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Intra-Regional Disparity in Kalimantan: Implications of Capital City Relocation

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Intra-Regional Disparity in Kalimantan: Implications of Capital City Relocation

Hilda Kurniawati and Xuyao Zhang*

Abstract

As part of its initiatives to fulfil equal and sustainable development pillars of Indonesia Vision 2045, the Indonesian Government has planned to relocate the capital city from Jakarta to Kutai Kartanegara Regency and Penajam Paser Utara (PPU) Regency in East Kalimantan province. As the new home of the capital city, East Kalimantan has demonstrated an outstanding socioeconomic performance as compared to the rest of the provinces in Kalimantan, resulting in noticeable intra-regional disparity. This analysis aims to achieve four primary objectives: (1) Uncover the factors behind the disparity among Kalimantan Provinces; (2) Evaluate the provincial government's efforts and strategies in addressing underlying issues; (3) Explore East Kalimantan's approach in tackling challenges faced by other provinces; and (4) Leverage the strengths of each province to maximise benefits from capital city relocation. The study reveals that several issues at the provincial level contribute to the disparity within the Kalimantan Region, such as low labor productivity, limited financial inclusion, fiscal sustainability challenges, and poor quality of education in border areas. To prevent the gap from widening between these provinces and East Kalimantan, each province should utilise the National Strategic Project (PSN) to support the capital city relocation.

Keywords: Kalimantan; Intra-regional disparity; Capital city relocation

JEL Classification: D6; H3; O18

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1 Introduction

1.1 A brief overview of the capital city relocation

Following a thorough assessment of the relocation of the new capital city (Ibu Kota Negara/IKN) between 2016 and 2019, President Jokowi announced in August 2019 that the new capital city would be located in Kutai Kartanegara Regency and Penajam Paser Utara (PPU) Regency in East Kalimantan province. According to The Ministry of National Development Planning of the Republic of Indonesia ([Bappenas \(2022\)](#)), the capital city relocation plan will be executed over a period of 25 years in four main phases. The initiation phase will occur in 2020 – 2024, during which the development of basic facilities and infrastructure is likely to take place. This phase will conclude upon the relocation of the Indonesian President to the New Capital City or Ibu Kota Negara (IKN), which is expected to happen before August 16, 2024. The second phase involves the development of complementary facilities and infrastructure throughout 2025-2035, including the construction of the Research and Innovation Centre as part of the core facilities in the capital city region. The third phase will be carried out in the period 2035-2045 with a focus on urban development and connectivity between and within cities in the Kalimantan region. Finally, beyond 2045, the fourth phase seeks to elevate East Kalimantan to be one of the world’s top 10 most liveable cities at the forefront of competitiveness.

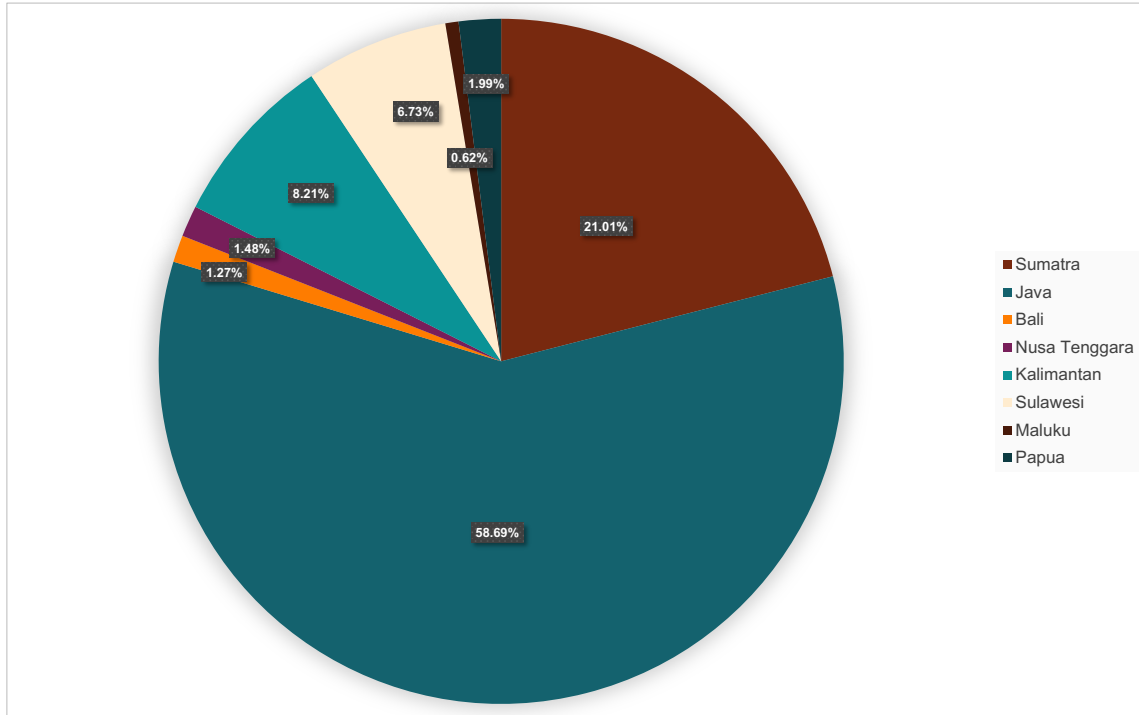
However, since the official announcement of the capital city relocation in 2019, the COVID-19 pandemic has delayed the execution of capital city relocation as government budget were directed toward COVID-19 mitigation and economic recovery strategies ([Al Hikam \(2021\)](#)). This has caused the first development phase of the project has been pushed back by two years from its initial schedule of 2020. In spite of this, the government plans to follow its initial schedule for moving the capital city in 2024 and enacts the [Law of Indonesia 3/2022 on the Capital City \(2022\)](#) (Undang Undang Ibu Kota Negara/IKN) in February 2022 as part of the formalization process. Finally, the initial development phase was initiated upon the signing of the IKN Nusantara project contract worth IDR 5.1 trillion in September 2022 by the Ministry of Public Works and Housing (PUPR). This budget is part of the IDR 43.73 trillion 2020-2024 basic infrastructure development budget ([Komalasari \(2022\)](#)).

The motivations for Indonesia’s plans to move its capital may have intensified over the years. Looking back on Indonesia’s history, previous presidents had considered moving the capital city at various points in time. A plan was first initiated by President Sukarno in 1957 to relocate the national administration to Kalimantan Island, particularly to Palangka Raya in Central Kalimantan. At that time, President Sukarno recognised that the city was located in the centre of the Indonesian archipelago and was well known for its large area ([Ministry of Finance \(2022b\)](#)). Presidential Decree No. 1 of 1997 was also issued by President Soeharto in 1997 concerning coordination for the development of Jonggol subdistrict in West Java as an independent city, originally intended to serve as the country’s administrative center. In addition, Susilo Bambang Yudhoyono proposed two scenarios in 2013: retaining Jakarta as the capital, but rebuilding it properly; or relocating the administrative center away from Jakarta ([Bappenas \(2021\)](#)).

Many factors contributed to the relocation of the capital city, including the dominance of Java’s economy as a major push factor. Based on [Figure 1](#), Java accounts for almost 60% of Indonesia’s Gross Domestic Product (GDP) in 2022. A key reason for this is that Indonesia’s economy is largely driven by the manufacturing sector, with 80% of the country’s Large and Medium Manufacturing industries located in Java. It has become increasingly important to address this enormous gap between Java and the rest of Indonesia, as Java’s dominant role in Indonesia’s economy has not changed since 2013. On

the other hand, the Eastern Indonesia Regions¹ contributed only 19% to the country's total GDP. Java's dominant economic position poses a risk that the disparity between Java and the non-Java regions will continue to widen in the long term and create socioeconomic issues, including the rapid growth of towns and population (Mardiansjah et al. (2020)).

Figure 1: Distribution of Indonesia's Gross Domestic Product by Region, 2022



Source: Central Bureau of Statistics (BPS)

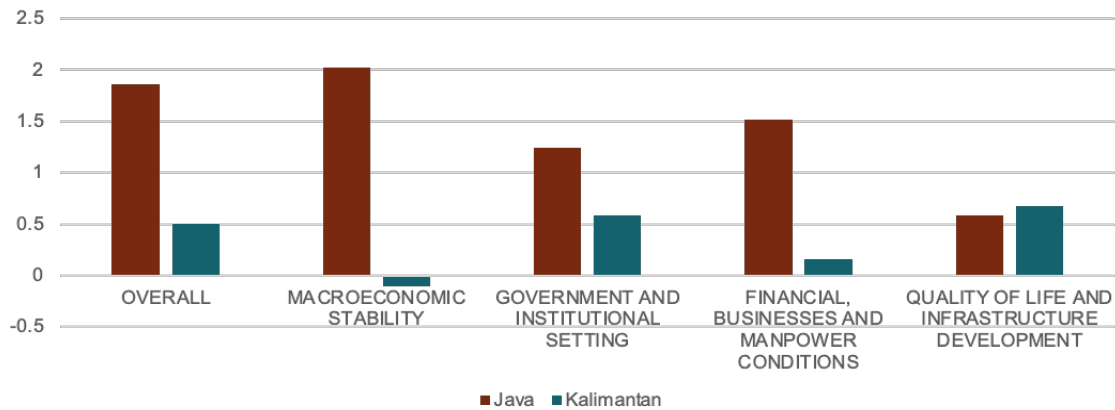
One of Java's most apparent socioeconomic challenges has been its population density. The 2020 Indonesian census shows that more than half the Indonesian population, or approximately 152 million people, live on Java Island, where DKI Jakarta is located. The number is higher than the 150 million recorded by the Indonesian Intercensal Population Survey (SUPAS) in 2015 (Setkab RI (2021)). This indicates a 1.3% increase in Java's population in five years. This population issue often leads to other environmental concerns, such as water scarcity, flood disasters, and subsidence issues (Jabodetabek). In recent years, a large number of residents have had to draw their own water from the ground, due to land use conversion and a lack of infrastructure for water supply. Consequently, Jakarta's land mass is sinking at a rate of 0.1 to 8 centimetres per year within a period of five years (Rahajeng, KH (2021)) and many coastal residential areas have now been submerged. Hence, it is hoped that moving a portion of the population will alleviate this issue, as well as other related environmental consequences.

