EIDC:

Grants and loans for regions have the same treatment, regions think that they can be extravagant with money from loans and grants and throw money around. It means the planning is not good because money is likely to come automatically.²⁰⁵

I agree with this opinion, government funding from donors is not educating people. People think that loans especially grants are government money. They think a government which has power to manage all of the natural resources has as a consequence to take care of its people. In another words, government or the state controls natural resources so people demand compensation. As a result, people treat government funds as 'dead money' and they can use or throw it away for free. There are many cases that show government money being thrown away. For example many Village Cooperatives do not pay back their loans, or their IDT funds. The IDT fund that should have been a rolling fund ('Dana Bergulir'), in fact just disappeared but government did not do anything about this and did not implement a reward and punishment system. As mentioned previously, also in these cases government projects should use commercial funds in Public Private Partnerships. These funding arrangements would have consequences and need responsibility, so would educate people. Moreover, they would establish an ethos of hard work and competition, because without capability to compete business cannot survive.

b. To Enhance Transparency and Accountability of Government Projects

According to Klitgaard (Harahap, 1999: 4), "strategies to minimize corruption are setting up new mechanisms of citizen oversight of government projects, including their design, evaluation and audit". In my opinion, one of the mechanisms is publishing all of

²⁰⁵ Interview Code J-4: 10

the project activities from planning, implementation, evaluation and result on time. It gives a chance for the community to control and monitor government projects. Providing on-line project documentation processes will decrease the chances for people to manipulate data. Sometimes government non-physical projects exist only on paper and many government projects, for example in infrastructure, fail or are poor quality. Not only do bribes trigger bad quality of the project but also sometime this is deliberate to create future maintenance opportunities. There is no record-keeping of performance history, corruption or incompetent contractors. It is worse because Indonesia has not implemented a National ID system yet²⁰⁶ so, even there is a record, a contractor who had failed in one project can bid for other projects in other places under different company names. As stated by Harahap (1999:4) “other strategies including the government procurement and budget system, the fixed assets management system, national database, the legal system, the foreign loan management system. These strategies focus on developing accountability and transparency.”

This account of how corruption decreases trust in government parallels findings of other research. For example, as mentioned in the ‘Anti-corruption Policy’ of ADB (1998) research about corruption in Ghana, Africa, found that corruption resulted in paralyzing the assessment system of government officer promotion and recruitment, and established a lack of trust among all administration levels. Another extensive study on an Asian state found that corruption led to choosing inefficient producers, unfair allocation of public resources and linkage of government revenue to personnel. Corruption resulted in the loss of trust in government.

Furthermore, when I asked direct questions about trust to my respondents, they often said that they trust each other, but during conversation and based on their other comments I can conclude that they did not trust others. In the conversation, even though they have had bad experiences or trust each other less, many of them realize that trust is important and they said they must trust other because they need each other and need to establish partnerships.

The existing Public Private Partnerships have not been successful if partners lost their trust, for example in the partnership between PT Phillips Seafood Indonesia (PMA/Foreign

²⁰⁶ See footnote 203. It is related to the National ID problem

Investment) and the PDAM (Local Water Supply Company) of Barru Regency. PT Phillips Seafood Indonesia is located in Barru Regency but gets its water supply from PDAM Pare-pare. According to the Plant Manager of PT Phillips they had worked with PDAM Barru once, but were disappointed with the Barru PDAM service so they terminated the partnership and choose PDAM Pare-pare. They have continued this second partnership because, based on experience, they trust PDAM Pare-pare because it fulfils the agreement, gives good service and is always responsible.

Mutual trust and confidence between government and the private sector not only is an internal factor affecting the chances of implementing Public Private Partnerships, but also one of several conditions required for successful implementation of Public Private Partnerships.

5.6. Personal and Organisational Capability

According to Franks (1999: 52-53), “Capability refers to the knowledge, skill and attitudes of the individuals, separately or as a group. Capacity, on the other hand, refers to the overall ability of the individual or group to actually perform the responsibilities. Capacity depends not only on the capabilities of the people but also on the overall size of the tasks and the resources which are needed to perform them, and the framework within which they are discharged. It is possible to imagine an organization, which has a capable staff, for example, capable of managing system operation and understand the basic skills and technologies that is required, yet which does not the capacity to perform its functions because the policy framework does not allow satisfactory performance”

As we have discussed, lack of capability both in government and local business is one of the factors that contribute to less trust between local government and local business. In Chapter IV, I stated that the lack of capable human resources is one of the contributing factors to imbalance between KBI and KTI. Hence, to gain knowledge and skill such partnerships need to encourage other actors to get involved including universities and professionals, national and international business. Both local government and local business will have opportunities to increase their knowledge and effectiveness by integrating managerial concepts and practices. Both local government and local

business could transform their old pattern to new patterns; managing the local economy by improved managerial techniques and market mechanisms.

Successful Public Private Partnerships need personnel with knowledge and experience in market economies. The personnel need to have a market-orientation, capability to deal with domestic and international regulations, and the capability to obtain reliable information and interpret it in the context of the market-competition-oriented environment for making effective market-oriented competitive policies.

Besides market knowledge, in general the institutions that wish to be involved in partnerships need to show that they have the relevant organizational capability. The availability of qualified and experienced personnel is also one of several conditions required to establish Public Private Partnerships. For example, as mentioned in the discussion above, the Head of the Innovation Centre of LIPI stated that, based on his experience, it requires effort to assure prospective partners that LIPI has capability. To demonstrate LIPI has capability, it asked previous partners to share their experience of this with prospective partners. As the result LIPI could convince the prospective partner and gain their trust to establish a partnership. Another example is that international partnerships need personnel with good English as an international language. There is an example of how a lack of language capability became an obstacle for the “BIMP-EAGA” (Brunei–Indonesia–Malaysia–Philippine East Asia Growth Area) partnership. Related to this matter, an officer from the East Kalimantan Investment and Promotion Board said:

In fact, that discourse have been followed since 1992, especially in cooperation with BIMP-EAGA, that is cooperation among Brunei, Indonesia, Malaysia and the Philippines as a part of the South-East Asian region, but limitations of language became an obstacle. Up to now, there is no realization of partnership, but local governments continue to provide a budget for the Local Investment and Promotion Board to establish the cooperation.²⁰⁷

²⁰⁷ Interview Code KT-7: 40

5.7. Networking, Cooperation/Collaboration and Coordination

As discussed in Chapter II, Franklin and Streeter (IPPA, 2002: 17) pointed out that the “use of terms such as coordination, collaboration, and networking were used interchangeably. However, there is emerging research which supports the placing of concepts on a continuum based on the degree of change and commitment required. Informal relationships require little commitment and no organisational change”.

In this study, terms such as networking, cooperation, coordination and partnerships are not only based on degree of commitment but also differentiated in terms of their focus. The term ‘networking’ will be used to describe the channel of relationship; ‘cooperation’ and ‘collaboration’ will be used interchangeably to describe the role of stakeholders; ‘coordination’ describes the effectiveness of relationships between stakeholders; ‘Partnerships’ describes a formal relationship established by networking, cooperation/collaboration and coordination. These factors are parts of the process to establish Public Private Partnerships and supporting conditions for successful Public Private Partnerships. Conversely, successful Public Private Partnerships will strengthen networking, cooperation/collaboration and coordination.

5.7.1. Networking

Barru Regency’s experience demonstrated the usefulness of networking to establish Public Private Partnerships. Formal channels were preceded by an informal channel, in which expatriates provided information and made initial contacts to invite private companies to cooperate with Barru regency. Continued negotiations with prospective partners followed. This reduced travel costs and delays caused by inexperienced local negotiators.

Networking plays a significant role in establishing partnerships. Many regions and government institutions prefer to use “expo”, for example, commercial exhibitions or other promotions as their tool to approach their prospective partnerships. For example, the Chairman of Enrekang Regency said that after the expo in Makassar, their businesses paid a visit. There is now a MOU with a businessman from Saudi Arabia to establish electric power. There is also an investor from the Netherlands who wants to assist them in

agriculture.²⁰⁸ But there is also an example that an ‘Expo’ can mean leisure rather than promotion or business exhibition, as mentioned by the Deputy Chairman of Samarinda Municipality Chamber of Commerce and Industry that government (often) said that they have no funds, though they go everywhere, to Beijing, to Thailand, the functionaries continue to go²⁰⁹

I got the same impression based on other interviews that I conducted with some other participants; for example, I asked the KAPET Parepare Director what were the problem that KAPET Parepare has faced lately. His answers surprised me; he said that funds for promotion overseas are decreasing as well as funds for printing brochures.²¹⁰ His answer indicates that they more concerned with travelling than other problems. Many other local government and businesses think that KAPET is ineffective. As mentioned in Chapter IV, section 4.5., one of them even said that none of the investors who came to their region was sponsored by KAPET. Not only were personnel concerned about travelling funds, but also local officers, for example the Acting Head of the Industry and Trade Office of Samarinda Municipality. She compared the distance of travelling instead of the mission of travelling, as she said that “After autonomy, compared to other regions in East Kalimantan, Samarinda is poor, for example the Head of the Commerce Office of Kutai Kertanegara goes to Europe, to Japan, while ours has enough only to reach Jakarta.”²¹¹

One of the reasons why some central government offices do not have networking with private sectors is because they did not consider that private sectors are their direct consumers. For example, as stated by the Director of Balancing Fund between Central and Local Government, that Directorate prepares materials for policy formulation to fund counter-balancing. The private sector has no involvement in policy formulation directly. Local government is a direct consumer of such policy, therefore the major networking is with local government.²¹²

²⁰⁸ Interview Code SS-14: 8 & 18. What he meant by inter country cooperation is BIMP-EAGA

²⁰⁹ Interview Code KT-3: 100

²¹⁰ Interview Code KT SS-3: point 2

²¹¹ Interview Code KT-18: 4

²¹² Interview Code J-9: 26

The way of thinking or mentality of government that always want to be served may be another reason for lack of networking. The Acting Chairman of the Industry and Trade Chamber of South Sulawesi told me:

I have a friend who became mayor in one of small town in Germany. He is, for example, writing letters to the Samsung Company concerning his town, then Samsung responds, checks the situation, is it appropriate and finally invests there. This requirement needs to be conducted by our government. Not like now, for example, I am investor, you are governor, I need to ask for a time (make appointment) to meet you, and hence what I said that a mentality like this need to be changed.²¹³

This comment showed that government needs to change its attitude from wanting to be served and shift to serve community and business. Government needs to seek networking actively and not to be exclusive, as this attitude triggers a lack of networking and becomes an obstacle to establishing Public Private Partnerships. Networking is required to establish Public Private Partnerships and successful Public Private Partnerships could strengthen networking.

5.7.2. Cooperation/Collaboration

Local stakeholders realize that building partnerships requires cooperation among government institutions. One interviewee brought up a case involving cooperation with the Foreign Affairs Department:

...in current local autonomy, many opportunities are available which we can, in fact, we can pursue opportunities for cooperation with regency and municipality governments and other countries. To cooperate with other countries we remain under the coordination of Foreign Affairs Department. Now, in order to supporting development of businesses, the Foreign Affair Department more active. In previous days, we only contacted the Foreign Affair Department only if we want to go to another country for fiscal matters. But now they (Foreign Affair Department), expose themselves, for example, when we ask information for promotional activity for Indonesia 2003, the

²¹³ Interview Code SS-6: 60

Asia, America, European and Pacific Directorates of Foreign Affairs Department is very enthusiastic...even sent their staffs to follow on and to join with us in order to support. So, we cooperate with the Foreign Affairs Department in order to development of promotion in other countries.²¹⁴

Local autonomy has increased government commitment in inter-organisational cooperation, although this is still not significant. This is evident in the Secretary of Pinrang Regency mentioning:

Although we have not seen deep partnerships yet. There are some signatures on MOUs demonstrating that. Though I got clarification from the Director General of Foreign Affairs, after that MOU there are still some which follow the MOU. However, even one hundred MOU it will not have any meaning...²¹⁵

This comment shows that local stakeholders do not have enough knowledge about what constitutes partnerships. Some local stakeholders think if there is a MOU it means there is a partnership, even though a MOU represents the legal formality which is one of a Public Private Partnership's characteristics. But another characteristic that should exist is that there is a working relationship where each actor (public and private sector) have parallel bargain power.

In some cases, there is an opportunity to establish partnerships in strategic planning, but some government officers think it is not necessary. The Director of the MOF Balancing Fund between Central and Local Finance commented:

The cooperation is performed by the Directorate of Human Resources, to increase professionalism caused by transfer of knowledge from the academic circles and international practitioners concerned. Based on the duties and role of the Directorate of Balancing Fund, partnership with the private sector is not a decision which must be gone through. First, partnership means consolidation to create compatibility of mission and vision. To fulfil such a condition, of course, this Directorate has difficulty. Second, policy to be taken by the Department of Finance is public policy; in this case the private sector can be

²¹⁴ Interview Code: KT-7: 38

²¹⁵ Interview Code SS-15: 10

involved as a direct decision maker, while in partnership the private sector gives input in the effort adding knowledge.²¹⁶

His comment is one example of misunderstanding on partnership concept, because in fact this Directorate has already cooperated with some professionals, international institution and also coordinated with other government institutions in fund formulation as he mentioned in another sentence:

Cooperation in order to formulate policy of the counter-balance fund has been conducted by the Directorate of Balancing Fund with state universities. In Jakarta with the University of Indonesia and in regions such as UGM, UNHAS, and UNAND. At the same time, it also cooperates in the form of technical coordination conducted with other governmental institutions, either sub-division of the Department of Finance or with other Departments...The form of Partnership with international institutions also represents a part of technical work in performance for input/feedback in policy formulation to balance fund, such as World Bank, ADB, USAID, AUS-AID, CIDA, etc.²¹⁷

There is cooperation between regions, between regions in East Kalimantan and regions in South Sulawesi that has worked for centuries. Formally there is no MOU, they have links. A community port known as the 'Port of Nusantara' has been built since a long time ago, at least the 17th century. The community from South Sulawesi sends rice to East Kalimantan. This cooperation was established by the community itself traditionally.²¹⁸ This link needs to improve, and is one of the potential opportunities to establish partnerships between region.

Furthermore, intensifying face-to-face communication can achieve effective results, as experienced by East Kalimantan Province. As described by the Head of the Program Planning Division of the East Kalimantan Province Investment and Promotion Board:

So, like this, according to good governance, there is synergy between government and businesses and community. In order to have that, over the last

²¹⁶ Interview Code J-9: 22

²¹⁷ Interview Code J-9: 16

²¹⁸ Interview Code SS-8: 14

three years the Local Investment and Promotion Board has cooperated with KADIN (Chamber of Commerce and Industry). In earlier days KADIN work by itself, we worked by ourselves, but with the accidental burning of KADIN office for last 3 years they joint and move to our building. So that one of our effort is to unite between government and Chamber partnership. We always discuss with them to look solution for businesses. However, they carry on business and we facilitate it. So, what we have been doing in this time, the last 3-years' relationship is harmonious. For example, the East Kalimantan Local Investment and Promotion Board have a synchronization program meeting in September, we invited them to be speakers and, conversely they are proactive among businessmen, so I think our relationship with KADIN especially in instituting duties going nicely enough.²¹⁹

This argument supports the establishing of a new single board for public and private cooperation because daily face-to-face communication is more effective than meetings or forums.

Moreover, it is difficult for local business, especially small business, to establish legal partnerships without forming one legal association. The Deputy Head of Barru Regency had experienced this, telling me that:

I have had experience to conduct a promotion to Malaysia. Malaysia ordered rice,...we might be able to provide 200 ton per month. There is problem for this, no business-establishing umbrella for signing a MOU. It is impossible use existing KUDs (Village Cooperatives), unlikely for one KUD one contract. It needed an umbrella first. Even I asked KUD to establish one association as an umbrella and to establish partnership. Until today, I have not received report from all official members of KUD yet. So, the result of promotion in another country is only on paper.²²⁰

This example is very suitable to show that local economies need partnerships, especially they need local companies to improve and to support small businesses to establish a partnership. Another way is for small businesses, for example, KUDs, to build

²¹⁹ Interview Code KT-7: 28

²²⁰ Interview Code SS-24: 12

new formal associations as umbrellas and these, on behalf of their members, build partnerships with foreign representatives. This explanation showed that local decision-makers have responded positively to partnerships and created ideas about establishing partnerships.

In KTI, many cooperations, forums and meetings have been conducted by the public and private sectors but were not effective because local stakeholders thought they were only informal cooperation and of no consequence. One example already described was the Forum Dialog among Governments, Banks and KTI Private Companies in South Sulawesi in September 2002. Many participants commented that they were pessimistic about this kind of forum dialog because from their experience many commitments made at such meetings are not realized.

