

City of Samarinda
International Resource Cities Diagnostic
March 21 - 22, 2001



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USAID Cooperative Agreement

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Summary

Samarinda is the capital of East Kalimantan Province. As of the year 2000, the population was slightly more than 500,000. Samarinda is geographically divided into two parts by the Mahakam River, which poses a problem for the city to deliver services to all citizens, as the connection between the two parts is dependent on a single bridge.

Most people in Samarinda earn their living from services sector (more than 50%), industry (30%) and 10% from farming. Like other cities in Indonesia, Samarinda also has problems with the number of employees being transferred from higher levels of government (provincial and national) under decentralization.

The annual budget for development in Samarinda is divided into two sources, its regional revenue about 10% and the rest national government transfers. In its development decision, the Secretary of the City has the lead in the senior management team in deciding the annual work plan for the City.

Samarinda officials identified two primary issues that should be considered through the partnership:

1. Securing the revenues from the central government promised under Law No.25/1999 on Regional Autonomy and subsequent PP 104-108 (Government Regulation).

Several issues were identified. Staff explained the importance of having to go to Jakarta and meet with Ministry of Finance officials, at the ministry official's convenience, in order to secure funds. This is something that takes time and money. Further, city officials indicated that, while they were guaranteed natural resource revenues per the sharing of revenue formula, they did not feel they could trust the reported revenue from the industries; the base on which the formula was applied. The shared revenues finance a large percentage of the overall budget for Samarinda; problems in collecting the actual funds (for either of the reasons stated) will prove extremely problematic.

2. Defining the actual authority of central government versus the local government as it relates to management and development of forest and mining sectors.

Staff raised concerns about decision that were or could be made by the central government regarding sale or use of natural forest by outside investors. All officials felt that a local approval was needed to ensure that it was in compliance with local plans. Further, they felt that new central government laws being drafted for forestry and mining should include comment by and participation of the LGU staff.

THE RESOURCE CITIES PROJECT

On February 27, 2001 *Kota Samarinda* (city of Samarinda) signed a Memorandum of Understanding indicating their interest in participating in the Building Institutions for Good Governance (BIGG) Program of ICMA-USAID in Indonesia. Specifically, they agreed to participate in the International Resource Cities Program (IRCP) component of BIGG. Given this commitment, a municipal diagnostic was required to determine:

- Define the conditions of the city; conditions that will influence the effectiveness of the exchange.
- Provide a profile of the city that can be used to select the most appropriate US city partner of the program.
- Identify the appropriate type of technical assistance or resources that should be exchanged in the partnership.
- Establish a framework for the partner's technical exchange work plan.

On March 21 and 22, 2001 *Deborah Kimble*, ICMA Municipal Governance Advisor and *Trisanti Mitayani*, ICMA Partnership Manager for the IRCP of BIGG met with members of the executive and administrative staff of Samarinda.

This report provides an overview of the meetings and findings of the diagnostic trip as well as an analysis of the findings as they relate to meeting the current main objectives of Samarinda — developing and implementing a financial policy that can be used as the performance measure of all revenue sources and flag delinquent revenue payments. Further the diagnostic report offers a list of potential technical approaches that the partners may want to pursue. The report is divided in to four sections:

1. Background on the process;
2. Summary of the meetings conducted;
3. Description of the context that guided the analysis of the findings; and
4. Recommendations on scope of technical exchange for the partnership.

1. Background on the Diagnostic Process

The diagnostic in Samarinda is part of province wide process of tying four local government units — Kabupaten Pasir, Kota Balikpapan, Kota Samarinda and Kabupaten Kutai — through the budget and financial training program. As a result, a fair amount of the issues dealing with financial practices in the city were investigated earlier by ICMA Senior Budget and Finance Advisor *Philip Rosenberg* and ICMA Budget and Finance Specialist, *Charles Poluan Jr.*

Meetings in Samarinda were limited to one and half days due to the schedules of the local officials. However, the cooperation of staff during the meetings proved to be sufficient so the objectives of the diagnostic could be reached.