East Kalimantan has been chosen as the new capital city based on several pull factors, including its strategic location. Kalimantan Island offers a unique opportunity for stimulating economic growth outside of Java because of its central location in the Indonesian archipelago. Bringing the capital city closer to the Eastern region is expected to reduce regional disparities in Indonesia (Ministry of Communication and Information (2019)). In addition, the new capital city is located near two other developed

¹Based on Presidential Decree No. 44 of 2002, the Eastern Indonesia Region Development Council consists of Kalimantan, Sulawesi, Nusa Tenggara, Maluku, and Papua, whereas Sumatra, Java, and Bali are included in the Western Indonesia Region Development Council.

cities in East Kalimantan, namely Samarinda and Balikpapan, both of which are known for their good infrastructure and development. The Indonesian government hopes that the close proximity to these cities will facilitate the relocation of the capital city (Setkab RI (2019)).

Figure 2: Standardised Score comparison between Kalimantan and Java, 2022



Source: ACI

Another reason for choosing the Kalimantan region for the new capital city is that it has a higher Quality of Life and Infrastructure Development (QLID) score than Java, due to its lower risk of natural disasters (Figure 2)². In accordance with Agency for Meteorology, Climatology, and Geophysical (2019), Kalimantan Island has low seismicity because it is located far from the plate collision zone and has fewer active fault structures than other Indonesian islands. Kalimantan also contains several fault structures that are of tertiary age, making them less capable of triggering earthquakes.

1.2 East Kalimantan’s socioeconomic development

East Kalimantan has emerged as a strong and competitive contender for becoming the future capital city. Located in the eastern part of Kalimantan, the province has demonstrated an impressive socioeconomic performance and has successfully competed with other highly competitive provinces in Indonesia, including those in Java and Sumatra. Figure 4 illustrates its remarkable overall competitiveness, consistently ranked among the top five provinces nationally. Relocating the capital city to East Kalimantan is projected to spur significant economic growth, with an anticipated short-term increase of 6.83% and a long-term growth of 4.58% for the province (Saputra (2021)).

There are several key economic indicators presented in Table 3 for East Kalimantan, including the Gross Regional Domestic Product (GRDP), which reached IDR 506.1 trillion in 2022. Notably, the mining and quarrying sector contributed almost half of the GRDP (49.95%), followed by the manufacturing sector at 21.1% (Figure 12). While the Provincial Government recognizes the need for long-term growth, it has set its sights on diversifying the economy away from a heavy reliance on mining and quarrying sector. To achieve this, the provincial government has been actively promoting and supporting various industries such as tourism, manufacturing, agriculture, livestock, plantation, fishery, and forestry. By

²The QLID environment covers indicators related to physical and technological infrastructure as well as the provision of basic social services. It is one of four environments that comprise the Asia Competitiveness Institute’s (ACI’s) competitiveness index, along with Macroeconomic Stability (MS), Government and Institutional Setting (GIS), and Financial, Businesses, and Manpower Conditions (FBMC). Each environment consists of three sub-environments and contributes equal weights of 25% to the ACI Overall Competitiveness Index (see Zhang et al. (2022))

Figure 3: Key Economic Indicators of East Kalimantan, 2022

Gross Regional Domestic Product (GRDP) - 2010 prices	IDR mn
GRDP	506,158,907
GRDP (non-minerals)	205,117,280
GRDP per capita	131,136,725
GRDP per capita (non-minerals)	53,142,221
GRDP growth	4.48%
Economic Composition	% of GDP
Primary Sector	53
Secondary Sector	28
Tertiary Sector	19
Trade - 2010 prices	USD mn
Total Export	36,465
Export (minerals)	2,999
Export (non-minerals)	33,466
Total Import	5,418
Import (minerals)	3,671
Import (non-minerals)	1,747
Population	
Total Population (persons)	3,859,780
Poverty Rate (%)	6.44
Labour Force	1,852,802
Labour Force Participation Rate (%)	64.73
Unemployment Rate (%)	0.06
Infrastructure	
Households with state electricity services (% of households)	95.56
Households with pipe water services (% of households)	12.24
Environmental quality index	74.46
Gini Ratio	0.317

Source: Central Bureau of Statistics (BPS), Ministry of Trade

2023, these sectors are expected to contribute over two-thirds of the Gross Regional Domestic Product ([East Kalimantan Provincial Government \(2020\)](#)).

Upon analyzing the trade performance of East Kalimantan (Table 3), it becomes evident that the region has achieved a trade surplus of USD 31 billion. This surplus was driven by a substantial export value of USD 36.5 billion. Approximately 92% of East Kalimantan's exports were comprised of non-mineral products, amounting to USD 33.5 billion. Among these non-mineral exports, non-oil and gas mineral fuels played a prominent role, contributing significantly with a value of USD 27.6 billion ([East Kalimantan Provincial Government \(2023\)](#)).

On the import side, mineral products accounted for almost 70% of the total imports, valued at USD 3.7 billion. The leading imported item by value was crude petroleum oils at USD 2.3 billion, followed by automotive diesel fuel at USD 705 million. It is worth mentioning that the value of oil and gas imports

in 2022 reached its highest point since 2018. This spike in imports was triggered by the global economic shocks experienced in 2022, leading to a surge in global commodity prices, particularly for coal, oil, and gas, due to tighter supplies ([East Kalimantan Provincial Government \(2023\)](#)).

With regard to the labor market, the labor force participation rate (LFPR) of East Kalimantan in 2022 was 64.73%, with a significant number of residents employed in the wholesale and retail Trade as well as repair of motor Vehicles and motorcycles, followed by agriculture, forestry, hunting, and fisheries, with each sector contributing 20% to the total labour force. The provincial government is committed to enhancing the competence and competitiveness of the workforce by providing training and education scholarships, as the majority of the labor force are high school graduates (44%), followed by primary school graduates (26%), and the remainder have middle school or college educations. Despite this educational distribution, East Kalimantan maintains the highest labor productivity among the Kalimantan provinces (Figure 6).

Moreover, East Kalimantan is renowned for offering the highest quality of life in the region, and even surpassing Java (Figure 2). This is evident as the environmental quality index of East Kalimantan in 2022 was 76.46, soaring above the national average of 72.42. In terms of physical infrastructure, approximately 95% of households in East Kalimantan have access to state electricity (Figure 10). The province, however, continues to face challenges in terms of water pipe infrastructure, with only 12.24% of households having access to piped water services. There is a significant disparity in water availability across the province, particularly in rural areas with inadequate access to clean water.

1.3 The intra-regional disparity within Kalimantan

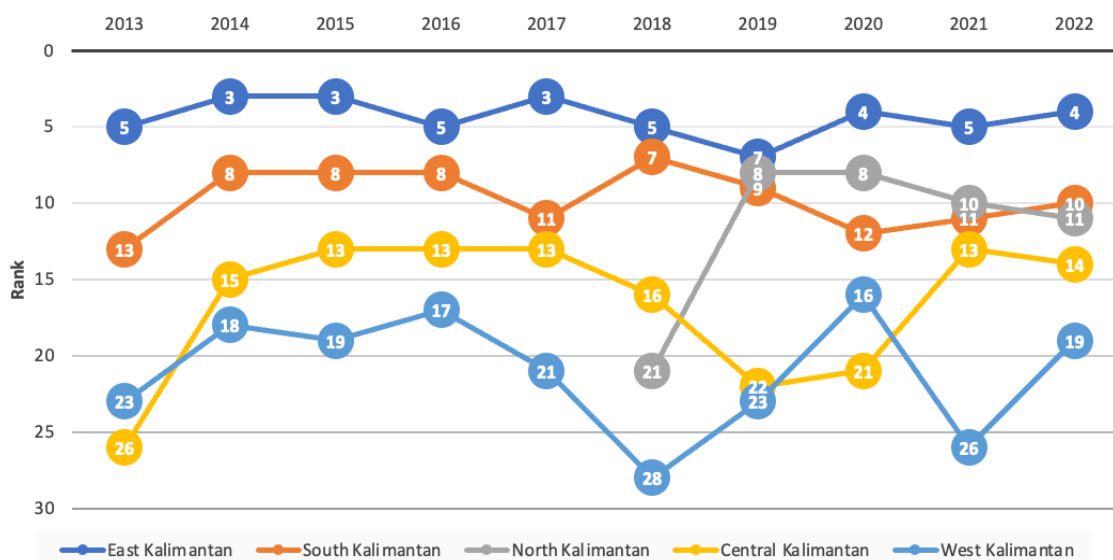
The capital city relocation is part of the Indonesian Government's initiatives to realise two of the four pillars of VISION Indonesia 2045 (Indonesia Vision 2045), namely equal and sustainable development. As mentioned earlier, the Indonesian Government stated that the capital city relocation is expected to reduce the disparity, especially between Eastern and Western Indonesia. It is important to note that factors accounting for regional disparities vary in Eastern and Western Indonesia. For instance, a study conducted by [Nugraha and Prayitno \(2020\)](#) found that electricity distribution and the number of workers have a significant impact on intra-regional disparities in Eastern Indonesia, including Kalimantan. Meanwhile, intra-regional disparities in Western Indonesia Region are strongly influenced by road infrastructure and foreign direct investment (FDI).