The formalization of a forum (to become a real entity) is one of the final goals mentioned by the UNDP National Project Manager of Partnership for Local Economic Development: “We actually in the beginning created a forum, but it needed acknowledgment from government. So we hope that, for example, the Head of the Regency supports the existence of a forum, hence, it will get support and finally it will be formalized.”²²¹

5.7.3. Coordination

As mentioned in Chapter II, based on a study conducted in Japan, one of three major constraints of Public Private Partnership is an increased share of risk for the private sector including insufficient coordination between central and state governments. In my study locations, there was evidence that lack of coordination had become an obstacle of partnership, for example, the KPC (PT Kaltim Prima Coal) case.

PT Kaltim Prima Coal is an Indonesian incorporated company. The contractual joint venture agreement was between the Indonesian government through the Indonesian State Coal Company, PT Tambang Batubara Bukit Asam (PTBA) and Rio Tinto (formerly RTZ), and signed in June 1977. The contract introduced new measures; a 10%

²²¹ Interview Code J-6: 33

profit tax on exported unprocessed minerals, and a 60% windfall tax when average returns on investment exceeded 15% over a three-year period (*Wall Street Journal*, June 14 1977). It took another five years (1982) before Rio Tinto signed its first (and so far only) coal contract in the country - to exploit the highest quality steam coal deposits. Under the terms of the production-sharing agreement, the Indonesian government takes a 13.5% royalty - either in revenue or coal - and the companies pay tax at 35% for the first ten years (*Financial Times*, December 9, 1998). By the tenth year after commencement of production (2002) and it didn't include coal or uranium exploitation, KPC was committed to divesting up to 51 % of shares (in PT Rio Tinto Indonesia and BP) to the Indonesian government (*Jakarta Post*, June 26, 1998).²²²

For a while there was a problem because local government asked for the 51% of KPC shares. In an example of local government comment in this case, one of my respondents said, "It is KPC, the story is like this, East Kalimantan does not make a high sounding 'demand', only asking for the 51% share which was the initial allotment to be bought by government".²²³

In fact the KPC case is not as simple as suggested in this local government officer's comment, because in the middle of March 2002, there was legal action by the provincial government in the KPC divestment case. This legal action resulted in a court order that placed all of the shares in the joint venture that owns the coal mine, Kaltim Prima Coal, under court control (*The Australian Financial Review*, March 27, 2002). What we learn from this case is lack coordination between local and central government became an obstacle for implementation of Public Private Partnerships.

Coordination also needs to be maintained for successful Partnerships. One of the examples is PT Philips Sea Food Indonesia, which always invites their partners to discuss an important or a new matter. They conducted meetings with fisherman representatives, even some of them need to fly from Kendari.²²⁴

As mentioned by the UNDP National Project Manager of Partnership for Local Economic Development (Chapter 4, 4.4.5) coordination is important for partnership.

²²² URL: <http://www.minesandconimunities.org/Company/kaltimprimal.htm> [Online Access February 27, 2003)

²²³ Interview code KT-7: 48

²²⁴ Interview code SS-27: 48-50

Partnership is not only needed at local level, but also at national level. At national level, there is a lack of coordination among Departments. As an example, she mentioned the Department of Industry and Department of Agriculture. Many industries use agricultural material, and the industry market overlaps with the agriculture market, but there is no coordination between both departments.²²⁵

Furthermore, as mentioned in sub-section 2.4 of Chapter II, one of the criticisms of Public Private Partnerships noted by Deutz (Field, 2001) is that the central and local governments must have good coordination due to private sector investment in Public Private Partnerships or risk being dictated to by international investors. Central and local governments must agree on the basic features of projects. If they do not, the private sector will be able to undermine their policy position and perhaps harm intended outcomes.

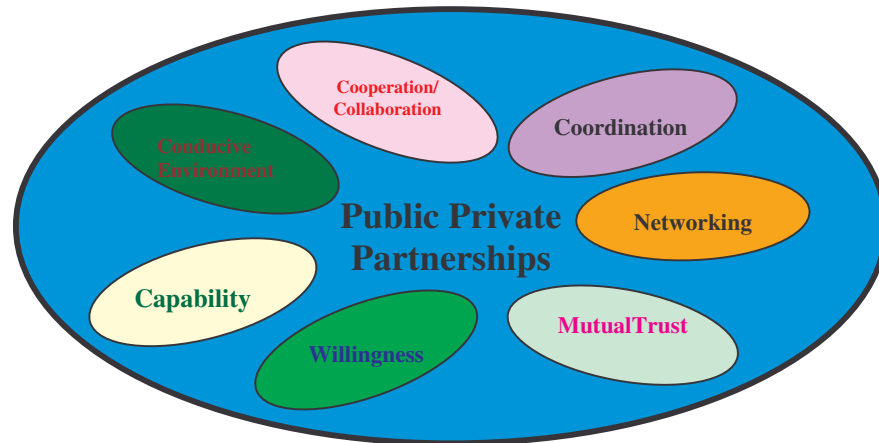
Good coordination between central and local governments and among government institutions will not just prevent international investor dictation but is needed for implementing a Public Private Partnership successfully.

Lack of coordination between central and local government will affect economic and business activities; for example, if the central government breaks the contract that has already been made between a local government and a private company because it does not match national planning.

Networking, cooperation/collaboration, coordination, and other factors such as willingness, trust, capability and a conducive environment are integral to the process of a Public Private Partnership model and are supporting conditions for successful Public Private Partnerships. On the other hand successful Public Private Partnerships will strengthen networking, cooperation/collaboration and coordination and increase trust, stakeholder capability and enhance a conducive environment. The relationship is shown in Diagram 5.2 below:

²²⁵ Interview code J-6: 68

Diagram 5.2: Factors in the Public Private Partnerships Process



5.8. Decentralisation as One of the Supporting Factors for Implementing Public Private Partnerships

Cheema and Rondinelli (Keban and Subarsono, 1998) report that most countries in the Third World which reached their independence after W.W.II applied a centralistic system for their development. Development policy that is centralistic is based on intervention from strong central government in the investment and production processes. The development policy being used is capital intensive industrialisation to reach the objective of maximising GNP. This policy of most of these Third World countries was not only influenced by the thought of development experts in that time, but was also a pre-requirement from international donor institutions from the 1950s through the 1960s. By the late 1960s it was being admitted that these centralistic development systems failed to reach their objectives. Even though economic growth was high enough in several developing countries, this development policy caused bigger income gaps between groups in the community, and between regions. Only a small number of people enjoyed the economic growth. Therefore, in the 1970s many governments in Third World countries started to adopt a new approach in their development process, shifting to decentralised systems giving more authority to regional government. At that time, the Indonesian government also wanted to apply the decentralising principles, and enacted Law No. 5/1974 about the basis of regional government. However, the emphasis of 'real

autonomy and responsibility' in this Law was on deconcentration principles, which were followed in its application, whereas the decentralisation principle was blurred.

In February 1999, as consequences of social, political and economic changes and following demands of stakeholders such as the national Legislature, regions and the IMF, the Indonesian government enacted Laws Number 22 on the subject of Regional Governance and Number 25 on Fiscal Balance Between the Central Government and the Regions. The central government not only transferred some political authority and administration but also financial authority. Local government now has authority to manage their regions based on participation, equity, democratic principles and various local conditions.

Allocation time was very short²²⁶ for the preparation to formulate both Laws less than six months and for the preparation to implement them less than 2 years, creating some problems in the implementation of both laws. For example, the demolition of the hierarchical relationship between province and regency/municipality in Law 22/1999 created coordination problems. Another problem was that there was not enough consequential government regulations to support both Laws' implementation. Considering the problem, in 2004 the central government amended both Laws. This discussion will not include the amendments because it focuses more on how local governments responded in managing their region under decentralization.

According to a study by Cheema and Rondinelli (Keban and Subarsono, 1998), there are several advantages to be gained from decentralising a system²²⁷. Among these are:

²²⁶ The IMF forced the Indonesian government to prepare and implement both laws in a short time. As other relevant government institutions, BAPPENAS needed to give feedback before the government signed the IMF draft. When we discussed the draft, I said to my boss "It does not make sense for me, that the Indonesian government can do all of these, this draft is very detailed with a rigid schedule and rigid volume." This especially applied to the section about implementation of autonomy at the beginning of 2001 and the section to shift central government officers to local government with complete volume and schedule. My boss replied simply, "what must be done, is done". This illustrates that since the beginning government considered the problems, but it had a limited bargaining position because it depended on IMF funds for recovery from crisis giving the opportunity for the IMF to dictate to the Indonesian government.

²²⁷ The study of Rondinelli and Cheema mentions 14 benefits of decentralization in planning and administration. This study takes the 7 of them that are relevant for its discussion of supporting factors for Public Private Partnership

- 1) Increasing knowledge and sensitivity of regional officers toward local people's needs;
- 2) Increasing administrative capability of local governments and local private institutions;
- 3) Giving alternative policy that may be different from the central government policies that are often insensitive to the local people's needs;
- 4) Increasing the administrative system's flexibility, innovativeness and creativity;
- 5) Simplifying development implementation and evaluation;
- 6) Increasing political stability;
- 7) Decreasing inefficiency or waste, instead increasing service efficiency.

These advantages are positive objectives for an application of Public Private Partnerships in Eastern Indonesia. There was a shift of paradigm in both Laws, basically to maximise effort and performance of local actors in socio-economic development in each region, especially in economic development. This new paradigm will encourage the local stakeholders to pay more attention to local policy development and local economic conditions such as existing local resources and service systems. Moreover, the appropriate response to local conditions will increase the competitiveness of price, product and service qualities. Therefore, it will develop regional economic activity that will reach international markets, even the centres of the global economy, so this economic activity could be run efficiently and productively (Mustopadidjaja, 2001). As stated by Bennet and Krebs (1991), an emphasis on 'bottom up' gives opportunity to local stakeholders together managing local economies and business investment decisions and strategies. A decentralization policy gives the local governments and private sectors more opportunities to develop their partnership for making the region more prosperous based on the local potentials and aspirations.

Besides these proposed advantages in positive objectives for application of Public Private Partnerships in the Eastern Region of Indonesia we need to consider possible negative aspects of decentralization, such as:

i) giving power to corrupt local officials and local decision makers who can now act with power and are not checked by central government regulators. One participant expressed these concerns as follows:

...During 2 years of the implementation of autonomy, can you see in your research that members of local parliament are not as poor as before? Now they are rich. I had the experience of going with them to an exhibition of ornaments, one of them who sat with me said that he wanted an ornament with a value of 25 million rupiah, he is so rich.²²⁸

Public Private Partnership implementation may increase opportunity for corruption unless well managed. As stated by Minoque et. al. (2000: 102), there are “dangers of corruption and cronyism which may attend more intensive and long-term interorganizational relationships”. CPS (Hodge, 1996) in their general review of United Kingdom experiences in contracting found that contracted services resulted in corruption and secret business influence in government.

ii) giving power to local decision makers to produce counter-productive regulations.²²⁹ For example, based on information from participants, some regions created taxes and levies to increase locally generated revenue without considering the local business interests. The Acting Chairman of the South Sulawesi Chamber commented that:

Actually, the purpose of autonomy is empowering regions to be more progressive. The problem is people translate that autonomy in PAD (locally generated revenue) with legal instrument for levies. An example is in Makassar, where every car passing needs to pay a levy on some roads, after being toll free there are levies again, according to me our government acts like the VOC.”²³⁰

²²⁸ Interview Code KT4: 50

²²⁹ Based on a report from the KTI Local Chamber of Industry and Commerce, there are around 60 local regulations that are obstacles for investment in KTI (*Kompas*, June 18, 2003). In an attachment of the Minister of Finance’s letter No. S-523 of December 12, 2001, are 12 local regulations considered for cancelling, most of these new local regulations related to tax, levies and monetary contributions from third parties.

²³⁰ Interview Code SS-6: 40. VOC = Vereenigde Oost-Indische Compagnie (the United East India Company)

Another interviewee mentioned some examples how local government use autonomy to gain PAD (locally generated Income). In South Sulawesi there is new tax for lightning rod. He complained about this new kind of tax, according to him, a lightning rod is for security. If people install the equipment they should be subsidized instead of tax charged. Furthermore, he mentioned that there is overlapping on tax. For example, now every company which owns parking places, although the company owns land and the facility is built by the company, they still have to pay (parking fee). Like PT Berdikari has to pay (parking fee) Rp. 30 million per year, whereas they also have to pay for PBB (Land and Building Tax) every year.²³¹

However, decentralization increases local initiatives, as described in comment of the Head of Industry Office of Kutai Kertanegara. He compared the situation before and after decentralization. He said that before decentralization government officer needed to encourage community to joint training, and government often need to come to small industry to show and convince them about government program. Community were apathetic also they do not know government activity/program. After decentralization, all of Kutai Kertanegara government programs are in white book. Community search for school, ask for training and apprenticeships actively. Local government even has difficulty to accommodate community desires and aspirations. According to him, people changed because may be they consider that now local government is more capable and has big budget.²³² Furthermore he said that

Up to 2000, budget discussion was not hard; the budget was textual and automatic, still top-down approach; the community did not know what the government project program was. The community knew of the activity just at the moment of the activity being implemented and the community gathered, 'this is new appliance', and etc. Development Coordinating Meeting was gratification for us if we could get even one proposal from a district. Now, villages send many proposals, from one district 10 proposals were sent, like asking for sewing machine, training, etc. In the old days, everything was in a package...Now, since the beginning of budgeting process, the community gets

²³¹ Interview Code SS-7: 12 & 54

²³² Interview Code KT-15: 22 & 24

involved. From there is rare even no proposal from community, now community sent large number of proposal. Even in 2002 government provide Rp. 2,1 billion funds per village; it still cannot accommodate community aspiration...²³³

As he also mentioned before (4.4.5.), before decentralization local government could manipulate data for government projects. After decentralization, community more involve, they cannot supply fictional data anymore.²³⁴ This means decentralization not only increase local stakeholder initiative but also increase transparency and accountability.

During my fieldwork I was impressed that since decentralization there has been an increase of awareness and understanding of local government. In my opinion local autonomy changed the way of thinking of local governments. Government officers now see themselves more as a public servant than as part of a bureaucratic apparatus, this has increase trust in local government and made their region more interesting for investors. This was expressed by the Head of Kutai Kertanegara Regency's Trade Office as follows:

I think a lot of investors from Java come to this regency, like PT Wika, they come from Java to build on the island of Kumala. They have chosen this area because of its peaceful situation, many business opportunities and especially local government officers who serve them well. The Investor is King and we are Stewards.²³⁵

The emphasis on decentralization gives opportunities to local actors to manage together local economies, business investment decisions and strategies to respond to changing market stimuli (Bennet and Krebs, 1991). The decentralization policy gives the local stakeholders opportunity to respond appropriately to regional conditions. It could increase the competitiveness of price, produce and service qualities of that region (Mustopadidjaja, 2001). Barru Regency decision-makers have initiated partnerships since

²³³ Interview Code KT-15: 24 & 26

²³⁴ Interview Code KT-15: 26

²³⁵ Interview Code KT-14: 14

they have had the power to manage their region by Decentralisation. The Deputy Head of Barru Regency told me:

Yes, since autonomy we try to establish cooperation among others in the agricultural sector. Barru communities are farmers, but the problem is that the peanuts usually planted are not competitive. As a result, we try to establish a partnership with China that is from the province of Yunan to try to use Yunan seeds by giving them to the community to plant. In the reality almost the last 2 years have brought enough results, especially in peanut volume which has increased and its content is different from local beans. We learn from Yunan and these beans are planted by the community and at the same time they send peanut experts and land experts from Yunan.²³⁶

Furthermore, related to this matter the Head of LIPI's Innovation Centre said that: We in LIPI see the era of autonomy as an opportunity to assist existing industries in the region. Why do we mention this as opportunity? Because in previous days all industries, starting from small up to big industry, were under department (central government institutional) supervision. So those departments could not possibly observe in every detail what were the region's requirements. In the local autonomy era, automatically local governments try to improve their regions and seek the opportunities and they know precisely what has become the problem for their region. Now we start to establish partnerships with many regions in various areas.²³⁷

Decentralisation gives local stakeholders more opportunities to develop partnerships based on their interests, and making the region more prosperous based on the local potential and aspiration. Decentralization needs capable local government which has managerial skill to manage its region. As discussed above, Public Private Partnerships could increase local stakeholders' managerial skill and increase their capability to manage the local economy. As a result, we can conclude that decentralisation is one of the supporting factors for successful Public Private

²³⁶ Interview Code SS-24: 8

²³⁷ Interview Code J-8: 24

Partnerships, and Public Private Partnerships could help local stakeholders to implement decentralization appropriately in their region.