On Wednesday, March 21, 2001 Deborah Kimble and Trisanti Mitayani met with *Walikota Samarinda* (the Mayor of Samarinda) Drs. H. Ahmad Admins, MM, *Sekretaris Kota* (Secretary to the city), *Ketua BAPPEDA* (chairman of Regional Planning Agency) H. Mochdar Hasan, and *Kepala Bagian Keuangan* (the Finance Director) H.M. Sali. The issues that were laid out during this meeting focused on the relationship between the central government and city. Two issues in particular were raised as concerns:

- Securing the revenues from the central government promised under Law No.25/1999 on Regional Autonomy and subsequent PP 104-108 (Government Regulation).

Several issues were identified. Staff explained the importance of having to go to Jakarta and meet with Ministry of Finance officials, at the ministry official's convenience, in order to secure funds. This is something that takes time and money. Further, city officials indicated that, while they were guaranteed natural resource revenues per the sharing of revenue formula, they did not feel they could trust the reported revenue from the industries; the base on which the formula was applied. A large percentage of the overall budget for Samarinda is financed by the shared revenues, problems in collecting the actual funds (for either of the reasons stated) will prove extremely problematic.

- Defining the actual authority of central government versus the local government as it relates to management and development of forest and mining sectors.

Staff raised concerns about decision that were or could be made by the central government regarding sale or use of natural forest by outside investors. All officials felt that a local approval was needed to ensure that it was in compliance with local plans. Further, they felt that new central government laws being drafted for forestry and mining should include comment by and participation of the LGU staff.

Finally, when asked what the biggest challenge was for the city to achieve a random list of development activities¹ for Samarinda, they stated it was lack of funds (real/actual funds not only as promised) and human resources — both staff and citizens. They characterized the human resource problem as “no action talk only.” Individual meetings, as summarized next, provided more insight into these two concerns.

2. Summary of the Meetings

Three individual meetings were convened. Staff interviewed included the Secretary to the city H. Mardiansyah, chairman of Planning Agency H. Mochdar Hasan, and Director of Finance H.M. Saili.

Interview Findings

Secretary to the city: H. Mardiansyah

Mardiansyah, as secretary to the city provided information related to the general conditions of Samarinda's human resources and challenges that had to be addressed develop better skills. He takes a strong position in skill development, both for staff and for the citizens. The Mayor understands that, given the natural resource base of Samarinda and the subsequent international investor interest, there is opportunity for both gain by and abuse of the citizens. In particular, Mardiansyah felt that citizens and staff needed to have a better understanding of how international firms conducted business so that local entrepreneurs might be able to secure contracts for projects. Example of the types of training he felt people needed (staff and citizens) include English language training, international business management, and contract negotiations. If the entrepreneurs had training in these areas, he felt the city could act as intermediary; bringing the entrepreneur and investors together.

¹ List of activities included traffic, market, housing, cleaning of river, harbor, airport, bridges and general infrastructure

Finance Department : H.M. Saili

The meeting with Saili as he is the Finance Director and his staff was extremely detailed. Saili elaborated on the relationship between how things used to be done, and what changes were important, given the past, if new autonomy was to be fully implemented. In particular he emphasized the need for the local government to follow the reinventing government model and ensure that the “real” needs of the citizens were being addressed. He felt that currently, “the city had adopted the spirit [but not the intent] of open and transparent government.”

In the past the Director of Finance indicated that performance was measured on that portion of the budget financed by local revenues only. The measurement used was simply collection of revenues. He indicated that now performance budgeting had to link expenditures with outcomes, which improved the lives of citizens, and to show how specific revenues sources are linked to specific development expenditures. In this way, he felt the community to see how the local government was responding to their needs.

Some of the challenges in accomplishing this were provided by his staff. They include understanding and adopting double-entry accounting system standards, using the performance based budgeting as a decision-making tool and merging the routine and development budgets so that a comprehensive financial assessment could be made.

Practical solutions offered by the Finance Department included:

- Upgrading the computer systems
- Training for staff on how to implement responsibilities under new autonomy
- Producing good and appropriate financial reports.

The final area of discussion focused on the overall organizations structure as it related to implementing transparent financial management. Basically, the finance department described two organizational structures, one that facilitated administrative actions and the other that facilitated financial decision-making. Assuming that the latter is confirmed by the Mayor, it provides a workable structure for the promotion of new financial management.