In the case of the Kalimantan region, East Kalimantan contributes the most to intra-regional disparity due to its superior performance. According to the ACI's overall competitiveness index ([Zhang et al. \(2022\)](#)), East Kalimantan has consistently ranked among the top five performing provinces in Indonesia since 2013 (Figure 4). However, this ranking does not reflect the performance of its neighbouring provinces, as they continue to struggle to maintain top 10 rankings (South Kalimantan and North Kalimantan) or to enter the top-15 rankings (Central Kalimantan and West Kalimantan). Additionally, the disparity is further demonstrated in the QLID environment, where East Kalimantan is ranked first nationally, while West Kalimantan consistently ranks below the average among the 34 provinces, occupying the 32nd place in 2022.

Given that East Kalimantan is the apparent outlier within the Kalimantan region ([Pratiwi \(2021\)](#)), this case study analysis pursues four primary objectives:

1. Uncover the factors behind the disparity among Kalimantan Provinces;
2. Evaluate the provincial government's efforts and strategies in addressing underlying issues;

Figure 4: Kalimantan - Overall Competitiveness Ranking, 2013-2022



Source: ACI

3. Explore East Kalimantan's approach in tackling challenges faced by other provinces;
4. Leverage the strengths of each province to maximise benefits from capital city relocation.

2 Provincial Analysis

This section identifies the causes of disparity between East Kalimantan, the top performing province in the region, and the rest of the Kalimantan provinces. It will delve into an examination of the challenges faced by each province, followed by an overview of the current government's initiatives to address these issues at the provincial level. Additionally, it will highlight how the provincial government of East Kalimantan effectively manages these challenges, resulting in more favorable outcomes compared to other provinces in the region.

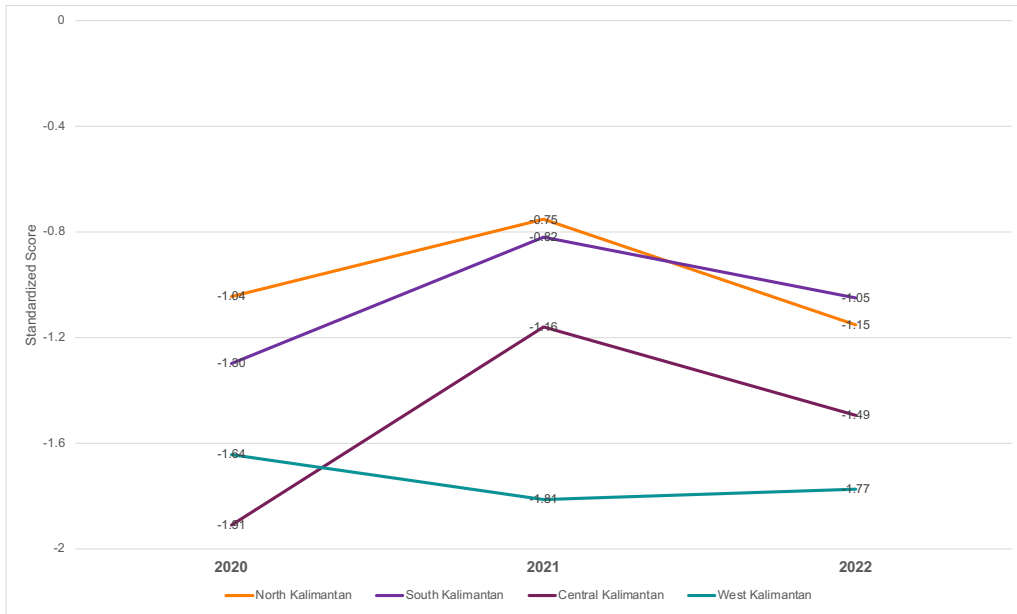
The Figure 5 below depicts the score difference between provinces in Kalimantan relative to East Kalimantan 2020-2022, specifically for the overall competitiveness. The graph indicates that all provinces have shown negative scores, showing development gaps compared to East Kalimantan.

2.1 South Kalimantan and Lessons to Learn from East Kalimantan

2.1.1 Low labour productivity

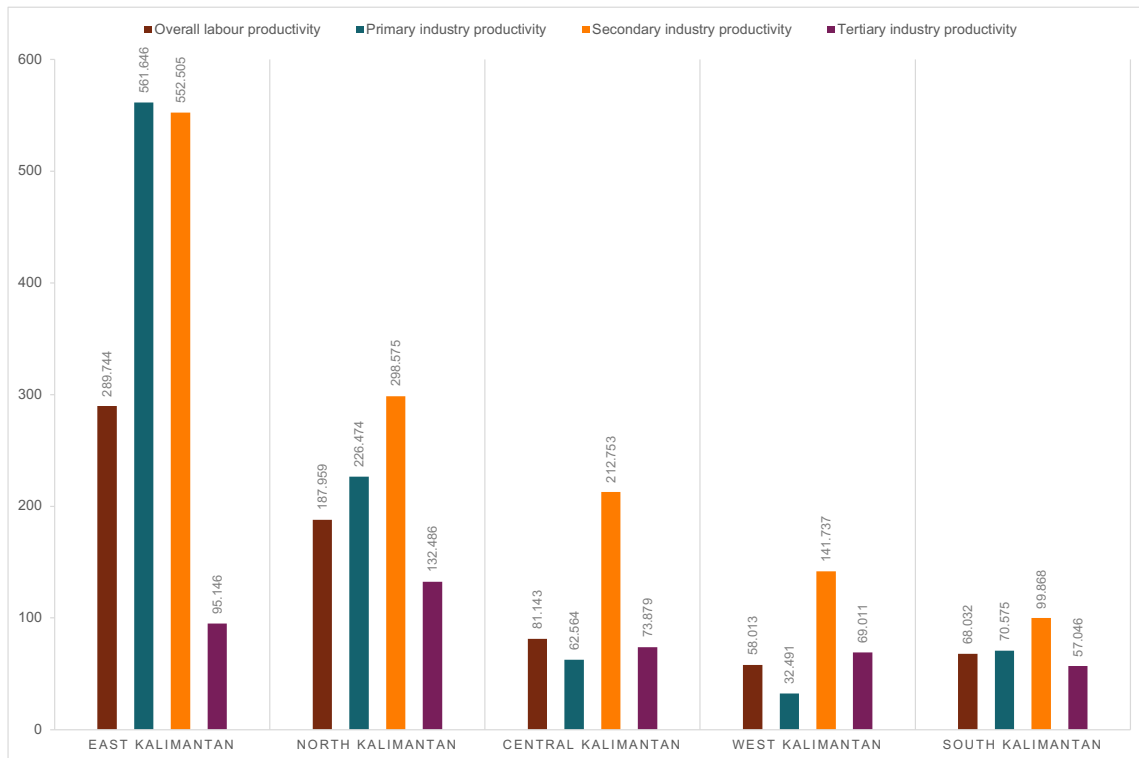
It can be seen from Figure 4 that South Kalimantan has been ranked 10th on average for the last decade, at the national level. South Kalimantan also ranks second in the region for overall competitiveness after East Kalimantan. However, Figure 5 shows that South Kalimantan's overall score is one standard deviation lower than that of East Kalimantan.

Figure 5: Standardised Score Difference to East Kalimantan: Overall Competitiveness (2020-2022)



Source: ACI

Figure 6: Labour Productivity (GDP/Employment), 2022



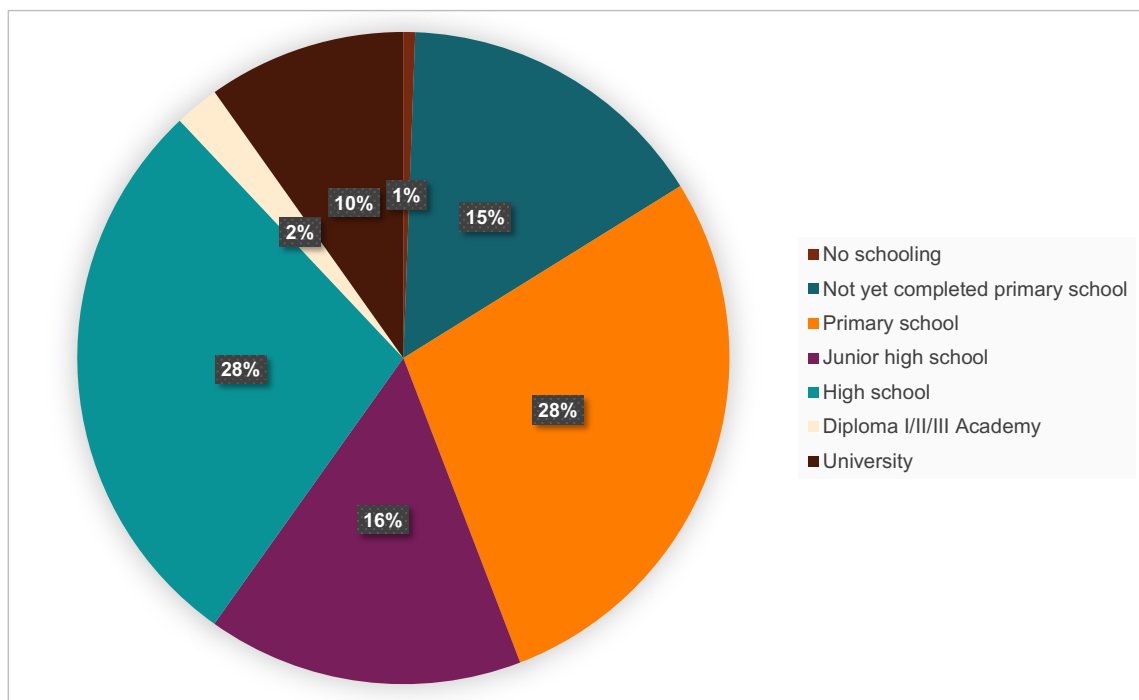
Source: Central Bureau of Statistics (BPS)

A significant gap exists between South Kalimantan and East Kalimantan due to South Kalimantan's low productivity level. As shown in Figure 6, South Kalimantan's overall labor productivity in 2022

was the second lowest in the region, accounting for IDR 68.03 million per person annually. It is nearly four times lower than East Kalimantan’s overall labor productivity (IDR 289.7 million) and almost three times lower than its closest competitor, North Kalimantan (IDR 187.9 million).