5.9. Conclusion

To conclude, the opportunity, strength, weaknesses, and threat can be summarised in a SWOT chart to address the social, economic and environmental problems. At local level, the region consists of many isolated islands with various conditions, facing economic development problems and with local autonomy that has been implemented only since early 2001. At national level, there is ineffectiveness, inefficiency, unaccountability, and unresponsiveness in government. Furthermore, there have been big social, politic and economic changes since the 1998 crises such as budget pressure. At international level, there is a changing from an inward-looking to an outward-looking economy: globalization, competitiveness and ratification of several international agreements such as AFTA in 2003, APEC 2010, and WTO 2020

STRENGTHS

- Rich natural resources (renewable and non-renewable) and huge land areas;
- A spirit of local autonomy which seems to have had an effect on the attitude of many government representatives; they have responded positively to a bigger role of the private sector in economic development, especially in strategic planning. This thesis concludes that local autonomy is a supporting factor for establishing Public Private Partnerships. There were many comments from local stakeholders that show the impact of the autonomy era in supporting their willingness to form Public Private Partnerships.

WEAKNESSES

- Low-skilled Labour: In general, based on the 2002 statistics on level of schooling by province, we can see that almost 50 % of KTI's population above 10 years old only have an elementary school certificate, with almost 10 % never having been

to school. The quality of many graduates from schools and universities is low and mismatched to the management of regional potentials and job opportunities. Government needs to give attention to increasing the quantity and quality of community education. Having qualified graduates involved is one of several conditions required for successful implementation of Public Private Partnerships.

- In 2000, more than 70% KTI's government officers have a level of education of senior high school or below. In East Kalimantan, where 40% of the population more than 10 years old has only elementary education or below, 68% of government officers have senior high schooling or below, while in South Sulawesi, with 60% of its population above 10 years old never going beyond elementary school level, 70% of its government officers have senior high schooling or below.
- There are some characteristics of local businessmen that have become an obstacle to their contributing effectively to economy activity such as: close informal links with government; a mentality for demanding government projects, a perspective like a merchant who is short-term profit oriented and does not want to take risks; and a lack of managerial skills.
- This thesis concludes that mutual trust between government and business is affected by the previous experience, assessment of performance and capability of each party, attitude of each party, assessment of communication and the nature of the relationship between public and private sectors. Based on these factors, in general this thesis concludes that there is a lack of mutual trust and confidence between government and business.
- Poor development of infrastructure, varied geography, culture, and isolated areas are some of the obstacles for local economic activities.
- The government has not treated others as its partners who need to be listened to; the public policy it produces is not changed to reflect people's expressed needs. Based on comments from many respondents, I am more confident that Public Private Partnership is important as a tool. An important reason why the

Indonesian government policies do not solve the problems but even create them for the Eastern Region of Indonesia is because the stakeholders were not involved as partners in the decision-making processes, but were only involved formally just for formality.

OPPORTUNITIES

- Considering the factors that contributed to imbalance, this study finds that Public Private Partnerships is one of the best alternatives to overcome the imbalance.
- This study sees that interactive relationships such as networking, cooperation, coordination and collaboration are integral processes in Public Private Partnerships. Establishing these kinds of relationships are supporting conditions beside conducive environments, local capability, willingness and mutual trust and confidence for successful Public Private Partnerships. In other words the willingness, mutual trust and confidence, collaboration and cooperation, and networking and conducive environments are needed to establish Public Private Partnerships and needed for successful Public Private Partnerships. On the other hand, Public Private Partnerships should increase mutual trust and confidence, collaboration and cooperation and networking. These could also decrease if the partnerships are not implemented properly.
- An example of implementation of a Public Private Partnership in Kutai Kertanegara between local government, community and NGO showed that government needs to be more involved as well as the community and any NGO to implement government projects effectively. Local government not only gives finance but also needs to involve and evaluate the project performance. The success of Barru Regency in establishing a Public Private Partnership is a good example of the importance of networking, cooperation and coordination in the Public Private Partnership process.
- The attitudes of government and the private sector show their willingness towards Public Private Partnerships. Different institutions, different actors with different reasons realize that they need one another, and it is time to maintain and establish

productive working relationships. They said that there should be no more government domination especially for economic development, some of them even tending to support the idea that private sectors need to do more and government need to change its role to be only a facilitator. In other words, there is a willingness among decision makers and business players towards Public Private Partnerships, tending for some of them even to partnerships being a requirement.

- Based on their comments, we see that the private sector cannot wait any longer to get involved in productive working relationships with government, especially in strategic regeneration issues. In other words there is some motivation to move toward Public Private Partnerships from private companies at local and national levels. This is not only because the law now gives them the right, but also as in reality they realise that neither they nor the government can go alone.
- Many of the private sector representatives thought that they need government in economic development but they resisted it taking a dominant role. However, it is quite interesting that some of the private sector representatives still welcomed a dominant role of government in economic development.
- There were more positive responses than negative ones, besides the local autonomy spirit might be due to economic crisis still facing Indonesia. This situation tends to be a supporting condition that triggered some stakeholders to have a willingness to establish Public Private Partnerships as one of the solutions. This conclusion parallels the lessons of the research by Swinburn (2002) in the Municipality of Grimsby, Humberside, England.
- Not only local government and local business had a positive response to Public Private Partnership, but also the community in general, showing, for example, the community wanted to commercialise the Mahakam II Bridge. There are pros and contra about the implementation of toll tariffs on Mahakam II Bridge. I got first hand information from the Head of Kutai Ketanegara Regency's Development Planning Board who had been a former Project Manager of the bridge. The argument was not on shifting the management of the bridge but, according to the law, a toll road is permitted for only an alternative road, so if the road is the main and only one for access, nobody is allowed to commercialise it. There is

- something to learn from this, that people in the study locations were interested in partnerships but misunderstood how they work.
- When I asked direct questions about trust to my respondents, they often said that they trust each other, but during conversation and based on their other comments I can conclude that they did not trust others. In the conversation, even when they have had bad experiences or low trust in each other, many of them realize that trust is important and they said they must trust each other because they need each other and need to establish partnerships.
 - Mutual trust and confidence between government and the private sector is not only an internal factor affecting the chances of implementing Public Private Partnerships, but also one of several conditions required for successful implementation of Public Private Partnerships.
 - This study finds that the local stakeholders have opportunities to implement and improve Public Private Partnerships for local economic development.

THREATS

- There is inequality of input between KBI and KTI through such as government development policies in general and in budget allocations such as the National Budget Allocation (DIP and Inpres) and domestic investment and foreign investment. There is also inequality of output, shown in figures for such as Gross Regional Domestic Product (GRDP), Sectoral Regional Growth Rate and GRDP per Capita.
- Local capacity building and prosperity cannot be achieved unless systemic and endemic corruption is addressed by new institutionalized governance processes, needing to be open, transparent and accountable.
- After reform, there was some activism and other problems need to be considered by government because they could become obstacles for implementing Public Private Partnerships. For example, in the oil and gas industry in East Kalimantan. Government needs to manage this problem wisely to decrease its effect on

existing Public Private Partnerships and the willingness of existing partners and prospective partners to establish new Public Private Partnerships.

- In strategic planning matters, it seems government still tends to act independently. For example, based on Presidential Decree 44/2002 there is a strong will from government to accelerate KTI's development by placing the President as Chairman of EIDC, but we can see that all of the members of this council come from government institutions.
- As mentioned at the beginning, if the imbalance continues and the gap between the regions increases, less developed regions will protest and this may increase the risk of disintegration.

There are some of prerequisites needing to be done by government to implement PPP's successfully:

- a. A need to formulate regulations that minimizes the survival of spoiled businessmen and encourages real businessmen take over the role;
- b. A need to formulate general guidance for local-central relationships to establish good communication and coordination and minimize 'overlapping' and 'unclear criteria'
- c. A need to formulate regulations that will increase trust among stakeholders, for example by:
 - Establishing comprehensive data collection systems to minimize 'inaccurate data'; and
 - Implementing law enforcement and a reward and punishment system to minimize copy infringement trends and corruption.

CHAPTER SIX

ENHANCING GOVERNANCE IN KTI BY A FUNCTIONAL AND INSTITUTIONAL MODEL OF PUBLIC PRIVATE PARTNERSHIPS

6.1. Introduction

This chapter will discuss the policy challenges that contributed to imbalance and how the models of Public Private Partnerships have been implemented and should be implemented to enhance governance for accelerated economic development in the Eastern Region of Indonesia in order to redress the existing imbalance.

6.2. Policy Challenges

Based on the discussion in Chapter IV, it can be argued that there are some factors that contribute to the imbalance between KBI and KTI such as:

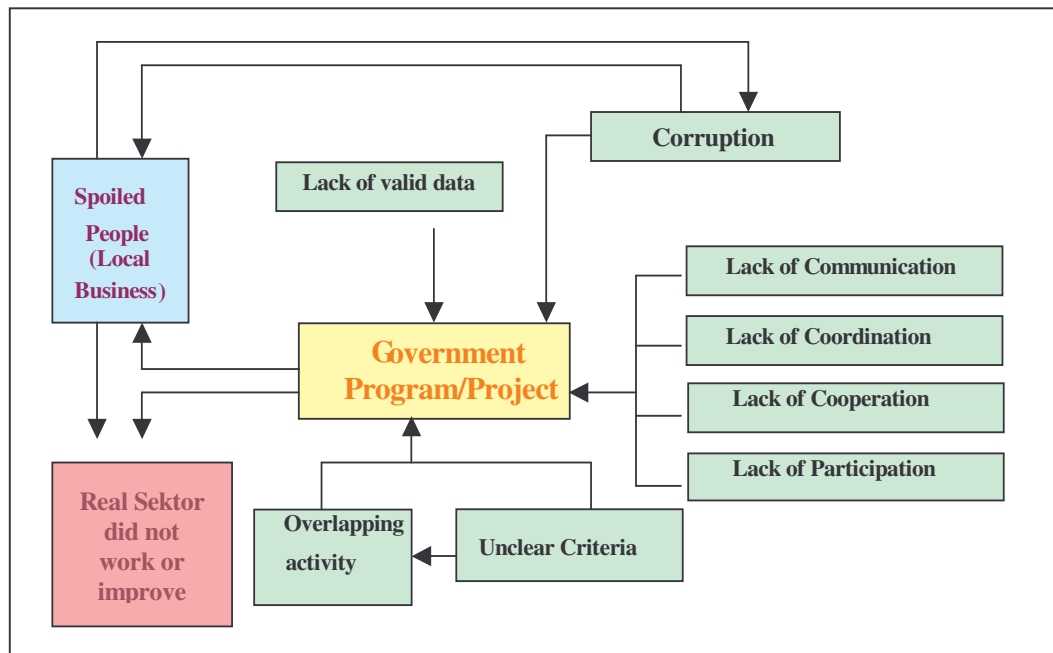
- endemic corruption;
- unwillingness to address imbalance issue;
- lack of capital, and capability, access to domestic and international markets;
- lack of accountability, communication and coordination across stakeholders;
- lack of cooperation between the public and private sector respectively.

Current economic development policy that is characterized by a growth approach does not redress the imbalance between KBI and KTI. The causes of economic imbalance are systemic and span many years, with government policies also contributing to

imbalance directly and indirectly. As a result there is very little effective economic growth in KTI.

Furthermore, based on interviews that were conducted with local stakeholders there are some factors that result in government programs and projects being ineffective and inefficient, especially in not being capable of improving the local economy in KTI such as: Lack of valid data; Lack of local stakeholder participation; Lack of communication; Lack of coordination; Lack of cooperation; Unclear criteria; Overlapping activities; and Corruption. Many local businessmen do not have entrepreneurship and industry vision but prefer to be contractors and depend on government projects. Local businesses are spoiled, even though profit is low, it is the easiest work, with quick results, needing only small fund, and with no risk. Hence, the real sector does not work and, moreover the local economy does not improve. Diagram 6.1 shows the relationship of all these factors

Diagram 6.1: The Logic of Government Program/Project Failures and Inability to Improve Local Economies



Ineffective, because of

- Lack of Participation
- Lack of Communication
- Lack of Coordination
- Lack of Cooperation

Inefficiency as a result of

- Corruption
- Lack of statistics or other verifiable data
- Unclear criteria and
- Overlapping activities.

To overcome these barriers, there are some possibilities of policy initiatives to counteract imbalance such as: government policy envelopes; decentralization; investment policy; and public private partnerships. After considering other policy initiatives, factors contributing to imbalance, and various situations in the regions, this study proposes Public Private Partnerships as one of the alternatives to address imbalance. The various conditions in KTI mean that Public Private Partnerships are appropriate to address funding, capacity (such as efficient techniques, effective managerial skills) as well as access to the market and to infrastructure.

6.3 Functional and Institutional Model of Public Private Partnerships Which Should be Implemented and Improved in KTI.

In Chapter II, 2.6.2, this study categorized two kinds of Public Private Partnerships, namely the functional model and the institutional model, based on agency theory. In the institutional model both government and the private sector act as the agent on behalf of the people who are the principals, there are horizontal relationships across the public and private sector. Accountable is to the people, because the relationship is one of being an agent for the people.

In the functional model there is a vertical relationship where government acts as the principal and the private sector plays a role as the agent who works at the government's request. Neither the public nor the private sector act as agents for the people. It is essential for the functional model to be avoided if Public Private Partnerships are to be accountable and transparent. The functional model is more specific and focuses

on sector activities such as in the oil industry, in infrastructure, etc., whereas the institutional model focusses on institutional and strategic planning.

Based on analysis of fieldwork information, the local stakeholders are familiar with the functional model of Public Private Partnerships and in some regions local stakeholders have already been involved in or have established this kind of model. For example, this model is already implemented in KTI by the national government through Pertamina and multinational cooperation (see 5.3.1 and Appendices 3). Furthermore, there are some examples of the functional model of PPP that have been established in the study locations by local stakeholders for example Public Private Partnerships between Barru Regency and Manjimup Horticultural Advisory Group Inc., Western Australia.

The problem is that even though the functional model has been established for decades, especially between central government and multinational companies, it is based on international guidelines. Even though Indonesia has produced some regulations to protect the environment when implementing a Public Private Partnership such as Law Number 7/1998: Government and Business Partnership based on the development and/or management of infrastructure and Government Regulation Number 44/1997 on Partnership, the problem is that they were not followed by guidance for the partnership implementation. In contrast, for example, the Partnership Victoria in Australia has, since 2001, produced four documents which make up materials for the implementation of Partnerships Victoria Policy. They include a:

- i) Public Sector Comparator – Technical Note;
- ii) Practitioners' Guide;
- iii) Risk Allocation and Contractual Issues Guide and Overview.

The lack of guidance in Indonesia led to some problems, for example, coordination problems between the central and local governments in the KPC case. Especially for Indonesia, where corruption is systemic and endemic, without clear guidance to manage Public Private Partnerships, this model only serves to exacerbate the problem. A Practitioners' Guide also can enhance transparency and accountability for Public Private Partnership implementation at the local level. Local stakeholders could formulate their MOU with other parties based on their needs and interests, and a Practitioners' Guide could help them to maintain fairness in the implementation of their

partnerships. For example, as discussed in Chapter V, in Kutai Kertanegara, the village infrastructure projects which should have been tendered, were executed by appointment with no transparency but some evidence that small and medium business gave bribes to the Head of the Sub-District to get the project.

Furthermore, as stated by one of the local decision-makers, local government and Village Cooperatives (KUD, one of the small-medium businesses that spread in villages) had an opportunity to establish a partnership with foreign partners but the problem was that the KUD needed a legal entity as an umbrella. Many things needed to be done by local stakeholders to improve the functional model of Public Private Partnerships in KTI. Especially government needs to formulate guidance for Public Private Partnership implementation.

Furthermore, local stakeholders have not yet established the institutional model of Public Private Partnerships. KTI needs to implement this model. For example, to increase the infrastructure capacities, government not only needs to encourage the private sector to invest its money in this region or to manage infrastructure, but also needs to encourage it to get involved comprehensively in all stages from planning, implementing, monitoring, evaluation and giving feedback.