3. Analysis of the Findings

For purposes of analysis, ICMA/USAID developed a four-point structure by which to determine the most useful technical information for each of the local government units in Indonesia as they implement Laws 22 and 25. The four points are:

3.1 Organizational Capacity

The personalities of the senior executive staff provide an important resource for the successful implementation of Laws 22 and 25 in Samarinda. In particular, the secretary to the Mayor is versed in western business and financial practices, at least as they relate to making investment decisions. As a result he has begun to develop the skills of the administrative staff to ensure that they are able to “hold their own” during negotiations with foreign firms.

While not official, in practice, Samarinda is organized similarly to a council manager structure of government. This was noted by the Finance Director, a second person (along with his staff) in the organization who brings considerable talent and knowledge that will enhance the kota’s ability to implement Law 25. In practices the secretary to the mayor is functioning much as a city manager in the budget process. The director of finance, the Planning Agency and the Secretary make up the budget committee;

reviewing all request of departments and taking on the responsibility of integrating the routine and development budgets. This practices is one of the first noted, vis-à-vis the completion of the seven diagnostics, which brings status of the finance director on par with the Planning Agency.

As with all autonomous regions in Indonesia, reorganizing the local government is an ongoing and iterative process. Samarinda seems to be taking steps forward informally, the reason for lack of formal change were not address. However, given the number of expected new presidential and ministerial degrees yet to be passed, informal reorganization may be the most efficient way to move forward for the time being.

3.2 *Transparent Budget and Financial Systems*

The richness of East Kalimantan's natural resource base make securing the special revenues funds from the central government a priority. Along with Kutai Kabupaten, Samarinda officials also felt that it will be critical to

- lobby Jakarta for timely and accurate transfer of funds, and
- develop a mechanism that provides an accurate estimate of the income generated from the natural resources so that the transfers from the GOI are in fact complete.

Contrary to other local governments interviewed, Samarinda financial officers were addressing the expenditure side of the budgetary and financial systems. At this point, due to lack of experience and limited computer capacity, the progress made in reforming budget and finance practices are conceptual. Moving from concept to reality should be part of the partnership work plan.

3.3 *Effective Citizen Participation*

Samarinda officials describe their programs as citizen oriented—citizen based budgeting and an investment strategy that provides citizens opportunities to secure contracts—however, there is no evidence that citizens have been involved or that a strategic development plan, one which addresses the needs of citizens in a logical and orderly fashion, is in place. The latter is illuminated by the list of capital projects that the Mayor listed (see footnote 1).

3.4 *Efficient Delivery of Urban and Environmental Services*

Little discussion ensued regarding the delivery of actual services. The city officials are primarily focused on securing revenues. Samarinda's potential wealth, as defined by the projected revenues to be derived from natural resources, can become a disincentive for developing efficient management practice for the delivery of services. When cities have excessive or at least sufficient revenues, political will to instill financial discipline is often times not exercised. Building a transparent financial and budgetary system will provide a mechanism by which to determine how or if the kota (both legislative branch and the executive branch) are making good financial decisions.

4. *Recommendations for the Partnership Exchange*

Samarinda would benefit from developing the staffs ability to negotiate agreements with other levels of government and other institutions. Inherent in this skill set, is the ability to analyze information and make realistic projections. This internal skill set should be gained from the budget and finance training that will be afforded the staff. In terms of how this can be applied to the partnership, it is recommended that one or more of the following type agreements be pursued.

- In lieu of tax program as it relates to public use of city land by province and central government
- Intergovernmental agreements on development standards of central government owned land.
- Partnership with local institutions for small business economic development training and/or certificate.

Since the need to define the actual authority of local government as it relates to management of natural resources and to subsequently be able to secure actual revenues from the central government is common among several of the local governments in East Kalimantan, it is recommended that the partner cities (both US and Indonesian) work collaboratively to develop an effective lobbying program. This could and should be done in cooperation with the associations. In the early stages of development, East Kalimantan might become the one of the associations pilot advocacy activities, one which can be replicated in other provinces as the associations capacity to advocate on behalf of their members improves.