This is in line with the South Kalimantan Provincial Government Regulation No. 3 of 2019, which identifies low labour productivity as one of the main development challenges in the province (KFR Kalsel (2020)). Although South Kalimantan’s unemployment rate (4.74%) was below the national average of 5.86% in August 2022, the majority of its labour force has low educational attainment. For instance, Figure 7 shows that only 12% of the workers in South Kalimantan have a diploma or university degree. In addition, almost 50% of the labourers have completed only elementary school or have not yet graduated from elementary school. It is evident from the above data that South Kalimantan’s low unemployment rate does not reflect its labour force’s competitiveness, and low-quality human capital remains a prominent contributor to the province’s low productivity.

Figure 7: Population 15 Years of Age and Over Who Worked During the Previous Week, by Educational Attainment (August 2022)



Source: Central Bureau of Statistics (BPS)

2.1.2 Enhancing the skills and productivity of the workforce

In accordance with Provincial Government of South Kalimantan (2022a), the employment policy of South Kalimantan in 2023 will focus on improving the quality of the workforce to improve the productivity of the labour force. South Kalimantan’s provincial government recognises that human capital quality is a critical issue as the country is now moving toward the Industrial Revolution 4.0 era. For this purpose, South Kalimantan’s provincial government has implemented several programs aimed at improving the skills and productivity of its workforce.

First, the South Kalimantan Training Centre (BLK) has been conducting regular skills improvement

training since 2022. After the selection and interview process, the participants will be trained for one and a half month, followed by a two-month internship with relevant companies. Since many South Kalimantan companies are seeking immediate employees from the BLK, this training may reduce the problem of a skill mismatch between employers and employees ([Provincial Government of South Kalimantan \(2022b\)](#)).

Various vocational courses are available at each monthly training session. These include machine operation training (embedded systems, industrial electrical automation installation; machine operation; power installation); vehicle repair training (motorcycle light service and injection system light vehicle maintenance); basic ICT training and office administration training (computer operation, graphic design, audio visual, office administration management); as well as other skills training (cosmetology and basic garment sewing). It is hoped that this variety of training will allow trainees to work in a variety of fields and apply the knowledge they have acquired ([Arya \(2022\)](#); [Hidayat \(2022\)](#)).

In addition to BLK, the South Kalimantan provincial government has also implemented domestic and overseas apprenticeship programs to improve the quality and productivity of its workforce. A domestic apprenticeship program is offered annually by the South Kalimantan Office of Manpower and Transmigration (Disnakertrans). In the first phase, participants will receive some courses in a classroom setting for one month, followed by four months of fieldwork at various companies, according to the relevant skills they have acquired ([Disnakertrans \(2022\)](#)). It is expected that by preparing workers' skills according to the companies needs, the mismatch of skills may be reduced.

Meanwhile, an overseas apprenticeship program is also provided by the South Kalimantan Indonesian Community of International Labour Providers (KAPTEN) in cooperation with the Agricultural Training Centre (BBPP). For instance, in 2021, young farmers from South Kalimantan were selected to receive agricultural training and education for several months. This was followed by an overseas apprenticeship in Japan, for which participants received full allowance support. The goal of this program is to increase the capacity of young farmers by applying the knowledge they acquire through apprenticeships when they return to Indonesia ([BBPP Binnuang \(2021\)](#)).

2.1.3 Lessons to learn from East Kalimantan

East Kalimantan, on the other hand, has demonstrated outstanding performance in labor productivity and industrial productivity compared to the other provinces in the Kalimantan region. Based on [Figure 6](#), the province's overall labor productivity in 2022 reached IDR 289.7 million per person annually, while its primary and secondary industry productivity reached IDR 561.6 and IDR 552.5 million per person annually, respectively. This is in accordance with BPS data that shows workers in East Kalimantan possess a higher level of educational background, with almost 50% graduating from high school. Higher educational attainment in the workforce is believed to result in greater abilities and skills, thus enhancing value added and productivity ([SADAP Kaltimprov \(2022\)](#)).

East Kalimantan's key success in enhancing productivity was achieved through the implementation of productivity improvement programs for both workers and firms. This is in accordance with East Kalimantan's Medium-Term Development Plan (RPJMD) for the period 2018-2023, which identifies labor productivity enhancement and job matching as two of their key priorities in order to increase the competitiveness of their human resources.

In an effort to enhance the productivity of its workers, East Kalimantan's provincial government has adopted a skills-matching strategy. The distribution of 'Yellow Cards' to job seekers is part of its efforts to increase both labor absorption and to enhance worker productivity. This card will include a record of each job seeker's educational background and qualifications, which will be stored in the Manpower and

Transmigration Ministry’s database (Disnakertrans), making it easier for employers to identify candidates with the appropriate skill set when recruiting (SADAP Kaltimprov (2022)). As an additional measure to reduce skill mismatch that may lead to low productivity, the provincial government offers an apprenticeship program at the Training Centre (BLK). For job seekers participating in this program, in-person lecture will account for 25% of the training package, followed by 75% of hands-on training supervised by firms. The productivity of the workers is expected to increase as they will be employed immediately by the relevant companies once their apprenticeship has been completed (Diskominfo Kaltimprov (2023)).

For the purpose of improving firms’ productivity, the East Kalimantan Disnakertrans has been encouraging companies in the province to employ the Productivity Improvement Management System (SIMPPRO) method (Diskominfo Kaltimprov (2023)). This method provides information and assessment on the extent to which productivity has been implemented in a company. The SIMPPRO system requires companies to fill out their past operational data in order to receive an assessment result indicating whether their business is in a developing or developed stage. As a complement to this approach, Disnakertrans also provided companies with various productivity consulting programs. The consultation with productivity experts is intended to provide companies with strategies and techniques to increase productivity and competitiveness (Disnakertrans Kaltim (2022)).

In addition to promoting firms’ productivity, the East Kalimantan provincial government has also rewarded firms for their achievements by bestowing the Siddhakarya Company Productivity Award. The award was given to small and medium-sized enterprises (SMEs) that have achieved high productivity for three consecutive years and have maintained that level of productivity. It is hoped that the award will motivate other small and medium entrepreneurs throughout East Kalimantan to continue excelling in increasing productivity, thereby playing a greater role in economic growth and job creation (Diskominfo Kaltimprov (2022)).

2.2 North Kalimantan and Lessons to Learn from East Kalimantan

2.2.1 Low financial inclusion

North Kalimantan is Kalimantan’s third most competitive province after South Kalimantan, in which the overall standardised score gap is one standard deviation below East Kalimantan (Figure 5).

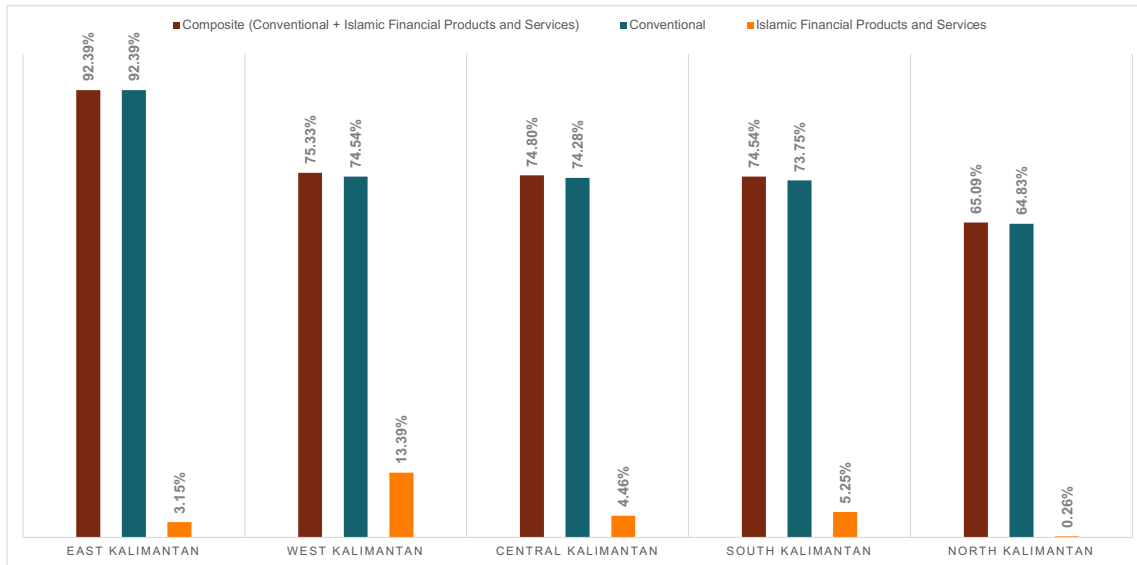
The key weakness of North Kalimantan is a low level of financial inclusion. According to Financial Services Authority (2019), North Kalimantan has the lowest level of financial inclusion among the five provinces in the same region (Figure 8). In accordance with the 2019 Financial Inclusion Index, only 65% of North Kalimantan’s population (compared to the regional average of 75%) have access to composite financial products and services, and only 0.26% have access to Islamic financial products and services.