As described before, many participants consider there is a need to increase the private sector's role. For example, as described by the Chairman of the Parepare Municipality Parliament:

The private sector role should be... better ideas coming from the community. For example, previously markets were built by government. Now there are private sector/local businessmen who can do that. I can point out that there is no market in Indonesia which has no problems, why are there problems? What are the causes? Because the government never consulted the community in order to establish a market. Now, it's the moment for government in development, what's their word for that, we need negotiation, please, rather than creating problems in future, better to be difficult in the beginning than then. So we are at that level.²³⁸

²³⁸ Interview Code SS-28: 30

From other participants there were reports of many cases of building markets involving not only lack of cooperation and participation from the private sector, but also related to corruption. For example, some corrupt government officers choose locations based on self-interest, choosing location close to their land, so after the market exists their land price will increase. Or before they build a market they buy land around its location which will increase in value when the market exists.

The Chairman of Parepare Municipality Parliament was quoted above arguing that there is a need to negotiate first as it is better to be difficult at first and easier later - as suggested by Japanese management philosophy. This is different from American management philosophy. To achieve a decision in the USA is easy, a president of a company comes up with his idea, after that he sells his decision to his staff and to the community. If the community does not agree they can complain and the decision will change. In Japan there is a long process of negotiation to achieve decision but when decision is decided everybody will obey without question. In fact, Indonesia combines both American and Japanese philosophy. The government needs a short process, in many cases without negotiation, to achieve a decision; after the decision has been made whatever it is must be implemented. It can be changed but the process takes a long time with any initiative coming from the government. Government tend to ignore community or private sector complaining, for example, as stated by some businessmen in my discussions with them (see Chapter V, 5.5.3.1.3.) government just hears their input or complaints but does not follow these up.

Furthermore, the UNDP National Project Manager of Partnership for Local Economic Development said that based on their experiences in establishing pilot projects on partnerships in six provinces, the first step is to conduct a study to identify stakeholders, because the partnership is related to an economic cluster. Before establishing a partnership forum, first of all, there needs to be a choice of an economic cluster based on a particular commodity. For example, KPEL wanted to work on a fishery commodity which meant members involved in the fishery forum were all stakeholders. This included all organizations, all individuals and producer groups that were actually involved in the fishery cluster. To represent the government there was the local fishery office, maybe the Local Industry and Trade Office, the Local Cooperation and Small

Business Office, the Local Development Planning Board and the Local Government. From the private sector there were fishery exporters, fishery traders, finance institutions and small producers, fisherman, NGOs and public figures. In the first stage, KPEL created a forum, but this forum needed to be formalized. As in Sorong, in the beginning it was an informal forum, then was formalized by a regulation of the Head of Regency so now it became a legal entity, a partnership institution not just a gathering of interested people.²³⁹

Opportunities already exist to implement and develop the institutional model of Public Private Partnership in KTI. As mentioned before, this model focusses on institutional and strategic planning. Government and the private sector establish a new board whose members are recruited from both partners for accelerating the local economic development. For example the members of the HWF (Hamburg Business Development Cooperation) are the City of Hamburg, its Chamber of Commerce and Chamber of Craft, and Private Banks. Following this example, first of all local government and the private sector needs to create a board per district to implement the supporting of KTI economic activities. The government representatives would be recruited from the Local Development Planning Board (Bappeda TK II) and the Office of Trade and Industry. Choosing Bappeda TK II as one of two government institutions is due to their capabilities and strategic planning duties. Like Japan's MITI, the Korean Economic Planning Board and Taiwan's Council for Economic Planning and development, I believe that recruitment for this local board is more competitive than for other local government institutions. Also it an appropriate choice as these kinds of partnership focus on strategic planning which is similar to the main task of this local board. According to Matthews and Ravenhill (MacIntyre, 1994: p.72-73), "recruitment to technocrats located in planning agencies in Japan, Korea and Taiwan was highly competitive. The agencies were held in high esteem both within bureaucracy and society as a whole. Such agencies were able to overcome the information failure problems pointed to by critics of state intervention, not only because they had their own detailed intelligence about the domestic and international economies, and staff of sufficient calibre to be able to digest such data and engage in rational planning on the basis of them,

²³⁹ Interview Code J-6: 7, 33 & 35

but also because of their relationship with the private sector. This relationship is best captured by Evan's idea that Northeast Asian states were 'embedded' in specific sets of social ties that provided institutionalised channels for collection and exchange of information and for the 'continual negotiation and renegotiation of goals and policies'".

The other government institution that needs to be involved is the Local Office of Trade and Industry because its job is related to industry and market matters, and a market orientation is needed for implementing Public Private Partnerships successfully.

Private sector representatives could be recruited from local business associations, for example, Kadinda (the Local Chamber of Commerce and Industry), and from local, national and international companies' representatives. Kadinda does have a previous government background in patronage relationships, however it is a legally established institution and can be encouraged to build.

The main task of this Public Private Partnership institution is to formulate policy initiatives for regeneration and developing the optimum level of local economic activities that can contribute to local prosperity. There should be cooperation in policy making, a clear task separation between the new board and government, and transference of some decision-making powers. Using their bargaining power, both public and private sector actors should play their role actively in the public policy process for supporting economic development and to achieve better solutions. Based on mutual partnership, the private sector may share its knowledge, skill and good management to support government in formulating appropriate policies. On the other hand, as mentioned in the beginning of this study, by working together government might be more considerate of private needs by providing the right policies that support circumstances for investment, innovation, and entrepreneurship.

Through the institutional model, actors could be actively involved directly in the economic development activities. The activities would contribute to local prosperity optimally because both actors would be formulating policy initiatives as a direction and choosing the appropriate activities that they both agree on. Furthermore, the maximum outcome and the better solution could be achieved due to the combination of advantages of each stakeholder.

Karim (1997: 14) asserts that:
the concept of Public Private Partnerships is based on the philosophy that public private sector cooperation is a key ingredient for successful national economic development. The primary responsibility of the public sector in this instance is to create a conducive environment that would be catalytic in providing the right impetus for rapid economic growth within the given legal and regulatory framework. The more successful the private sector, the larger the number of private business, the greater the employment opportunities and the higher the government revenue. This in turn means that more is available to the public sector in discharging its core responsibilities.

Ideally, in Public Private Partnership government and the private sector not only involve themselves intensively and play their role in economic development optimally, but also they both have equal position, so they can use their bargaining power to achieve win-win solutions. Government does not need to make market interventions, for example, with export subsidies. Both of them work together in institutional channels to digest the domestic and international market information to find out the ways to access the market and win the competition. As mentioned in Chapter II, under Public Private Partnerships the private sector is invited to cooperate and be involved in development activities for better solutions. Neither government nor the private sector can work independently but need to work together mutually to solve the problems and to implement regional economic development efficiently, effectively and achieving maximal outcomes to achieve optimal prosperity.

Public Private Partnerships could help to solve the KTI problem. For example, even though lack of infrastructure itself is a constraint for attracting investors the availability of natural resources should attract the investor, especially if there is a conducive macroeconomic environment for the establishment of Public Private Partnerships such as a stable and transparent legal framework, regulatory system and institutions, and political stability. This could have direct and indirect influence on solving the other problems. Another benefit would be to increase management skill, by using private experience in management (in this case, professional private companies)

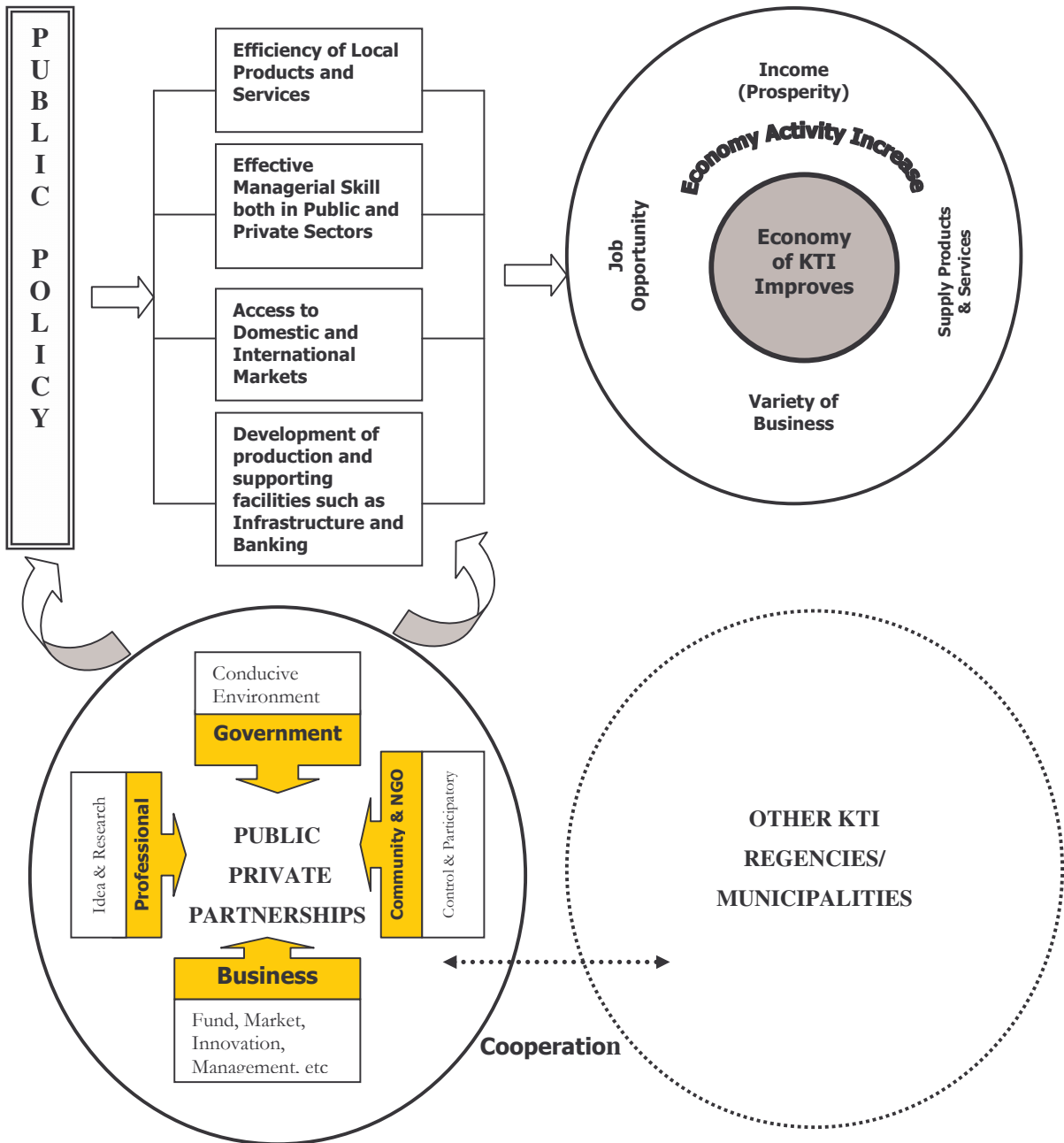
through partnership schema. As stated by Fukuyama (2004), through building capacity and introducing governance programs officers will learn new techniques

The institutional model of Public Private Partnerships could encourage members of the Eastern Indonesian community to fulfil their development needs. It is possible for government, private sector and community to be involved in the activities that are mutually appropriate.

Through Public Private Partnerships, government could analyse find ways to become more efficient and effective and could provide training that will improve the capacity of staff and help to address the wider training needs in the community. Sometimes government just needs to encourage the community to be involved in training that is conducted by a private sector, another time, government made need to give subsidies.

The effective development of forestry, agriculture, and the marine sector requires participation across the government, private sector and the community. They need to manage who are appropriate for each stage from planning to evaluation and monitoring. Partnerships in strategic planning are expected to give maximum benefits to the local stakeholders by actively and dynamically participate in every stage of economic development. Furthermore, this approach accommodates aspiration, interest of all stakeholder and dynamic activities that are related to regional, national, and international development. Diagram 6.2. below describe what is might be the role of local stakeholders and the need of relationship among regencies/municipalities in such partnerships.

Diagram 6.2: Public Private Partnerships to Enhance the Governance Process in KTI Economic Development



A Regency/Municipality of KTI

Partnerships are not only needed among stakeholders in one regency, but also between regencies in cooperative relationships. Cooperation between regions has been established by people traditionally for centuries, for example, the community building the traditional port in Parepare for bartering their products with products from other regencies in East Kalimantan. This experience showed that people need and have the capability to establish cooperation among regions.

Because the Indonesian government has had the dominant role in economic development, it is important to know how far the government itself and the private sector still accept that is to continue as the current role or whether they prefer to encourage the private sector to be involved in economic development. Also what should be the role of private and government in economic development. Based on my discussion on willingness to form Public Private Partnerships in Chapter V, it appeared that both public and private sectors prefer a greater role for private sectors in economic development.

Savas (1987) stated that Public and Private sector roles can increase or decrease depending on several factors; economic, political, socio-economic and social norms in society and technology. In Public Private Partnerships, besides these factors, the roles of the Public and Private sectors depend on their capabilities. For example, in the United Kingdom, Public Private Partnerships are characterized by strong leadership, whereas France is characterized by strong worker union. Public and Private sector roles in KTI also could increase and decrease depending on local needs including the same factors listed by Savas, but the following might be the main role of each local stakeholder:

1. **Government:** Area is Public Policy. Role is to provide a conducive environment such as, in the Macroeconomic environment; legal reform, a stable and transparent legal framework, regulatory system & institutions, and, in the Political environment and Stability.
2. **Business:** Areas are Infrastructure, Capital and Opportunity. Role is to provide Investment, Market, Innovation, Management, Training and Competitiveness.
3. **Professional:** Areas are Ideas and Research. Role is to provide such as Information, Methodology, and Education.

4. **Community and NGOs:** Areas are Participation. Role is to provide Participation and Control.

The model in diagram 6.2 shows the transformation from the previous relationships among local stakeholders and could be applied in the development of KTI region, for example, in agribusiness to encourage all development parties to play their role optimally. Under this model government will make policies that support the development based on existing economic potential with input from other parties through the participation in strategic planning. The government also has to facilitate and provide information systems for the people, investors, and other stakeholders in agribusiness. Ideally, private sectors in the region also use participative development planning to run their agribusiness. Researchers and scientists in the region will do research to solve existing problems and look for new alternatives for developing agribusiness in that area. People participate and exercise control over the implementation and the direction of agribusiness development. All of these need interaction and communication, so it needs good networking among all parties. The Public Private Partnership Board, or an agribusiness centre that receives support and recommendation from the Board, could facilitate the networking.

Through networking, the information about the agribusiness could be well distributed. Entrepreneurs or farmers in the region could quickly know about developments in prices and demand from overseas. Also, buyers and investors from outside the certain region could quickly know about the business opportunity and commodity supply capacity in that region. Agricultural industry could be developed based on the existing economic potential and opportunity by all local parties in that region so it could give the best result for that region and the people because it is done in an effective and efficient way.

Furthermore, there is fact that up to now utilization of natural resources such as forestry, marine and agricultural in KTI of Indonesia has been exploitative of that region. Most of the benefits went to KBI development, particularly for Java's growth. KTI has had much less authority for managing its own natural resources. As discussed previously, Public Private Partnerships reflect local things, including reflecting local public interests

and private interests. This characteristic will help and give more chance for local stakeholders to manage local resources based on their interests and benefit. The consequence of managing the utilization of local resources comprehensively by developing the optimum system is that all sub-systems could be developed to the optimum level.

For success in Public Private Partnerships there also needs to be a systemic approach. More effective managerial skills and efficient processes are needed in the governance of all public and private institutions/organizations, while the role played by civil society is essential in making this governance accountable and democratic. Better partnerships can provide models that may enhance governance to produce appropriate policies, initiatives and economic activities. These would have positive impacts for developing KTI such as: increasing human resource capabilities; increasing infrastructure facilities; increasing the variety of business; and increasing the supply of products and services that are competitive and appropriate to domestic and international markets. The Eastern Region's economy will improve and finally increasing job opportunities and increasing income will contribute to local prosperity.

6.4. Conclusion

I conclude that:

- Public Private Partnerships are not only needed at the operational level but also in strategic planning. In a conceptual sense, they do not exist in strategic policy, but at the operational level Public Private Partnerships do exist. Local and Central governments in the study locations were familiar with the Functional Model of Public Private Partnerships and there are already partnerships between central government, local government and third parties. In these locations, Public Private Partnerships with a formal, legal and consistent meaning have not existed yet in strategic planning, but at the operational level they exist. In another words, the Institutional Model of Public Private Partnership has not existed, but there is some evidence that showed local stakeholders have the willingness to form such Public Private Partnerships.

- The lack of partnership in processes of public policy formulation makes public policy products unaccountable and not representing other parties' interests. As a result many good public policies have not worked or have had difficulties in implementation. It is worse when public policy does not follow other regulations that are needed to support the implementation. For example, as discussed above, the implementation of Law No. 1/1987 has been inappropriate. Furthermore, the public discussion processes of many government projects has become only a ceremonial activity.
- Many things need to be done by local stakeholders to improve the Functional Model of Public Private Partnerships in KTI. Especially government needs to formulate general guidance for effective implementation.²⁴⁰
- During discussion, participants mentioned that they have established discussion and communication with other stakeholders through formal and informal forums for example coffee mornings, socialization programs, etc. The public meetings of everyone are ineffective, only "lip service". This situation is one of the factors contributing to low trust among stakeholders. Public Private Partnerships is one way to solve this problem through the Institutional Model; government and business establishing one board with powers, tasks and responsibilities that are supported by regulation. Forum discussions in Indonesia tend to ineffective, because they have been used to being done as a ceremony with no consequences. If we want the forums to be effective they should established within the partnership as legal and formal forums with clear procedures.
- It is important that government and the private sector accept their roles in economic development so they will be responsible and have a sense of belonging to successful local economic development. This study had found that government and the private sector realize and agree that the private sector needs to be involved in economic development from the beginning of the planning phase. However, there is not clear consensus yet on what should be the respective roles of the private sector and government.

²⁴⁰ For example, in infrastructure we could take 'Partnerships Victoria' as an example.

- Article 33 of the 1945 Indonesian Constitution states that all of the branches of production which are important to the state and which affect the life of many people are to be controlled by the state. Under this provision, Public Private Partnerships should be more welcome compared to Privatisation because government is still maintaining ownership and control of public assets and outcomes, whereas Privatisation means selling the public assets, for example, people complaining about the privatisation of Indosat.

CHAPTER SEVEN

CONCLUSIONS AND RECOMMENDATIONS

7.1. Introduction

As stressed at the outset the thesis aims to make a contribution through describing the way the decision-makers see the situation, in other words giving the viewpoints of the powerful stakeholders in the public, private and non-government sectors and how they work in partnership. Thus the thesis gives a better understanding of the way the Indonesian state undertakes development.

7.2. Contribution Made by the Thesis to Public Policy and Management

My thesis has:

- **Probed** the viewpoints of the powerful, in order to get better idea of the dynamics of power and barriers to development. The research aims to provide material to practitioners who are interested in understanding how the state operates in the Eastern Region.
- **Developed an argument** based on how those in power see the development situation and thus it could provide a useful basis for further, much needed, research into how those at the receiving end of development decisions see the situation in the less developed parts of Indonesia.
- **Demonstrated** how the public, private and non-government sectors operate.
- **Argued** that the links across the sectors lead to positive and negative outcomes, thus it does not attempt a neat or simplistic analysis and has shown how corruption in the state spreads from the public to the other sectors.
- **Detailed** transcriptions of interviews from the point of view of powerful decision makers in the public and private sectors which have provided the argument in which the thesis is grounded.

- **Provided material** that could be used by other researchers to enhance their understanding of the situation from the point of view of the state and business.
- **Described the complex problems** created by poor policy making from above. The ‘gaze’ (in the sense used by Foucault and Gordon 1980) is shifted from the citizens to the powerful and this is valuable, because it gives insights into development policy, formulation and implementation include corruption practices from above. Ordinary people’s opinions are also important as civil governance plays a vital role in addressing corruption.

A shortcoming of the thesis is that as a researcher, I did not address the point of view of ordinary citizens. This is an area that obviously needs to be addressed, but is outside the scope of this thesis. This thesis is specifically a view from above. As a researcher I was able to access the informants, because of my official position as a national development planner, and my experience in development project implementation. These led to a high level of trust being invested in me as a researcher by the informants. The contribution that this thesis makes is that the researcher, a government official and citizen, has carefully interviewed many powerful decision makers and drawn on her own experience of working in development bureaucracy. The researcher has been able to record how *the state sees the situation* (see Scott 1998).

7.3. Recommendations

- The need for more participatory approaches to engage the community in the decision making process and to draw on the experiences of the people. Although the research was structured in such a way as to address the concerns of government and business only nevertheless it is clear that in Indonesia better use could be made of local lived experience. The Eastern regions bear the burden of limited investment and policy decisions that are in the favour of other regions. In the *State of the Regions Reports* (Australian Local Government Association and National Economics 2002, 2003), that benchmark Australian regions against

American and European regions, it is clear that one of the reasons why there are disparities across regions is because of the policies that impact on social, economic and environmental sustainability (Elkington, 1997). This brings in what is called Triple Bottom Line accounting and accountability. The greater the policy and management focus at the local level on tolerance for diversity, fostering of talent and support through technology the higher the level of socio-economic wellbeing. As Edgar (2001) stressed in his work 'The Patchwork Nation', regions need to be supported not only by decentralised responsibilities but also with the kind of support that will make them able to compete with other regions. The development of partnerships cannot happen without the development of supportive communities of practice (McIntyre 2003a, b, c, 2004). The networks span ordinary citizens whose lived experiences need to be considered more seriously by decision makers. Competitive advantage is fostered by listening to local people and drawing on their knowledge.

- The development of **communities of practice** (Wenger, 1998) is required. The facilitation approaches are participatory and used methods such as participatory action research. Unfortunately, although the scope of the thesis was only on the powerful, it did make it very clear that the barriers to achieving success are rooted in the bad decisions and bad policy made by the powerful, not the powerless. Instead of looking at the problems as being rooted in the community and the lack of skill amongst ordinary people, the problems are with the decision makers and with the systemic corruption that occurs across many organisations in the public, private and non-government sectors.
- No development solution can come about by working with only the public or the private or the community sectors or just with non-government organisations. This thesis makes a strong case that the solutions **need to be found in partnership** and that better governance and poverty reduction can only occur when there is accountability across the public, private and civil society.

7.4. Conclusions

Overall the thesis arguments can be summarised as follows:

- In exploring the paradox that, on the one hand social capital is important for partnerships and partnerships are important for social capital, the researcher finds that there is **no neat or simplistic partnership** that can produce miraculous results. Some partnerships can be corrupt, some can lead to better life chances for local citizens, but the merits of each case need to be considered contextually. Also without systemic policy and practice changes to support democratization.
- Better partnerships can provide models that could inspire others to follow.
- Widespread change is only likely when there is systemic change across governance arenas (public, private and non government) and with consideration of social, cultural, political, economic and environmental factors.
- The thesis makes the strong point that instead of blaming the development problems on insufficient participation or the lack of capacity of the ordinary people, the problems lie as much with the state, big business and non-government organisations. Governance needs to be enhanced across all these organizations. The role played by civil society is essential in making governance accountable. To conclude the researcher is first and foremost a practical person, who wished to find 'solutions' by creating the conditions for better partnership arrangements. Instead she found that the decision-makers are part of the problem. The data helps to make this case. For transformation in governance to occur, stronger civil society cooperation through communities of practice is needed. This is in the interests of all sectors of society if a sustainable future is to be achieved.
- Public private partnerships are at a new stage and have both positive and negative aspects. The negative aspects need to be carefully managed.

LIST OF INTERVIEWS

No.	Description	Institution/Organization	Location
1.	State Minister for the Acceleration of Development of Eastern Indonesia	Central Government	Jakarta
2.	Secretary of Eastern Region Indonesia Development Council	Central Government	Jakarta
3.	Vice President Unocal Indonesia	Multinational Company	Jakarta
4.	Advisor for Minister for National Development Planning	Central Government	Jakarta
5.	Head of Economic Research Centre of Institute of Science of Indonesia (LIPI)	Study Centre	Jakarta
6.	UNDP National Project Manager of Partnership for Local Economic Development (KPEL)	Central Government	Jakarta
7.	Head of Legal Division of Oil and Gas Board	Central Government	Jakarta
8.	Head of Innovation Centre (LIPI)	Study Centre	Jakarta
9.	Director of Balancing Fund between Central and Local Government of Ministry of Finance	Central Government	Jakarta
10.	On Fleet General Manager of Pertamina	State Owned Enterprise	Jakarta
11.	President of Indonesian Businesswomen	National Business Association	Jakarta
12.	Vice-Chairman of Public Policy Division of the Indonesian Chamber of Commerce and	National Business Association (Chamber)	Jakarta

	Industry		
13.	Head Deputy of Enrekang Regency	Local Government	South Sulawesi
14.	Head Deputy of Barru Regency	Local Government	South Sulawesi
15.	Deputy of Mayor of Parepare Municipality	Local Government	South Sulawesi
16.	Head of Local Development Planning Board of Sindrap Regency	Local Government	South Sulawesi
17.	Head of Local Development Planning Board of Barru Regency	Local Government	South Sulawesi
18.	Journalist of Fajar Newspaper, South Sulawesi Newspaper	Local Journalist	South Sulawesi
19.	Head of Investment Empowering of Pare pare Municipality	Local Government	South Sulawesi
20.	Head of Tax Office of Parepare Municipality	Local Government	South Sulawesi
21.	Head of Community empowerment office of Sindrap Regency	Local Government	South Sulawesi
22.	Head of Regional Infrastructure office for 5 Regencys (Parepare, Barru, Sindrap, Enrekang and Pinrang)	Provincial Government	South Sulawesi
23.	Head of Cooperation Office of Pinrang Regency	Local Government	South Sulawesi
24.	Chairman of Local Parliament of Barru Regency	Local Parliament	South Sulawesi
25.	Chairman of Local Parliament of Enrekang Regency	Local Parliament	South Sulawesi
26.	Chairman Deputy of Local	Local Parliament	South Sulawesi

	Parliament of Enrekang Regency		
27.	Head Deputy of Pinrang Regency	Local Government	South Sulawesi
28.	Chairman of Local Parliament of SINDRAP Regency	Local Parliament	South Sulawesi
29.	Local Secretary of Pinrang Regency	Local Government	South Sulawesi
30.	Head of Industry and Commerce Office of Parepare Municipality	Local Government	South Sulawesi
31.	Head of Industry and Commerce Office of Pinrang Regency	Local Government	South Sulawesi
32.	Head of Industry and Commerce Office of Barru Regency	Local Government	South Sulawesi
33.	Director of PT Kokon Sutera Sulawesi	Local Company	South Sulawesi
34.	Plant Manager of Phillips Sea Foods Indonesia	Multinational Company	South Sulawesi
35.	Acting Chairman of South Sulawesi Chamber of Commerce and Industry	Regional Business Association (Chamber)	South Sulawesi
36.	Chairman of Parepare Chamber of Commerce and Industry	Local Business Association Chamber (Chamber)	South Sulawesi
37.	Director Executive of Institute for Rural Coastal and Community Studies (LP3EM)	Local NGO	South Sulawesi
38.	Head of Nation Matter Division of South Sulawesi Province	Provincial Government	South Sulawesi
39.	Head of Planning Program at Public Policy and Management Center at Hasanuddin University	Local Study Centre	South Sulawesi
40.	Development Director of Kapet Parepare	Provincial Government	South Sulawesi

41.	Executive Director of Kapet Sasamba	Provincial Government	East Kalimantan
42.	Head Deputy of Samarinda Chamber of Commerce and Industry	Local Business Association (Chamber)	East Kalimantan
43.	Acting Chairman of East Kalimantan Chamber of Commerce and Industry	Regional Business Association (Chamber)	East Kalimantan
44.	Owner/Executive Director PT Bangun Kalimantan	Local Company	East Kalimantan
45.	Chairman Deputy of Local Parliament of Samarinda Municipality	Local Parliament	East Kalimantan
46.	Chairman Deputy of Local Parliament of Balikpapan Municipality	Local Parliament	East Kalimantan
47.	Head of Program Planning Division of Investment Office of East Kalimantan Province	Provincial Governmnet	East Kalimantan
48.	Journalist/Regional Network Coordinator of Kaltim Post Newspaper, East Kalimantan Newspaper	Local Journalist	East Kalimantan
49.	Head of Population Center at Mulawarman University	Local Study Center	East Kalimantan
50.	Head of Planning Section of Infrastructure Office of Samarinda Municipality	Local Government	East Kalimantan
51.	Personnel Manager of PT Kayu Alam Perkasa Raya	National Company	East Kalimantan
52.	Head of Kutai Kertanegara Regency/Chairman of Indonesia Head Regency Association	Local Government	East Kalimantan

53.	Head of Local Development Planning Board of Kutai Kertanegara Regency	Local Government	East Kalimantan
54.	Head of Local Development Planning Board of Balikpapan Municipality	Local Government	East Kalimantan
55.	Head of Commerce Office of Kutai Kertanegara Regency	Local Government	East Kalimantan
56.	Head Deputy of Industry office of Kutai Kertanegara Regency	Local Government	East Kalimantan
57.	Deputy Mayor of Samarinda Municipality	Local Government	East Kalimantan
58.	Operational Manager of PT Lana Harita Indonesia	Multinational Company	East Kalimantan
59.	Acting Head of Industry Office of Samarinda Municipality	Local Government	East Kalimantan
60.	Director of PT. Ranji Karya Sakti Cooperation	National Company	East Kalimantan

APPENDIX 3

LIST OF WORK AREA OF PERTAMINA PARTNERS IN EAST KALIMANTAN AND SOUTH SULAWESI

No	Description	Forms of Partnerships	Company	Area
1	Onshore Tarakan	<i>Production Sharing Contract (PSC)</i>	<ul style="list-style-type: none"> • PT Eksita (ex Tesoro) • PT Eksita Patranagari (Indonesia) • PT Expan 	<ul style="list-style-type: none"> • 240 Km2 (Originally) • 180.10 Km2 (Latest)
2	Onshore/Offshore Simenggaris	<i>(PSC)</i>	Genindo Western Petro Pty	2,728.71 Km2
3	Offshore Attaka	<i>(PSC)</i>	<ul style="list-style-type: none"> • Inpex Indonesia Petroleum Ltd (Japan) • Total Indonesia (France) 	114.73 Km2
4	Offshore Mahakam	<i>(PSC)</i>	<ul style="list-style-type: none"> • Inpex/Total • Indonesia Petroleum Ltd (Japan) • Total Indonesia (France) 	<ul style="list-style-type: none"> • 8,685 Km2 (Originally) • 6,280.52 Km2 (Latest)
5	Offshore Karang Besar	<i>(PSC)</i>	<ul style="list-style-type: none"> • Maersk Oil Indo (USA) 	980 Km2
6	Onshore/Offshore Bontang	<i>(PSC)</i>	PT Risjad Salim Resources Int. (Indonesia)	2,070 Km2
7	Offshore Sebang	<i>(PSC)</i>	<ul style="list-style-type: none"> • Shell Exploration Sebang Asia B.V. • Pecten Indonesia Sebang Ltd 	<ul style="list-style-type: none"> • 5009 Km2 (Originally) • 3,752 Km2 (Latest)

8	Offshore Bukat	(PSC)	Shell Prospecting South Asia	
9	Offshore Ambalat	(PSC)	Ambalat Shell B.V. (Netherlands)	2,010 Km2
10	Offshore Tengah	(PSC)	<ul style="list-style-type: none"> Total Tengah Indonesia Petroleum Ltd. (France/Japan) 	<ul style="list-style-type: none"> 1,534.154 Km2 (Originally) 110 Km2 (Latest)
11	Offshore Saliki	(PSC)	Total Saliki Indonesia Petroleum Ltd (France)	
12	Offshore Sebawang	(PSC)	<ul style="list-style-type: none"> Total Sebawang (France) Ind. Petroleum (Japan) Total Indonesia 	
13	Onshore Runtu	(PSC)	<ul style="list-style-type: none"> Ultramar Runtu Corp (British Virginia Islands) Lasmo Runtu Ltd. 	<ul style="list-style-type: none"> 12,880 Km2 (Originally) 6,288 Km2 (Latest)
14	Onshore Runtu	(PSC)	Unocal Rapak Ltd	2,937 Km2
15	Offshore Ganal	(PSC)	Unocal Ganal Ltd	5,050 Km2
16	Onshore/Offshore	(PSC)	Unocal Indonesia Ltd (Bermuda)	<ul style="list-style-type: none"> 11,184.91 Km2 (Originally) 9,331.71 Km2 (Latest)
17	Offshore Selulu	(PSC)	Unocal Selulu Ltd (Bermuda) Unocal	
18	Onshore Sanga-sanga	(PSC)	<ul style="list-style-type: none"> Virginia Indonesia Coy 	<ul style="list-style-type: none"> 5,782 240 Km2