According to a Ministry of Finance survey on Micro, Small and Medium Enterprises (MSMEs), 89% of business actors had never made a credit transaction with a non-bank or financial institution (Ministry of Finance (2022a)). In North Kalimantan, access to financial institutions is limited due to: 1) a lack of public financial literacy, leading people to be uninterested in credit due to concerns about being unable to pay; 2) other sources of finance derived from village funds; and 3) difficulty in meeting credit requirements.

2.2.2 Promoting financial inclusion and financial literacy

As part of its commitment to accelerate financial access to all cities and districts in North Kalimantan, the North Kalimantan provincial government has instructed North Kalimantan’s TPAKD to implement a

Figure 8: Financial Inclusion Index, 2019



Source: Financial Services Authority (OJK)

number of immediate initiatives. First, the provincial government has increased the target for distributing working capital loans to MSMEs (Kredit Usaha Rakyat or KUR) from IDR 253 trillion in 2020 to IDR 285 trillion in 2021 (Diskominfo Kaltara (2021b)). The local government officials are also invited to propose KUR financing programs for MSMEs in their respective cities and districts. This program is complemented by the implementation of education and assistance for MSMEs that require financial assistance. The TPAKD's financial education program is designed to protect MSMEs from the risks associated with borrowing money from loan sharks or illegal online lenders.

Second, the TPAKD has been expanding its financial access program through collaboration with Bankaltimtara through the KEJAR Program, namely One Account for One Student. A variety of activities are involved in this program, including account opening, financial education, and socialisation of the KEJAR program with students. By 2021, the KEJAR program has successfully established 49,606 savings accounts with a total fund of IDR 60.5 billion for students ranging from preschool to high school in North Kalimantan (Sapos (2022)) The opening of a free account for students in North Kalimantan is intended to facilitate access to finance and increase financial literacy in students through the practice of saving at an early age.

2.2.3 Lessons to learn from East Kalimantan

In comparison, the East Kalimantan province has achieved the highest financial inclusion rate, not only in the region (1st) but also throughout Indonesia (3rd). The provincial government has demonstrated its commitment to increasing the financial inclusion rate through the transformation of Regional Development Banks (BPDs) (Financial Service Authority (2022)). Since 2015, East Kalimantan's provincial government strives to transform BPD in order to improve its competitiveness, strength, and contribution to the regional economy (Bankaltimtara (2015)).

The East Kalimantan BPD has adopted and committed to implementing several financial programs provided by the central government, with Laku Pandai being the most successful program. It is a program administered by the Financial Services Authority (OJK) that provides financial products which are

simple, easy to understand, and tailored to meet the needs of people who are still unable to access financial services. Among the financial products provided under this program are the Basic Savings Account (BSA) which does not have a minimum balance limit or administration fees, micro-credit with simple requirements, and micro-insurance products for low-income customers ([Financial Service Authority \(2019\)](#)).

Another unique feature of Laku Pandai is that the program adopts a branchless banking model by cooperating with bank agents who employ digital banking as their primary tool. It is important to note that not all areas are served by banks' financial services, particularly remote areas. The possibility of opening physical bank units is limited owing to the availability of infrastructure costs. Taking advantage of bank agents is an alternative to carry out the duties and functions of bank financial services, such as saving, withdrawing, and applying for credit, primarily for those who are unbanked and underbanked ([Financial Service Authority \(2018\)](#)).

East Kalimantan BPD was recognized by OJK for its excellent performance in initiating this program, thus serving as a role model for other BPDs throughout Indonesia ([East Kalimantan Provincial Government \(2016\)](#)). Laku Pandai has demonstrated its effectiveness in carrying out the bank's functions, in which savings and transfers were the most frequently carried out transactions due to the lower access fees than both banks and non-banks ([LPEM FEB UI \(2017\)](#)). The unbanked population are also becoming more interested in the program as the dominant transaction changes from topping up to opening a bank account.

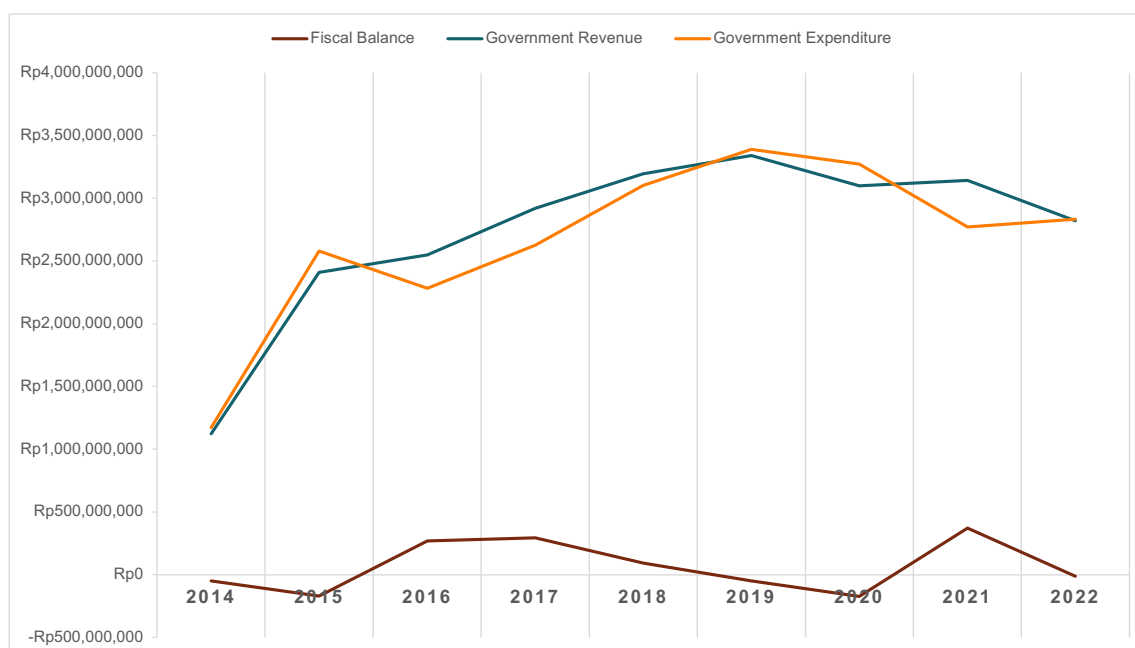
In addition, the program offers benefits not only to users but also to agents. During the period between 2016 and 2018, the number of Laku Pandai bank agents in East Kalimantan tripled from 42 agents to 124 agents ([Bankaltimtara \(2017\)](#)), then increased significantly to a total of 13,217 agents in 2019 ([Financial Service Authority \(2019\)](#)). Most agents were also satisfied with Laku Pandai because of the higher wages.

2.3 Central Kalimantan and Lessons to Learn from East Kalimantan

2.3.1 Fiscal imbalance

Central Kalimantan is ranked 4th out of five provinces in Kalimantan ([Figure 4](#)), with a standard deviation of 1.3 lower than East Kalimantan ([Figure 5](#)). Consequently, Central Kalimantan lags behind in many environments, including Macroeconomic Stability and QLID. However, Central Kalimantan's shortcomings are clearly evident in the Government and Institutional Setting (GIS) environment, where it is ranked last in the region.

Figure 9: Central Kalimantan's Fiscal Balance, 2014-2022



Source: Central Bureau of Statistics (BPS)

So far, fiscal sustainability has been Central Kalimantan's main concern. The Central Kalimantan provincial government has experienced a downward trend of fiscal balance for the past few years, except the surplus of IDR 371 billion in 2021. This surplus was largely attributed to a 14% increase in regional tax revenue compared to the previous year. In particular, the revenue realization from land and building tripled in 2021, reaching IDR 162,043 million, far surpassing its initial target of IDR 55,728 million (Central Kalimantan Provincial Government (2022)). However, the lack of independence in financing local activities through local revenue and a heavy reliance on transfer income from the central government still contributed significantly to the fiscal imbalance.

Optimising PAD in Central Kalimantan faces a number of difficulties (Supangkat (2022)). The low tax payment rate was mainly due to the absence of detailed regulations regarding the registration, payment, and reporting of taxes. This has caused confusion among tax payers, especially those who chose self-assessment tax reporting. Moreover, the follow-up action for tax collection was limited to issuing a tax collection letter to taxpayers. This problem arises from the limited number and poor calibre of personnel available for following up on tax collection. In addition, some local governments are still experiencing difficulties in implementing digital revenue management systems, which further exacerbates the problems.

2.3.2 Optimising the collection of local taxes and revenues

As for Central Kalimantan, fiscal deficits and the high reliance on central government funds can be addressed through the optimisation of local revenue and tax revenue. Various measures have been taken by the Central Kalimantan provincial government to increase its local revenue.