			<ul style="list-style-type: none"> • PT Virginia International Coy (USA) 	(Originally) <ul style="list-style-type: none"> • 4,043.35 Km2 (Latest)
19	Offshore Kapoposang, Selat Makassar	Production Sharing Contract (PSC)	<ul style="list-style-type: none"> • Japex, Japan Petroleum Exploration Co Ltd • Teikoku Co Ltd. • Taiyo Oil Co Ltd (Japan) 	10,280 Km2 (Originally)
20	Onshore Sengkang	(PSC)	<ul style="list-style-type: none"> • EECL Ex Gulf • Energy Equity (Sengkang) Pty Ltd. (Australia) 	<ul style="list-style-type: none"> • 5,967 Km2 (originally) • 5,697 Km2 (latest)
21	Offshore Bone	(PSC)	<ul style="list-style-type: none"> • Energy Equity (Bone Bay) Pty Ltd. (Australia) • Energy Equity 	4451 Km2
22	Offshore Sangkarang	(PSC)	Unocal Sangkarang Ltd. (Bermuda)	7,957 Km2
23	Offshore Selat Makassar	(PSC)	<ul style="list-style-type: none"> • Mobil Makassar Inc. (USA) • Unocal Ltd 	<ul style="list-style-type: none"> • 5889 Km2 (Originally) • 3,516.35 Km2 (Latest)
24	Offshore Sebuku, Selat Makassar	(PSC)	Gulf Resources (Sebuku) Ltd	
25	Offshore Lompa, Selat Makassar	(PSC)	Unocal Sangkarang Ltd (Bermuda)	7,957 Km2
26	Lapangan Ibul Tenggara	Technical Assistance Contract (TAC)	<ul style="list-style-type: none"> • PT Panca Citra Multi Jaya • PT Energitama Abdi Nusa 	
27	Onshore Sanga-sanga, Tarakan, Samboja	(TAC)	<ul style="list-style-type: none"> • PT Etaksatria • PT Etaksatria Petrasanga ex Tesoro (Indonesia) 	153.60 Km2

28	Onshore Bangkudulis	(TAC)	PT Garis Astatunggal Bangkudulis	
29	Onshore Sembakung	(TAC)	PT Genindo Cipta Perkasa	
30	Onshore Semberah, Karang Mumus Binangat, Sambulan Mathilda	(TAC)	PT Semberani Persada Oil	
31	Onshore Sangkimah	(TAC)	PT Triden Petroleum	
32	Onshore Bunyu	(TAC)	PT Ustraindo Petrogas Bunyu (Indonesia)	
33	Onshore Lapangan Bunyu	Enhanced Oil Recovery (EOR)	Mailine Resources (O.S) Ltd. (USA)	

Source: Directorate General of Oil & Gas, Oil and Gas Data Information 2002

THE ECONOMIC POTENTIAL OF SOUTH SULAWESI AND EAST KALIMANTAN

A. The Economic Potential of South Sulawesi²⁴¹

Mining Sector

South Sulawesi has potential of mining sector which is promised to develop by the investor such as nickel, gold, coal, and granite. Several of those commodities has been processed by the investor both for PMDN (Local Investment) and mapun PMA (Foreign Investment) but some of them are not processing maximally yet. Herewith the commodities of mining in South Sulawesi along with its potential, are as follows:

Strategic Mines

Type	Potential (Million Metric Ton)			Location
	2000	2001	2002	
1. Minyak and Gas Bumi/ <i>Natural Oil and Gas</i>	-	407.400	-	Wajo, Jeneponto and Enrekang regency.
2. Batubara/ <i>Coal</i>	-	68,37	-	Maros, Barru, Pangkep, sidrap, enrekang, Mamuju, Soppeng, Bone and Sinjai regency.
3. Nikel/ <i>Nickel</i>	-	900	-	Nort Luwu Utara and East Luwu regency.

Vital Mines

Type	Potential (Million Metric Ton)			Location
	2000	2001	2002	
1. Emas/ <i>Gold</i>	-	20.000	-	Luwu, Enrekang, Tana Toraja, Mamuju, Gowa and Bulukumba regency.
2. Mangan/ <i>Magnesium</i>	-	5,76	-	Bone and Barru regency.
3. Kromit/ <i>Chrome</i>	-	1,4	-	Baru, North Luwu, and East Luwu regency.
4. Besi/ <i>Iron</i>	-	23,9	-	North Luwu, and East Luwu regency.
5. Pasir Besi/ <i>Iron Sand</i>	-	5,40	-	Takalar, Selayar and Jeneponto regency.
6. Tembaga/ <i>Bronx</i>	-	6,05	-	Tana Toraja and Luwu regency.
7. Timah Hitam/ <i>Black Copper</i>	-	0,12	-	Gowa, Tana Toraja and Takalar regency.

²⁴¹ <http://bppmd-sulsel.go.id/chapter2/potensi/?!lang=eng> [On Line Access, July 19, 2005]

Stone Mine

Type	Potential (Million Metric Ton)			Location
	2000	2001	2002	
1. Batu Gamping/ <i>Limestone</i>	-	44.300	-	Maros, Pangkep, Sidrap, Bulukumba, Bone, Takalar, Soppeng, Selayar, Enrekang and Majene regency.
2. Marmer/ <i>Marble</i>	-	5,76	-	Bone, Maros, Luwu, Pangkep, Mamuju, North Mamuju Utara, Enrekang and Barru regency.
3. Batu Sabak/ <i>Slate</i>	-	737,9	-	Mamuju, North Mamuju, Polewali, Mamasa, and Luwu regency.
4. Barit/ <i>Baritone</i>	-	6,7	-	Tana Toraja regency.
5. Granit and Granodiorit/ <i>Granite and Granodiorite</i>	-	89.690	-	Mamuju, North Mamuju, Luwu, Selayar, Maros, Bone, Polewali and Mamasa regency.
6. Bentonit/ <i>Bentonite</i>	-	9.700	-	Takalar, Majene, Gowa, Pinrang, Mamuju, North Mamuju, Wajo, Enrekang and Tana Toraja regency.
7. Feldspar/ <i>Feldspar</i>	-	829,2	-	Luwu, Barru, Soppeng, Tana Toraja and Pangkep regency.
8. Tras/ <i>Trass</i>	-	127,4	-	Tana Toraja, Bulukumba, and Gowa regency.
9. Oker/ <i>Ocer</i>	-	8,04	-	Majene, Gowa and Takalar regency.
10. Gypsum/ <i>Gypsum</i>	-	0,0012	-	Wajo, Bone, Soppeng, Polewali and Mamasa regency.
11. Pospat/ <i>Phosphate</i>	-	1,51	-	Selayar, Luwu and Pangkep regency.
12. Pasir Kuarsa/ <i>Quartz sand</i>	-	71,72	-	Soppeng, Enrekang, Sidrap, Pinrang, Polewali, Mamasa, Bone, Maros and Luwu regency.
13. Kaolin/ <i>Kaolin</i>	-	9.602	-	Polewali, Mamasa and Enrekang regency.
14. Zeolit/ <i>Zeolit</i>	-	1.323,2	-	Polewali, Mamasa, Gowa and Tana Toraja regency.
15. Lempung/ <i>Clay</i>	-	532,6	-	Pangkep, Bulukumba, Majene, Enrekang, Takalar, Selayar, Polewali and Mamasa regency.
16. Rijang/ <i>Chert</i>	-	7,2	-	Pangkep, Barru, Polewali, Mamasa and Luwu regency.
17. Breksi/ <i>Breksi</i>	-	3.500	-	Mamuju and North Mamuju.
18. Zyenit and Diorit/ <i>Zyenit and Diorite</i>	-	6.200	-	Wajo, Pangkep, North Luwu, Bone, Polewali, Mamasa, and Gowa regency.
19. Andesit and Trakit/ <i>Andesit and Tracite</i>	-	75	-	Gowa, Bulukumba, Enrekang, and Pinrang regency.
20. Basal/ <i>Basal</i>	-	585,5	-	Soppeng, Gowa, Bulukumba, Takalar and Majene regency.

Planatation

The plantation sector of South Sulawesi has potential commodities that promise to develop by the investor in the future. Some of the commodities becomes the Indonesia's prime export commodities to other country such as Cocoa, Coffee and Cashew nut. Potential data of plantation sector in South Sulawesi for 2002 are as follows:

Commodities	Production (000 Ton)			Export (2001-2002)				Area Broad (2002) (000 Ha)	Development Area
	2000	2001	2002	Volume 2001(000 Ton)	Value 2001(Million US\$)	Volume 2002(000 Ton)	Value 2002(Million US\$)		
1. Kelapa Dalam/ <i>Inner Coconut</i>	143,0	145,0	194,5	-	-	-	-	163,6	Kabupaten Polmas, Selayar, Mamuju, Majene, Luwu Utara, Bone dan Pinrang.
2. Kelapa Sawit/ <i>Oil Palm</i>	221,2	273,4	836,2	-	-	-	-	80,9	Kabupaten Luwu, Luwu Utara, Mamuju, Wajo, Enrekang dan Sidrap.
3. Kopi Robusta/ <i>Robusta Coffee</i>	24,7	24,8	27,8	0,3	0,2	0,4	0,5	56,2	Kabupaten Bulukumba, Sinjai, Polmas, Luwu Utara, Tator, Pinrang dan Bantaeng.
4. Kopi Arabika/ <i>Arabica Coffee</i>	14,8	14,1	18,2	2,5	5,4	2,9	6,4	61,3	Kabupaten Tator, Enrekang dan Polmas.
5. Cengkeh/ <i>Cloves</i>	11,2	14,4	18,6	0,8	0,6	0,5	2,2	50,7	Kabupaten Luwu, Luwu Utara, Bone, dan Bulukumba.
6. Kakao/ <i>Cocoa</i>	213,8	245,2	266,7	182,8	213,6	269,3	375,5	285,0	Kabupaten Luwu, Luwu Utara, Pinrang, Polmas, Bone, dan Soppeng.
7. Lada/ <i>Pepper</i>	3,7	3,8	4,5	0,2	0,4	0,1	0,2	19,2	Kabupaten Sinjai.
8. Pala/ <i>Nutmeg</i>	0,5	0,5	0,5	-	-	-	-	2,4	Kabupaten Selayar.
9. Kemiri/ <i>Candlenut</i>	26,2	26,9	28,2	-	-	-	-	56,9	Kabupaten Bone, Maros, Polmas, Enrekang, dan Soppeng.
10. Panili/ <i>Vanilla</i>	0,7	1,0	1,1	-	-	-	-	3,3	Kabupaten Luwu, Luwu Utara, Bone, dan Bulukumba.
11. Sagu/ <i>Sago</i>	37,5	38,3	38,3	-	-	-	-	8,7	Kabupaten Luwu dan Luwu Utara.
12. Kenari/ <i>Canary</i>	0,1	0,1	0,1	-	-	-	-	0,2	Kabupaten Selayar.
13. Jambu mete/ <i>Cashewnut</i>	27,0	25,7	27,5	13,9	10,6	13,2	10,9	79,8	Kabupaten Bone dan Bulukumba.
14. Kapas/ <i>Cotton</i>	1,4	4,3	4,8	20,3	0,4	0,002	0,2	5,1	Kabupaten Bulukumba dan Bantaeng.
15. Jahe/ <i>Ginger</i>	0,5	0,5	0,5	-	-	-	-	0,6	Kabupaten Bone.

Forestry

The processing of forestry means that utilizing of forest function to fulfill people requirement maximally. The processing of forestry according to Regulation No.41 year of 1999 including the arrangement of forest and the composing of forest processing plan, the utilizing of forest and the using of forest area, forest rehabilitation and reclamation, forest protection and natural conservation. Forestry plan is the composing of system

about the purpose, availability, providing and the processing of forest usefully and conserve, and also the composing of their activity pattern. In the framework of the processing forest adjustment according to the government regulations (i.e., Regulation No.22/1999, Regulation No.25/1999, Regulation No.41/1999, Government Regulation No.25/2000 and Government Regulation No.84/2000), the establishment of the forest-processing plan can be done by central government through Department of Forestry, Local government through Local Forestry Offices, Regencies/Cities government through Regional Technical Organizer Unit (UPTD). In the era of Autonomy for forest sector, Forest Offices of South Sulawesi Province had vision “ to conserve forest function by professional process to achieve people prosperity through local autonomy issue. Their mission is “ to protecting forest area, forest rehabilitation and critical condition of land, to raises the conservation of natural resource, to optimally forests function and their utilizing and to developed people participation actively and human resource of the forest for the forestry development in accordance with Regional Autonomy”. The purpose of forestry development activity of South Sulawesi Forestry Offices is to compose the forestry development policies more coordinately, integrating which is still pay attention to the people’s interest, raises their quality and productivity of forest resource, reduce the degradation of forest resource, the processing of forest system professionally and to raises forest contribution to the peoples prosperity and their economy.

The utilizing of land in South Sulawesi Province is dominated by forest area which is 3.8 million Ha or about 55,51%. According to Paduserasi map, forest area vast in South Sulawesi Province can be divided as follows: Protected forest is 1.9 million Ha, Limited production forest is 811,1 thousand Ha, Permanent production forest is 203,8 thousand Ha, Natural preserve forest and national park (SAW forest) 789,1 thousand Ha, forest which is using for other interest (APL) 3.6 million Ha and the rest is 102.1 thousand Ha which is as production forest for conversed. From the broad of the area, it seems like the regency that have a large lands or area using is Mamuju regency which is 1.1 million Ha and the utilizing of that land is dominated by forest which is 946.5 thousand or about 85.7% from all of land using and it has an vaster of forests production in South Sulawesi Province.

Forestry sub sector in the PDRB establishment of South Sulawesi give a small contribution than other agricultural sub sector. Even though, it is not have to ignored considering that most of this forestry products through by processing and non-processing, are an export commodities which is give big contribution for the country foreign exchange such as woods/ and its processing, resin torch, and rattan.

Forestry cultivation is done by the enterprises in the form of Forestry Effort Right with total 5 (five) HPH and in the years of 2001 it has produced 50.4 thousand m³ of logs. Beside that, there is Woods Utilizing License (IPK), which is given by the enterprises for the woods cultivation in the forest area that will be using for other interest (i.e., transmigration/settlement) has produce 24.1 thousand m³ logs in the years of 2001. IPKTM (The Utilizing of Land Own Woods License) is done by the enterprise in the people's forest area (Forest Plant and Natural Forest) has produce 6.6 thousand m³ logs in the year of 2001. For the logs processing, there is IPKH (Industrial Processing of Hulu Woods), which has produce of woods processing about 335.2 thousand m³ and rattan as Forest Non-Woods Produce is processed by HPHH (The Rights of Forest Produce Effort) which is produce 9 thousand Ton in the year of 2001. Beside Rattan, Pine Sap is also been processed and producing about 512.1 thousand in the year of 2001. Pine is trees, which have double functions and therefore, it cultivation have to be raised. Pine plant, as reforestation yield is 73 thousand Ha (ready to sap) and spread in several regencies in South Sulawesi Province. Now, Pine Sap have been marketed and in the year of 2001, it have been marketed about 500.7 thousand Kg. Pine Sap (Gondorukem) can be used as basic material for batik industry, papers, soaps and varnish.

Mangrove trees is one of the natural resources which is have function as basic material for pulp industry, tamin, firewood, place for fish, shrimp and crabs and also to keep the seashore ecosystem balance. This plant is spread in several regencies of South Sulawesi such as Luwu Utara, Bone, Sinjai and Bulukumba. Resin torch is kind of non-woods forest product which is used as basic material of paint industry, cloth and others. In South Sulawesi, resin torch (Agathis) is spread in the regencies of Tator, Luwu Utara, Mamuju, Polmas and Sidrap. Bamboo is kind of non-woods forest product which have diversity function. In Tator regency, Bamboo is planted and cultivated as their types. The raises of bamboo requirement and the raises of natural resource processing technology make

potential of bamboo cannot provides such basic materials. Honey is kind of non-woods forest product which is also important. The cultivation of honeybee is support the conserve of peoples forestry because bee foods is resources from plants both for various trees, fruits and also from flowers. For example, in Bulukumba regency, Peoples forest namely Bitti is used as basic materials of construction and ingredient houses and flowers as bee woofs.

The forms of conservation area which have been whole decided and processed including Wildlife Reserve (KSA). This area are consist of Nature Preserve and Wild Animals Reserve, and Natural Conserve Area (KPA) which are consist of National Park, Tahura, Tourism and Hunting Park. In South Sulawesi, there are 214.25 thousand of land conservation area which are including 4 location of Wild Animals Reserve, 6 location of Natural Preserve, 10 location of Tourism Park and 1 location of Hunting Park. While, Waters Conservation Area which have been decided, includes 2 location such as National Park of Natural Sea Tourism of Kapoposang and National Park of Taka Bonerate which is 580.8 thousand Ha. Conservation area that is located in KSDA Sulsel I Units are National Tourism Park of Cani Sirenreng which is located on Ulaweng, Palakka, Ponre and Lappariaja sub districts of Bone regency which is more than 3.1 thousand Ha. The characteristic of this place are leveled waterfalls, combined by the beauty of natural view and clean air plus their kind typical of flora and fauna. National Tourism Park (TWA) Keulauang, Kapoposang is located on Tupabiring sub district of Pangkajene Kepulauan (Pangkep) regency about 50 thousand Ha. The interesting views of this location are its sea depth beauty which its kind typical of flora and fauna and supported by the beautiful of white sand which is spread out area of the beach. South Sulawesi KSDA II units have responsibility to the conservation area such as Natural Tourism Park (TWA) Sidrap, TWA of Matano, Mahalona, and Towuti lakes, TWA Nanggala III Luwu and National Waters Park of Taka Bonerate as one of the natural conserves area in Indonesia. This area is one of the biggest atoll in the world which is vast about 220 thousand Ha.

Animal Husbandy

South Sulawesi has potential and competitive advance commodity of Animal Husbandry's sub sector that can be developed by the investors. Those commodities are

Cow, Goat, Broiler and Lying pullet. The data of those commodities presented as follows:

Commodity	Population(Million)			Meat Production (Ton)			Egg Production (Ton)			Location
	2000	2001	2002	2000	2001	2002	2000	2001	2002	
1. Cow	0.72	0.75	0.75	8,799	10,800	9,025	-	-	-	Almost found in all regency/city of the province.
2. Buffalo	0.20	0.19	0.18	5,562	5,599	5,574	-	-	-	Almost found in all regency/city except in Makassar City.
3. Horse	0.13	0.13	0.14	145	152	160	-	-	-	Bulukumba, Jeneponto, Bantaeng, and Enrekang regency.
4. Goat	0.48	0.52	0.54	81	84	87	-	-	-	Almost found in all regency/city except in Makassar City.
5. Sheep	0.02	0.01	0.01	3.0	3.0	2.8	-	-	-	Selayar and Jeneponto regency.
6. Pig	0.46	0.24	0.32	3.5	2.0	2.7	-	-	-	Tana Toraja, Gowa, Polmas, Mamasa, Mamuju, Nort Mamuju, North Luwu, and Makassar City.
7. Non-Purebred Chicken	14.4	14.2	19.5	-	-	-	-	-	-	Sidrap Regency
8. Broiler	15.6	17.4	-	8,121	9,066	-	-	-	-	Almost exist in all regency/city except in Bulukumba, Takalar, Barru, Enrekang, Luwu, Majene and Mamuju regency.
9. Lying Pullet Chicken	4.3	5.1	6.0	1,347	1,406	1,510	19.2	21.8	25.7	Almost found in all regency/city except in Bulukumba, Takalar, Barru, Enrekang, Luwu, Majene and Mamuju regency.
10. Duck	2.3	4.2	4.4	813	1,900	1,987	8.2	19.8	20.3	can be found in all regency/city of South Sulawesi Province.

Food Crops Agriculture's Connodities

The commodities of Food Crops Agriculture sector in South Sulawesi is raising than the last year before. South Sulawesi is also the province, which becomes a central commodities development for Food Crops Agriculture sector, especially for Rice/Paddy commodity in Indonesia that has supplying other region in the Eastern part of Indonesia. The Data of Food Crops Agriculture sector in South Sulawesi based on it commodities are as follows :

Commodities	Production (000 Ton)			Area Broad (000 Ha)			Development Area
	2000	2001	2002	2000	2001	2002	
1. Padi/ <i>Rice</i>	4.300,2	3.728,7	3.892,0	921,4	814,6	837,9	Kabupaten Bone, Soppeng, Wajo, Sidrap, Luwu, Luwu Utara dan Kabupaten Pinrang.
2. Jagung/ <i>Corn</i>	857,9	515,6	661,0	308,5	192,0	206,0	Bone, Bulukumba, Bantaeng, Jeneponto, Gowa, Selayar dan Kabupaten Sinjai.
3. Kedelai/ <i>Soybean</i>	43,3	18,6	19,5	29,0	14,5	14,5	Luwu, Luwu Utara, Soppeng, Wajo, Bone dan Kabupaten Mamuju
4. Ubi Kayu/ <i>Cassava</i>	629,4	461,0	543,4	49,3	40,7	40,7	Gowa, Jeneponto, Bulukumba, Maros, Majene, Sinjai, Bantaeng, dan Kabupaten Mamuju
5. Kacang tanah/ <i>Peanut</i>	49,6	59,9	44,23	39,5	39,2	37,4	Kabupaten Bone, Bulukumba, Barru, Soppeng, Wajo, Gowa, Maros, Pangkep, Sinjai dan Kabupaten Sidrap
6. Kacang hijau/ <i>Mung bean</i>	42,7	13,9	32,5	39,7	35,3	-	Kabupaten Wajo, Bone, Gowa, Soppeng, Bulukumba, Bantaeng, Takalar, Maros, Majene dan Kabupaten Selayar
7. Bawang Merah/ <i>Red Onion</i>	16,5	11,6	29,13	4,0	4,0	-	Kabupaten Tator, Enrekang, Majene, Mamuju, Takalar, Jeneponto, Bantaeng, Sinjai, Bone, Wajo, Soppeng dan Kabupaten Maros
8. Cabe/ <i>Chilli</i>	6,1	33,9	33,8	7,4	4,6	-	Kabupaten Luwu, Luwu Utara, Tator, Enrekang, Sidrap, Pinrang, Mamuju, Gowa, Takalar, Jeneponto, Bulukumba, Sinjai, Bone, Wajo dan Kabupaten Maros
9. Kubis/ <i>Cabbage</i>	18,3	15,8	9,2	2,8	3,6	-	Kabupaten Luwu, Luwu Utara, Bantaeng, Jeneponto, Takalar, Gowa, dan Kabupaten Enrekang
10. Kentang/ <i>Potatoe</i>	2,5	10,4	7,6	1,4	2,3	-	Kabupaten Majene, Tator, Enrekang, Polmas, Gowa, Jeneponto, Bantaeng, Sinjai dan Kabupaten Bone
11. Durian/ <i>Durian</i>	5,4	5,4	23,3	534	634	-	Kabupaten Tator, Luwu, Luwu Utara, Bone, Sinjai, Bulukumba, Enrekang, Polmas, Mamuju, dan Kabupaten Majene
12. Jeruk/ <i>Orange</i>	12,9	11,2	147,7	1,4	1,9	-	Kabupaten Luwu, Luwu Utara, Mamuju, Selayar, Bantaeng, dan Kabupaten Bulukumba.
13. Pisang/ <i>Banana</i>	102,9	92,3	165,9	236	202	-	Kabupaten Bone, Soppeng, Gowa, Pinrang, Maros, Luwu, Luwu Utara, Jeneponto
14. Markisa/ <i>Marquise</i>	30,9	11,9	98,3	41	26	-	Kabupaten Tator, Sinjai, Gowa dan Kabupaten Polmas
15. Nenas/ <i>Pineapple</i>	0,9	1,7	5,8	95	94	-	Kabupaten Luwu, Luwu Utara, Soppeng, Enrekang, Majene, Polmas, Barru

Fisheries Commodities

South Sulawesi with its wide area about 62,482.54 Km² and length of coastal line achieves 2,500 Km, several of its area is direct border with the sea. In the Western part of the coastal area is Makassar Strait; the Southern part is Flores Sea, and in the Eastern part is Bone Bay. Besides that, there are also widely embankment fields, lakes, rivers, swamps, pools and wet rice fields that have potential for the development of fisheries effort.

The fisheries potential which comes from the sea is 620,400 ton/year, consist of Makassar Strait about 307,380 ton/year, Flores Sea about 168,780 ton/year and Bone Bay about 144,320 ton/year. The area that potential for fisheries effort based on statistic fisheries data achieves 150,000 Ha which spread on all along of Western, Southern and Eastern part of Coastal's area. The potential of other marine effort such as swamps, rivers and lakes achieves 40.000 ton/year and fisheries effort through pool and wet rice field achieves 45.000 ton/year.

Commodities	Productivity (000 Ton)			Export (2001-2002)				Development Area
	2000	2001	2002	Volume 2001(Ton)	Value 2001(000 US\$)	Volume 2002(Ton)	Value 2002(000 US\$)	
1. Tiger prawn (shrimp)	17.4	21.0	19.2	9,769	94,239	8,515	74,154	Luwu, Wajo, Bone, Sinjai, Bantaeng, Pangkep, Pinrang, North Luwu and Makassar City.
2. Tuna fish	16.4	11.9	-	-	-	-	-	Luwu, Wajo, Bone, Sinjai, Bulukumba, Bantaeng, Barru, Pinrang, Polmas, Majene, Mamuju, North Luwu and Parepare city.
3. Skipjack	22.8	20.7	-	-	-	-	-	almost found in all regency/city in South Sulawesi except in Makassar city.
4. Milkfish	-	56.0	-	4.8	11.9	-	-	Bulukumba, Sinjai, Selayar, Bantaeng, Jeneponto, Takalar, Polmas and Majene regency.
5. Groupers	3.4	3.5	-	-	-	-	-	Almost found in all regency/city in South Sulawesi except in Maros, Pangkep and Pinrang regency.
6. Cucumber sea	1.0	0.3	-	0.36	1.1	-	-	Luwu, Sinjai, Selayar, Jeneponto, Pangkep, Polmas, Mamuju and North Luwu regency.
7. Seaweed	33.1	42.0	41.8	10,165	2,592	10,130	3,094	Luwu, Bone, Selayar, Jeneponto, Takalar, Pinrang, Polmas, Mamuju and North Luwu.
8. Crabs	4.6	8.5	12.4	346	4,811	740	9,511	Luwu, Wajo, Bone, Sinjai, Selayar, Bantaeng, Maros, Polmas, Mamuju and North Luwu.

Industrial Sector

Considering that South Sulawesi economic bases on food crops agriculture sector, the direction of industrial development within the province is the industrial process of food crops agriculture yield (Agro-Industry). Some of investment opportunities in Agro-Industry sector of South Sulawesi are as follows:

The Industrial Process of Cocoa

South Sulawesi is one of the prime producer's of Cocoa commodity. This commodity has significantly contributed both for agricultures product's export and South Sulawesi total's export. Although, this commodity has achieves economic scale needs for industrial process, the investor is not interesting to develop this sector yet.

The Industrial Process of Coffee

Coffee is the prime commodity of plantation sector of South Sulawesi after Cocoa. The contribution of this commodity for the South Sulawesi total export in agriculture sector is relatively significant. Now, some of Coffee Industrial Process in this province is directed to fulfil the domestic market because it's lower quality. The investor is not interesting to actives in this industry because it's lower quality of coffee beans which is produced in this region.

The Industrial Process of Peppers

Actually, the peppers commodity is potential and prospected to develop but it's still processing traditionally within small scale production (Local Planting). The investor side seems not interesting to make investment in form of big private plantation or pepper industrial's process. It was caused by the availability of less information both in the form of investment profile, up to date data, and other.

The Industrial Process of Oil Palm

The industrial process of Oil palm in South Sulawesi develops relatively. Until now, there is some of industrial process of Oil palm which exists in Luwu, North Luwu, Mamuju and Wajo regency. Even though, considering the availabilities of it's potential, it still possible to develop this commodity in the future, both for large-plantation such Farm Estates, and Oil palm industrial's processing.

B. The Investment and Business Opportunity in East Kalimantan²⁴²

Field Resources Ability

East Kalimantan Province has the second largest the area in Indonesia, further more offer poclaimed constitution no. 22 in 1999 about local government such as managed the large area, base on it so East Kalimantan Province large become 4.523-783 Ha consists; land 20.039-500 Ha (81,71%) and sea large 4.484-280 Ha.

Base on the structure plan of land large distance 20-039-500 Ha divided in two big part area that's protection area as 4.593.754 Ha (22,92%) and plantation area, while plantation area divided become forest plantation as large 10.221.258 Ha and plantation area non forest as 5.324.488 Ha. The field present very large and potential for investment types that need the large field enough as the food agriculture effort, farming and Livestock and etc. Besides field present and approprike climate, the value to manage the field relatively still cheap. Moreover this sector is very good with development program of East Kalimantan Provincial overnment.

The Agriculture Field

East Kalimantan Province has potential field for agriculture field for food plantation and horticulture as large 2,60 million Ha consists wet rice field as 856.194 Ha and dry field 1.743.885 Ha. The field is not yet organized with maximal because material and transportation limited that become East Kalimantan Province until this time is still less to fulfill area consumption.

Beside to fulfill area food consumption is still deficit until this time, arranged food plantation effort in East Kalimantan also very opportunity developed with bigger scale. East Kalimantan area is strategic enough to serve distribution, especially Indonesia East Area or Indonesia range for public or export aim. Moreover growing agriculture commodities of food plantation can be seen on following table:

²⁴² East Kalimantan Provincial Government Promotion and Investment Board, 2002: 66-84

Growing The Agriculture Commodity in 2000

No	Komoditi / Commodity	Luas Tanam Planted Area (Ha)	Luas Panen Harvested Area (Ha)	Produktivitas Productivity (Kw/Ha)	Produksi Production (Ton)
1	Padi / Paddy	137131	36348	29,05	401955
2	Jagung / Corn	10364	7844	17,63	13827
3	Kedele / Peanut	2354	2155	10,73	2313
4	Kacang Tanah / Beans	2583	2360	9,98	2356
5	Kacang Hijau / Green beans	1054	1118	9,26	1035
6	Ubi Kayu / Cassava	7107	7117	7,71	91455
7	Ubi Jalar / Sweet potato	2586	2337	5,01	19688
8	Sayuran / Vegetable	11819	9986	66,49	66393
9	Buah-buahan / Fruits	-	11987	49,61	59466

Sumber : Dinas Pertanian Kalimantan Timur /Resource : Agriculture Service, East Kalimantan

In PMDN/PMA facilities in East Kalimantan has been prepared large potential area enough for the effort broads of food plant sub sector that spread in some regent/city for commodity type as: Corn, Potato and Sweet potato, Peanut, Seeding/Germ, Vegetables, Fruits, Pineapple, Potato, Type of Food Plant/ horticulture and others.

Beside local potential areas like durian, rambutan, forest jack fruit, and lai fruit very good for developed because that potential very crowded and have special alone which will not be found in the other area.

Farming Potential

Kaltim (East Kalimantan) area has dry field that fertilizer level is very good to farming activity development, as coconut farming, chocolate, rubber, palm-oil, pepper and other farming, commodity.

That is why to use the source field, especially in non forest culture area (KBNK), farming sub sector have important function. Whereas in development area, economic, social ideology. That function is more important because farming is sub sector that has nature source not depending to import component.

To success farming vision in East Kalimantan, that's succeeded efficient farming, productive, high competition and continuous, through organized the resource optimally and continuously, so Kaltim farming sub-sector is very strategic for developed. It is supported by field present very large and agroclimax that appropriate to plant the farming. Development farming in East Kalimantan that has been done, is with farming executed Unit Design (VPP), PIR, relief design/Partial and Big Farm Design whereas

BUMN (PTPN XIII) or private farming field large in East Kalimantan at 2000 as large 294.155 Ha that follow the farmer number as many 189.282 KK. Farming production totality in 2000 is 514.697,5 ton with production value as 100,89 billion.

Until May 2001, Private Big Farm Number in East Kalimantan as 182 PBS with field supplement large from Head of Regencies/Municipalities as 2.892.388 Ha, with complete as: activity realization for Private Big Farm is still small relatively, that is as large 90.120 Ha. Or 3 % from area supplement large. While planted commodity is palm-oil 77.362 Ha and rubber 12.752Ha.