For example, in December 2019, the provincial government requested all regional apparatuses to provide an inventory of potential regional retribution based on business service charges within each region (Setda Kalteng (2019)). The data inventory should take into consideration the possible regional

repercussions based on the utilisation, management, distribution, and control of possible natural resources in Central Kalimantan. Information from the inventory will be used by the provincial government to evaluate changes to Regional Regulation of Central Kalimantan Number 4 of 2019 on Levies for Business Services. The purpose of the evaluation is to accommodate the potential business services levies as an effort to increase local revenues.

Additionally, the Central Kalimantan regional government has also sought to maximise local taxes in addition to optimising local revenues. There are several attempts to improve local taxation, including increasing the number of tax officers, bailiffs, and appraisers and establishing standard operating procedures for registering, paying, and reporting so that payment processes can be streamlined.

2.3.3 Lessons to learn from East Kalimantan

Meanwhile, East Kalimantan, which is the top performer in the region in terms of GIS environment, has been able to maintain fiscal sustainability due to its high level of local government revenues (PAD) and low dependence on central government transfers. East Kalimantan's fiscal strategy to achieve its revenue target was maximizing the absorption of motor vehicle taxes – the largest source of local revenue. These include the discount for early tax payments before maturity, free fines, progressive taxes, and the exemption from mandatory road traffic accident fund contributions ([Kencana \(2019\)](#)). Late tax payments that are in arrears of four years or more will also be subject to a discount on tax principal, allowing the taxpayer to pay only for three years.

As part of East Kalimantan's innovative plan to reach a wider range of taxpayers, Sadelpos (Samsat Delivery Pos) program was established in 2017 ([Wibisono \(2023\)](#)). The East Kalimantan Provincial Revenue Agency (Bapenda) collaborates with PT Pos Indonesia (National Post Agency) to provide taxpayers with a convenient vehicle tax payment service by allowing them to pay their vehicle tax from home for an affordable service fee of IDR 24,000. All vehicle documents will also be picked up and delivered directly to the taxpayer's residence. Apart from saving taxpayers time, this method incurs fewer transportation costs and requires minimal bureaucracy. Since Sadelpos was launched in 2017, the highest traffic spike was recorded in December 2018 with 2,422 vehicle tax payments paid using this service ([Menpan RB \(2019\)](#)).

2.4 West Kalimantan and Lessons to Learn from East Kalimantan

2.4.1 Low quality of education

As shown in [Figure 4](#), West Kalimantan is almost always ranked last in the Kalimantan region in terms of overall competitiveness. This province also shows the greatest gap – on average 1.7 standard deviations lower – when compared to East Kalimantan ([Figure 5](#)).

A major contributing factor to low performance in the QLID environment is numerous challenges in the education sector. In West Kalimantan, the main challenges facing the education sector are the low enrolment rate and the poor quality of education. As indicated by the Central Bureau of Statistics in 2022, although West Kalimantan has achieved 99% near universal access to primary education, enrolment in lower secondary and upper secondary education has decreased dramatically to 92.64% and 68.72%, respectively. This contrasts with a national average of 91% for lower secondary education enrolment and 68.9% for upper secondary education enrolment. In addition to the enrolment rate issue, West Kalimantan is also struggling with the quality of education. Only two out of five primary school students achieve the minimum national benchmark in reading and only one in seven in mathematics ([UNICEF](#)

(2018).

In West Kalimantan, the poor quality of education is caused by several factors. First, [KIAT Guru \(2019\)](#) found that teacher absenteeism remains a significant problem in the province, particularly in rural areas, due to poor infrastructure and long commute times to school. According to [Rupita \(2019\)](#), in some areas, students and teachers do not have road access to school, and must cross rivers or traverse forests. Furthermore, according to [Brata \(2020\)](#), education issues such as lack of classrooms, teachers, and learning facilities are also found in schools near the Indonesia-Malaysia border. These low-quality schools have affected many children of Indonesian migrants (TKI) whose parents work in Malaysia. Consequently, many students from the border areas, including Kapuas Hulu in West Kalimantan, chose to attend school in Sarawak Malaysia, due to the better educational facilities and infrastructure ([Rupita \(2019\)](#)). Not only that, school fees in Malaysia are also free for six years at the primary level and five years at the secondary level.

2.4.2 Enhancing the quality of education

West Kalimantan's education sector faces two major issues: a lack of equity and a lack of quality education. Various initiatives have been taken by the West Kalimantan government to address these issues. Firstly, the West Kalimantan provincial government has encouraged the West Kalimantan Education Quality Assurance Centre (BPMP) to implement a quality assurance system for education. As specified in the BPMP of West Kalimantan's Strategic Plan 2020-2024, BPMP will ensure that the schools meet the quality standards, by assessing the quality of learning outcomes using a minimum competency assessment, character survey, and learning environment survey, as well as enhancing the use of education profiles and report cards to facilitate quality assurance and automatic accreditation.

In addition to BPMP's efforts, the West Kalimantan government has also instituted a national education program, called the Mobilising School or Sekolah Penggerak. As a collaborative effort between the Ministry of Education and Culture and local governments, the Mobilising School Program promotes the advancement of schools by incorporating five types of interventions over three years. These include consultative and asymmetric assistance to local governments, training and assistance for school principals and teachers, learning with a new paradigm, data-based planning, and school digitalisation. It is hoped that the Mobilising School program will provide students with the opportunity to attain above average grades and will allow schools to create a safe, comfortable and inclusive learning environment ([Wulandari \(2022\)](#)).

Lastly, the West Kalimantan provincial government has refocused its educational strategy towards improving the Human Development Index (HDI), by ensuring that good and equitable education is provided in the frontier, outermost, and lagging (3T) regions ([Dikbud Kalbar \(2022\)](#)). Building schools near the border with Malaysia will be a priority for the West Kalimantan provincial government. One example is the construction of a high school in Kapuas Hulu Regency, West Kalimantan, which is adjacent to the Lubok Antu region, Malaysia. It is currently in the planning stage.

The central government also supports the continuation of education for teenagers living in the 3T regions through the Secondary Education Affirmation Program (ADEM) ([Ministry of Education, Culture, Research, and Technology \(2022\)](#)). Since 2013, the West Kalimantan provincial government has been offering scholarships to outstanding junior high school graduates in the West Kalimantan-Malaysia border region to continue their education to high school. In addition to scholarships, students are also provided with a variety of soft skills training. For example, 48 ADEM participants from five schools in Pontianak, West Kalimantan participated in a course on character building in December 2018 ([Pemprov](#)

Kalbar (2018)). It is expected that upon completion of this program, they will have completed the nine years of compulsory education and have acquired abilities comparable to those of most students in Java and Bali.

2.4.3 Lessons to learn from East Kalimantan

Similar to West Kalimantan, East Kalimantan province also has a district that shares a border with Malaysia, in which Mahakam Ulu (Mahulu) District lies directly adjacent to Sarawak, East Malaysia. According to Putri (2019), the quality of education is also poorly reflected in border areas in East Kalimantan, due to inadequate teaching and learning facilities. Mahulu district is a geographically isolated district in Kalimantan with residents living far apart, making it difficult for residents to acquire a secondary education. The students in the Mahulu district must take the river route to reach school, which is far and risky due to rapids and fast currents.

A number of measures are being taken by the East Kalimantan government in order to address this issue, including the development of an integrated school or Sekolah Terpadu in the border areas. The purpose of establishing an integrated school is to facilitate access to education for the students living in remote areas as the both primary and secondary education are facilitated within one complex. The school will also be equipped with dormitories to accommodate students from different villages and sub-districts in Mahulu Regency (Ghofar (2015)). The pilot program began with the establishment of the Integrated Elementary School in Mamahak Besar Village, Mahulu District, in 2020. In the near future, integrated schools are expected to be constructed in five other sub-districts of the Mahulu district.

Furthermore, the quality of education is also enhanced by improving the educational attainment of the teachers in Mahulu District. Throughout Mahulu District, teachers have been encouraged to take an active role in the teaching and learning process. Kindergarten and elementary school teachers who do not have a bachelor's degree background are also obliged to pursue their degrees at the Open University and will be supported financially by the Mahulu district government (Nomor Satu Kaltim (2020a)).

Mahulu district government's efforts in improving education quality at the border area have been showing significant results over the past few years. Throughout 2019 alone, 24 new school buildings were being constructed and a total of 42 school buildings were also rehabilitated. Furthermore, the Mahulu district has achieved an ideal student-teacher ratio (STR). As of 2020, the STR of public elementary and lower secondary schools in Mahulu District were 9:1 and 6:1, respectively. According to this provision, the STR of Mahulu District is above the ideal ratio stated by the Ministry of Education and Culture of 29:1 for elementary schools and 24:1 for lower secondary schools (Nomor Satu Kaltim (2020b)).

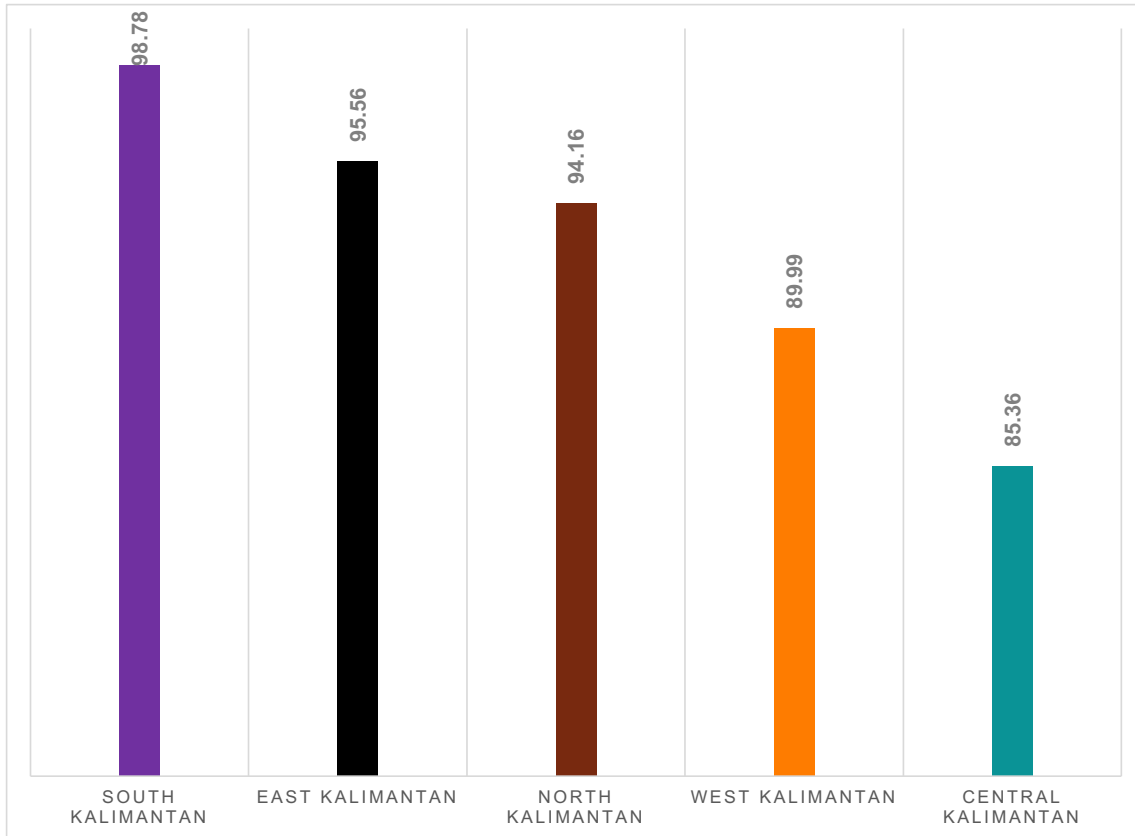
3 Cluster Analysis

3.1 South Kalimantan and North Kalimantan

In addition to the similar weaknesses described earlier in terms of the Financial, Business, and Manpower Condition environment, South and North Kalimantan also have similar characteristics, which have made them the top performers after East Kalimantan.

State electricity services have been one of the key factors that contributes to the outstanding performance of these two provinces in infrastructure development. According to Figure 10, almost 99% of households in South Kalimantan have access to public electricity services in 2022, while North Kalimantan achieved the third highest access rate of 94.1%. In contrast, in West Kalimantan and Central Kalimantan, only 89.9% and 85.4% of households have access to state electricity, respectively.

Figure 10: Percentage of Households with State Electricity Services, 2022



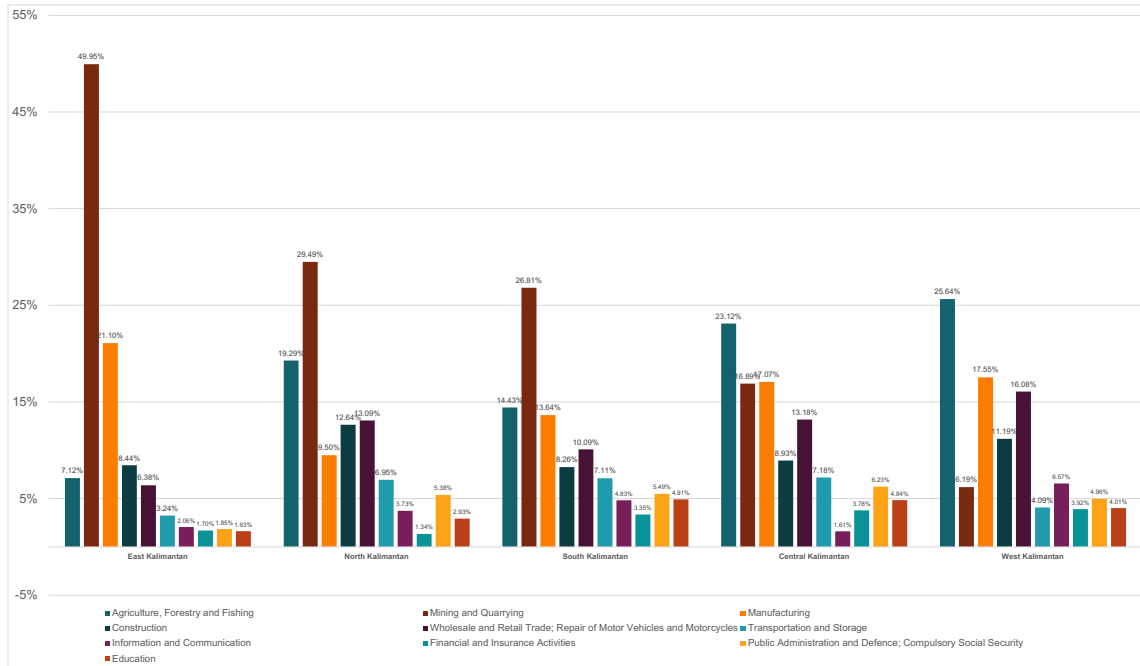
Source: Central Bureau of Statistics (BPS)

In South Kalimantan and North Kalimantan, good quality electricity infrastructure is the result of an interconnection program between East Kalimantan-South Kalimantan and East Kalimantan-North Kalimantan conducted by the State Electricity Company (PT PLN). An electricity interconnection between East Kalimantan and South Kalimantan was established in 2018, when 150 kV current electricity was first supplied from the main power grids in Balikpapan (East Kalimantan) to Tanjung (South Kalimantan) (Faizal (2018)). This was followed by an integration of the electricity systems of East Kalimantan (Mahakam) and South Kalimantan (Barito) in 2020, resulting in electricity from Mahakam generators being supplied to the Barito system. As for North Kalimantan, electricity interconnection was started in 2018, through the construction of two substations at Tanjung Redeb, Berau (East Kalimantan) and Tanjung Selor, Bulungan (North Kalimantan), which has improved the supply of electricity between the two provinces (Wibisono (2022)).

In addition, the proportion of economic structures of both provinces is also similar to East Kalimantan. Figure 11 illustrates that the economy of East Kalimantan in 2022 is dominated by the Mining and Quarrying sector, which accounts for almost 50% of its GRDP. North Kalimantan and South Kalimantan also have a dominant Mining and Quarrying sector, but their shares of GRDP are substantially lower at 29.5% and 26.8%, respectively.

It is possible that the dominance of the Mining and Quarrying sector contributes to the superior competitiveness of South and North Kalimantan. In a decentralised economy such as Indonesia, Negara and Hutchinson (2021) found that provinces with abundant resources tend to share greater profits and

Figure 11: Share of Economic Sectors in the Gross Regional Domestic Product (GRDP), 2022



Source: Central Bureau of Statistics (BPS)

higher regional budgets, resulting in higher growth rates. Other studies have also shown that mineral-dependent regions tend to perform better in terms of socioeconomic conditions and infrastructure. Local communities could benefit from increased knowledge transfer and infrastructure development to support the mining and quarrying sector (Azwari and Rajab (2021); Ministry of Energy and Mineral Resources (2016)). These findings are in line with the overall competitiveness and QLID rankings.

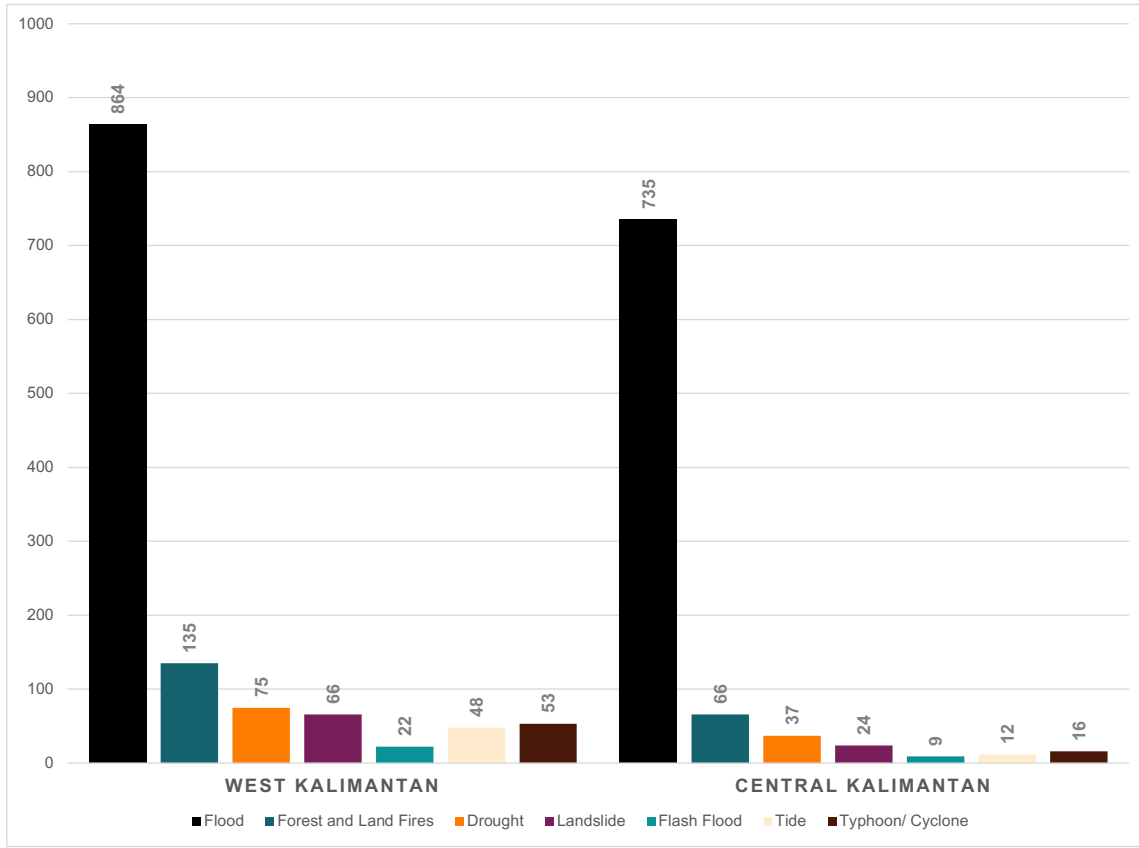
Although mining and quarrying contribute greatly to GRDP, provinces whose economies depend on these minerals must be cautious of global market conditions and fluctuating commodity prices. Furthermore, there are also risks of long-term declining mining production due to the deterioration of old oil wells and the lack of additional exploration of new wells (Pratiwi (2021)).