Description	Planted Area (Ha)				Production (Ton)
	TBM	TM	TT/TR	Total (Ha)	
Annual Plant					
Rubber	26,171.00	15,666.00	5,723.00	47,560.00	17,519.5
Coconut	7,250.50	34,708.50	9,225.50	51,184.50	31,332.00
Coffee	5,114.50	8,128.00	2,780.00	16,022.50	4,939.50
Pepper	3,449.50	5,574.00	4,524.00	13,547.50	5,707.50
Palm oil	6,097.50	19,525.00	4.00	25,626.50	204,645.00
Cocoa	5,641.50	16,337.50	4,311.00	26,290.00	14,422.00
Cloves	16.50	100.00	238.00	354.50	14.00
Nutmeg	4.50	1.00	0.50	6.00	0.50
Kenifti	2,175.00	840.50	247.00	3,262.50	1,044.00
Cinnamon	72.50	7.50	2.00	82.00	1.00
Aren	200.50	194.00	60.50	455.00	173.00
Kapok	52.50	122.00	130.50	305.00	84.50
Mente Nut	56.00	273.00	214.00	543.00	14.00
Vanilla	29.50	4.50	8.50	42.50	0.50
Melinjo	85.00	5.00	5.00	95.00	12.50
Season Planted					
Sugar Cane	1.50	2.50		4.00	1.50
Tobacco	1.00	-		1.00	
Ginger	154.50	11,150.00	37.00	11,341.50	750.00
Stiff Planted					
Kenaf	48.50	76.00	6.00	130.50	84.00
Total	156,622.001	112,715.001	27,516.501	196,853.501	280,745.00

Source: Estate Service of Kalimantan Timur Province, 2000

Livestock Potential

Until this time, Livestock meat necessary fowls is still come from out of East Kalimantan like south Sulawesi, Middle Sulawesi, East Java, and Bali. Therefore to increase livestock population or fowls in East Kalimantan area done by government or private side.

Livestock population development in 2000 to some livestock types already began showing good development enough as special chickens livestock, cows, buffaloes, and pigs fell down.

Main production of livestock result is meat; eggs and milk influenced by production development and livestock productivity level. Besides it is depended by out or in the livestock and livestock result.

To prepare meat production is confined livestock number to cut i.e. big livestock, small livestock and flows. Supplement of meat production in Kalimantan still depends to supply the livestock consumption in this area, especially cows and buffalo.

Total of Estate in East Kalimantan, 2000

No.	Regency/Municipality	Total of Private Estate	Allocated Area
1	Pasir	36	400,686
2	Balikpapan	1	6
3	Kutai Kertanegara	21	377,376
4	Samarinda	1	3,1
5	Kutai Timur	36	555,19
6	Kutai Barat	23	130,875
7	Berau	23	361,8
8	Bulungan	16	296,133
9	Nunukan	19	399,25
10	Malinau	6	61,996

Source: Estate Service of East Kalimantan, 2000

Meanwhile supplement of egg production involves local chickens eggs and import chickens eggs and duck are confined by livestock population and its productivity. Milk production comes from cow livestock press and confined by livestock production and the other reproduction parameter. About milk production supplement in East Kalimantan is

still limited, coming from cow livestock press with population number still less. From data and parameter excite, milk production in 2000 was just about 31,7 ton. Meat livestock result consumption and eggs in East Kalimantan comes from local production and supplement from out of area, whereas livestock in meat and egg, or livestock consumption. While for milk consumption almost all of them comes from out of area, i.e. in powder milk and milk gel. As completed, meat and eggs consumption in East Kalimantan are:

Consumption of Result Livestock in East Kalimantan, 1999-2000

No.	Description	1998	1999	2000
1	Meats (Ton)	22,644.30	22,805.70	25,288.00
	Production	20,004.50	22,147.70	24,554.50
	Income	2,639.80	658.00	735.50
2	Eggs (Ton)	11,540.10	7,746.20	8,318.80
	Production	7,242.40	6,400.40	7,605.80
	Income	4,297.70	1,345.80	713.00
3	Milks (Ton)	12,741.40	12,772.70	13,352.10
	Production	76.40	82.40	31.70
	Income	12,665.00	12,690.30	13,320.40
4	Consumption (Kg/capita/year)	18.80	16.70	18.26
	Meats	9.44	8.59	9.88
	Eggs	4.50	2.55	2.98
	Milks	4.86	4.93	5.48
5	Protein Consumption (gram/capita/year)	5.39	4.36	4.68

Source: Livestock Service, East Kalimantan Province

Based on the table shows that livestock result consumption per-capita/ year gets up each meats 15,02% that's from 8,59 become 9,88 kg, egg 13,72 kg become 2,90 kg and milk consumption 11,16% from 4,93 kg become 5,48 kg. While regional livestock result consumption in East Kalimantan each meat 24.060,85 ton, egg 7.054,5 ton and mil 13.348 ton.

As long as, getting economic well in 2000 hoped, development of Livestock sub-sector felt increase. The Livestock object is potential enough for developed, remember the field potential large enough beside market request high enough, until this era most of

necessaries receive from out area i.e. 70% from necessity or between 25.000-28.600 cows per year. Area that prepared to Livestock sub-sector labor in PMDN facilitate and PMA in East Kalimantan are for press Livestock labor, seeding and make fat cows, pigs, sheep/goat, take duck care, germ to chickens and Livestock food industry.

Potential of Fisheries and Sea

East Kalimantan has not only large land field and potential but also has sea and fish potential very projective spread along Makassar narrow and Sulawesi Sea as ± 12 million Ha and water land (swamp, river, and lake) as $\pm 2,74$ Ha while water land excite at Northern of East Kalimantan, exactly in Sulawesi Sea with large ± 276.000 Ha. Whatever that range is as:

- ZEEI region (Indonesian Exclusive Economic Zone), in-sulawesi Sea as ± 297.813 Km²
- Catching region in seashore as $\pm 12.000.000$ Ha.
- Mangrove forest can be conversion to Payau water development ± 91.380
- General water land as $\pm 2.773.937$ Ha.

Based on data excite that production potential of sea fishing that can be done as protect every years as number ± 139.000 ton, general water land as 69.348 ton, while water sea as ± 122.000 ton, added with water land potential as ± 9.000 . So production potential number of water sea in East Kalimantan assumed as ± 339.798 ton with using level in this time is amount $\pm 30\%$ so still opened the opportunity that big enough to organizing. This is publicized potential data, production and sector chance of water sea in East Kalimantan Province:

Whatever fish kind that produced from Water Sea among Kakap (Lates Calcarifer), Cakalang (Katsuwonus Pelamia), Tongkol (Euthnus spp), Kuro Senangin (Polynemus Spp), Bawal (Pampus Pelamia), Panaeus Monodom, Lobster, etc. Whatever export purpose country is : Japan, YSA, Europe, Singopre.

To support the water sea fish some institutions present, whereas built by government pr privatization in East Kalimanatan Province is looking potential very big whereas sea potential or general water and production ability and present the way and transportation following, this institution is still yet optimal, so prospect to future still very large to

developmentwater land and sea. It is big chance for businessmen to be able to grow investment in observe the fishing resource and the sea.

Potential, Production and Opportunity of Fisheries Resource

No.	Description	Potency (Kg/year)	Production (Kg/year)	Resource Opportunity (Kg/year)
1	Sea	139,000,000	84,551,000	54,449,000
2	General Water	69,348,000	33,753,000	35,665,000
3	Payau Water	122,450,000	12,134,400	110,315,600
4	Fresh Water	9,000,000	2,834,700	6,165,30
	Total	339,798,000	133,273,100	206,594,900

Source: Fisheries and Marine Service, East Kalimantan Province

Potential of Forest

East Kalimantan forest in 2001 has totality as large as 20,04 million Ha that divided become 2 (two) types of the forest such: area protection (forest protection, conservation; beach, river/ lake/ reservation, nature service; nature security, culture security, National Park, Environment Tourism Object, the other area protection), plantation area (forest and non forest consists- -from digging exploiters, agriculture, farming, fishing, housing, industry, tourism, and infrastructure). For Production forest, East Kalimantan has wood type very high to its economic value, as lime wood, a shore tree, ulin, ngatis, as species mangroves, keruing, bangkrai, nyatoh, anggi, mersawa, ulin, gantis, a mangroves wood and perupuk.

The forest produce has important function in local development, between the function as forest protection also has high economic value. Besides, it also has sample forest produce among: resin, honey-bee, and orchid, crocodile skin, nest, gaharu wood, tengkawang fruit, the root of show to the sky (akar tunjuk langit) and Sirap. Besides that, it has esthetical value, education like observation experiment forest, Tahura Bukit suharto.

a. The Area Protection ± 4.593.754 Ha

b. The Plantation Area:

- Forest Plantation ± 10.121.258 Ha.
- Non Forest Plantation ± 5.324.488 Ha

From all forest produce excite in East Kalimantan is managed by the third side after last year 2000 noted as many 71 permission holder HPH (Forest Entrepreneur Authority) with large area 5.815.776 Ha and 16 permission holder with large 814.803Ha. Circle Wood Production at period 2000/2001 is TPTI 1.511.026,4 M3 and 3.196.420,8 M3 for IPK with completed in table following:

Number of Establishment and HPH Areas by Branch of Forestry Service in East Kalimantan, 1998-2000

No.	Regency/Municipality	1998		1999		2000	
		Total	Area (Ha)	Total	Area (Ha)	Total	Area (Ha)
1	Pasir	1	167,500	3	309,545	3	309,545
2	Balikpapan	5	442,000	7	600,920	5	442,000
3	Kutai Kertanegara	8	918,100	8	824,748	10	499,757
4	Samarinda	4	607,000	7	1,068,800	7	482,000
5	Kutai Timur	6	618,600	6	642,100	10	702,500
6	Kutai Barat	2	305,500	2	305,000	2	305,000
7	Berau	19	1,894,800	21	1,960,087	12	1,078,557
8	Bulungan	-	-	-	-	-	-
9	Nunukan	20	1,829,500	18	1,697,933	18	1,697,933
10	Malinau	2	848,700	3	485,476	3	485,475
Total		67	7,631,200	75	7,894,609	70	6,134,334

Source: Forestry Service, East Kalimantan, 2000

Secondary forest result production in 2000 appeals 5,068.2 ton that involves Rattan 781.5 ton, Gaharu Wood, 4.3 ton, palm fiber 3,734 ton and skin wood 487.5 ton Plantation forest result get production fluctuation because market necessity is not constant, consumer using it is not constant, except rattan and palm fiber otherwise its marketing also still uses traditional generally, not like the other forest as wood and its generation that already structure.

While supply wood production at 1999 2000 appeals 1.558.062,4 M3 (Plywood, Veneer, sawn timber, block board, Particle board, Moulding) and 13.374,0 ton chip Wood, when compared at 2000/2001 with production as 1.643.318 M3 has increasing as 5,19%. For Chip Wood with result 9,041,3 has decrease production as 32,40%. Supply wood Production has increase because necessity for product in market inside the state or for market outside the state. Development Projects of the houses and the other infrastructure are one activity that many using the product above.

Potential of Mineral and Energy Resources

Mining materials that found in East Kalimantan is inventoried by using data and information from survey activity result.

From mineral resource types that excite in East Kalimantan is just some kinds already worked with big scale i.e. oil-earth, earth-gas, gold and silver, and coal. While for the other kind mining, although there is already used but still in small scale or in local mining area. That is why, the chance for mining activity is still opened largely whereas digging material that already used as coal, gold and silver, that stock assumed still very big, furthermore, the mining material not used yet with big scale production as nickel, Gamping and etc.

**Potential of Mineral and Energy Resources in
East Kalimantan, 2000**

No.	Mining and Quarrying Materials	Potential	Unit
1	Earth-Oil	1,176	MMSTB
2	Earth-Gas	47,746	BSCF
3	Coal	5,000,000,000	Ton
4	Gambut	190,435,000	M ³
5	Nikel	120,000,000	Ton
6	Gold	53,500,000	Ton
7	Silver	-	-
8	Antimonit	87.79	Ton
9	Laterit	18,000,000	Ton
10	Black Silver	-	-
11	Rutil	-	-
12	Gamoing Stone	25,695,523,660	Ton
13	Kaolin	9,029,832	Ton
14	Quarsa Crystal	6,000,000	Ton
15	Quarsa Sand	39,527,239,000	Ton
16	Fospat	1.68	Ton
17	Lempung	2,036,085,075	Ton
18	Andesit	35,000,000	M ³
19	Gypsum		
20	Diamond	381,750,000	M ³
21	Marmer	240,000,000	M ³
22	Serpentinit	801,450,000	M ³
23	Peridotit and Harzburgit	27,800,000	M ³
24	Bentonit	37,250,135	M ³
25	Diorit		M ³

Source: Mining and Mineral Resource Service, East Kalimantan

Mining activity in East Kalimantan involves; oil-gas mining and non oil-gas. From the activity, earth-oil, and nature gas is the mining result influencing very big in economical in East Kalimantan, especially and Indonesian generally, because until this time, the second mining result is main export commodity.

Coal

Generally, coal mining is done with method 'Open Mine', for example Fajar Bumi Sakti PT. and Kitadin PT. Using the way 'Underground Mining'. Kitadin PT, beside using underground mining also using open mining method. Most of production that gained come from open mining.

Coal production in East Kalimantan from years to years as general increasing continuously with up production average 10% per year. In 1999 coal production in East Kalimantan appealed number on 33 million ton and this is meant to get more than 50% from National coal production. PT Kaltim Prima Coal is company that has the highest production level i.e. getting more than 13 million ton per year. With production number annual like that Kaltim Prima Coal PT is the producing corporation of biggest coal in Indonesia. Generally East Kalimantan Coal or more than 90% is export to abroad, that's Japan, Thailand, Malaysia, India, USA and some countries in Europe, while sold in inside country only a little i.e. to cement manufacture in Java and Sulawesi, paper manufacture, nickel and to PLTU Suryalaya and Paiton. Seen from coal quality produced in East Kalimantan, has various quality and as general classified as coal for PLTU steaming coal.

Gold and Silver

Meanwhile, for period 1995-2000 Kelian Equatorial Mining that activity place on West Kutai Regent as one corporation moving in gold, succeeded developing on produce activity especially gold seen very fluctuate with highest production which happened in 1998 as 14,90 ton and lowest 7,60 ton happened in 2000. And then silver production, although the developing is seen fluctuate but for period 1995-1998 increase tendency, until 2 years though decrease. In 1999 silver production appealed 13.44 ton low 23% than in 1998 appealing 14.90 ton and 2000 decrease again as 30% than 1999.

Oil and Gas

Stock rest of earth oil in East Kalimantan on 1999 as amount 1,176.11 MMSTB (Million Stock Tank Barrel), and earth-gas stock in East Kalimantan.

From the stock number, BBM production of Balikpapan Pressing that organized by Pertamina UPV on 4 last year i.e. in 1997 as 14.206,2 thousands barrel and in 2000 as 21.520 thousands barrel, it is meant increase as 33%. For earth gas, there is 6 company in

East Kalimantan that produce earth gas, but most production is oreign contractor i.e. Indonesian Totality followed by Indonesian Unocal and Indonesian Vico. Production Result of earth-gas from t produced from some fields is collected in Central Badak facility in Indonesia Vico Area in Muara Badak to transfer to Badak NGL PT & Co in Bontang and processed Train Badak become Liquid Nature Gas. The corporation that also produce gas is Pertamina at Bunyu field in Bulungan Regent and PT Exspan Nusantara at Tarakan field and Sanga-Sanga. Gas which produced OPEP Pertamina at Bunyu field and Exspan Nusantara at Tarakan field sent to Medco Methanol Bunyu Pressing Factory PT. through pipe deep in the sea to making methanol but gas produced by Exspan Nusantara at Sanga-Sangat Field/Anggana sent and done for Electric Generator of Gas Power and Steam (PLTGU) PLN Tanjung Batu in Kutai Kertanegara Regent to move gas turbine/steam through pipe in 8 as long 33 Km. For 3 last years, there was earth gas production decreasing i.e. earth gas production in 1997 on East Kalimantan as 1.958,850 BSCF and in 1999 as 1.223,958 BSCF that meant low in 41%.

For LNG is produced by PT Badak NGL & Bontang Co that place on in Bontang City built and operated in 1977 with train A and B with capacity 1,6 million ton LNG per year every train. To increase the capacity built again Train C and D in 1980. Side LNG that produced by PT Badak NGL also making LPG i.e. in 1988.

For last years looked increase product and export LNG that is 1n 1993 product LNG as 26,749.38 M3 increase continuously after in 1997 become 34.375.543 M3 and exported in 1993 as 25.510.876 M1 become 34.363.14IM3 in 1997. LNG Production Realization in 2000 from Bontang Pressing Factory appealed 45.406,397 bigger than plan as 44.041.000 M3 and LNG production realization in 1999 is 40.701.068 M3.

LPG production appealed 1.586.640 M3 higher than the plan as 1.566-390 M'. Kondesat that produced until 1.506.411 M3, higher than target as 1.496.643 M1 and LPG production from Bontang in 2000 is 45.288.046 M3 as shipping LPG is 1.568.609 M3.

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