3.2 Central Kalimantan and West Kalimantan

Central and West Kalimantan face similar problems with regard to geographical conditions, which could adversely affect their socioeconomic performance. Many districts in these two provinces are geographically located in challenging and steep areas. Thus, regional development and construction of infrastructure facilities have been hampered by various geographical obstacles.

Moreover, the two provinces are susceptible to natural disasters (Figure 12). Floods, forest fires, and drought are among the most common natural disasters experienced by numerous villages in Central Kalimantan and West Kalimantan. About 41% of all hotspot clusters in Kalimantan are found in Central Kalimantan and 34% in West Kalimantan. Data from Ministry of Environment and Forestry (2021) also indicate that, peat forests and land fires in West Kalimantan reached 13,367 hectares in 2021, while those in Central Kalimantan reached 682 hectares.

Figure 12: Number of Affected Villages by Type of Natural Disaster, 2019-2021



Source: Central Bureau of Statistics (BPS)

4 Policy Analysis and Suggestions

The intra-regional disparity within Kalimantan has been caused by unique challenges experienced by each province. To prevent the widening disparity in the near future, each province should begin by resolving problems that have already arisen, while seeking opportunities from the capital city relocation. The following is a description of the efforts of the current government to deal with issues at the provincial level and suggestions as to how each province can maximise the benefits of the new capital city in East Kalimantan.

4.1 South Kalimantan: Improving the development of infrastructure

A potential benefit of the capital city relocation for South Kalimantan is the infrastructure development (Susanto (2019)). Considering the close proximity of South Kalimantan's Tabalong District to the new capital in Penajem Paser Utara District, infrastructure development in South Kalimantan is an integral part of the relocation of the capital city. In 2019, both the national and provincial governments successfully rebuilt the Syamsudin Noor Banjarbaru International Airport as part of the National Strategic Project (Proyek Strategis Nasional or PSN). As the largest airport in the Kalimantan region, this airport is crucial to supporting the new capital city because it has the capacity to handle 7 million passengers annually. In addition to improving connectivity to the new capital city, a growing number of tourists is also expected to increase revenue for the tourism sector and MSMEs in South Kalimantan.

Furthermore, the provincial government intends to build a railway network to facilitate the establishment of the new capital city. A total of two railway routes will be constructed: Tabalong-Banjarmasin-Palangkaraya and Tanah Grogot-Batu Licin-Banjarmasin. This railway development offers an alternative to the busiest port in South Kalimantan, Trisakti Port, which is highly dependent on tidal movements in the estuary of the Barito River. Tidal movements not only reduce Trisakti's port operations to three hours per day, but also cause sediment to accumulate and hinder shipping flow (Syaefudin (2008)). Therefore, the new railway routes are expected to reduce the reliance on Trisakti Port and facilitate the distribution of goods from South Kalimantan to the new capital city.

4.2 North Kalimantan: Benefitting from the Indonesian Green Industrial Zone in Tanah Kuning

North Kalimantan can help and benefit from the new capital city by using the benefits of the Indonesian Green Industrial Zone, another national strategic project, that is currently being built in the Bulungan Regency, North Kalimantan. This is a green industrial area designed to accommodate industrial activities, exports, and imports, as well as other economic activities of high value and of international competitiveness (Diskominfo Kaltara (2021a)). As of December 21, 2021, President Joko Widodo had laid the cornerstone for the Indonesian Green Industrial Zone. This was followed by land clearing and pre-construction activities in May 2022 (Lamunsari (2022); Ambarita (2022)). As a result of the establishment of this industrial zone, the Indonesian government has set a high standard for North Kalimantan, in which most exports from North Kalimantan are expected to comprise semi-finished or finished products, providing Indonesia with significant value added (Diskominfo Kaltara (2021a)).

This industrial area also offers the province with geostrategic advantages for building mutually beneficial relationships with East Kalimantan. First and foremost, the Indonesian Green Industrial Zone, specifically the Tanah Kuning beach area, is located within the Indonesian Archipelagic Sea Lanes, a major international trade route (Koran Kaltara (2022)). By developing an international port within the Indonesian Green Industrial Area, trade is expected to flourish in the new capital city, which in turn will benefit North Kalimantan's economy.

In addition, the construction of this industrial area has contributed to the development of the infrastructure in North Kalimantan. For example, the government has constructed asphalt roads at various locations in the province (Asmalyah (2022)). To support access to the industrial area, paving has been completed from Binai to Sajau and from Tanah Kuning to Mangkupadi, both roads being adjacent to East Kalimantan. This will increase North Kalimantan's connectivity within and outside the province, as well as its connectivity with the new capital city.

4.3 Central Kalimantan: Maximising agriculture products through the Food Estate Program

The provincial government of Central Kalimantan has made plans to take advantage of many opportunities that will arise as a result of the establishment of a new capital city in East Kalimantan. The provincial government has begun mapping the strategic and potential areas in Central Kalimantan that could tap the potential benefits of the new capital city. This effort is imperative for the province because Central Kalimantan is located in the middle of the island and shares a border with East Kalimantan.

Both central and provincial governments believe that the Food Estate National Strategic Program (PSN) offers an opportunity for Central Kalimantan to support the establishment of a new capital city

(Pingit (2020)). The PSN Food Estate is implemented in Pulang Pisau Regency and Kapuas Regency, Central Kalimantan, covering an area of approximately 165,000 hectares. The program adopts a modern approach to food development by integrating agriculture, plantations, and livestock into several clusters. Agricultural centres within this area will be built with digital farming patterns that will minimise conventional farming methods and allow the agricultural process to be managed in an environmentally sustainable and modern manner (Diskominfo Kalteng (2021)). The process of land intensification, for example, involves educating farmers regarding ways to improve crop yields as well as offering practical help in the form of seeds, fertilisers pesticides etc.(Muhammad (2022)).

The program is expected to have a multiplier effect in Central Kalimantan, including improving the welfare of farmers and creating jobs, which in turn will enhance the regional economy. Intense effort in 2020-2021 has increased production compared to the period before the implementation of the Food Estate program. For example, milled dry grain production increased by 15.3% in 2020 and 11.5% in 2021. Following this, the average planting index also increased by 37% (Muhammad (2022)). This achievement suggests that the PSN Food Estate can contribute to the development of Central Kalimantan's competitiveness by increasing the supply of agricultural and livestock products and, in turn, supporting the food demand from the new capital city.

4.4 West Kalimantan: Maximising the export-import and logistics distribution through the Kijing Port

The Kijing Port is one of the major projects that West Kalimantan can leverage to support the development of the new capital city. The Kijing Port is a National Strategic Project that is being developed to become Kalimantan's largest port that meets international standards. It was inaugurated in June 2022 by President Jokowi. This port will be able to accommodate 500,000 twenty-foot equivalent containers (TEUs) and 8 million non-containers. In his statement, President Jokowi said that the investment of IDR 2.9 trillion rupiah must be able to improve connectivity among ports, islands and countries in the region and strengthen the competitiveness of West Kalimantan, especially West Kalimantan's star products, such as aluminium oxide, asphalt, crude palm oil and bauxite (Ministry of Law and Human Rights (2022)).

There are several ways in which West Kalimantan can optimise the benefits of this port. First of all, the port will be able to accommodate ships of the class of mother vessels that transport export-import goods in containers. This port will have a competitive advantage because no other ports can accommodate mother vessels in Indonesia. Tanjung Priok Port, for example, does not allow mother vessels to transit because the depth of the inlet and deep harbour pools is only five meters below sea level. Meanwhile, the inlet and deep harbour pools of Kijing Port are deeper than 16 meters, so they are capable of accommodating mother vessels (KFR Kalbar (2019)). Thus, Kijing Port has the potential to reduce the province's dependence on other ports outside of the province.

Secondly, this port will offer an opportunity to serve as a logistics hub for the country. This is due to the strategic location of this port, where the Natuna Sea and the Karimata Strait are located near major shipping lanes in Asia. The strategic location of the port allows it to provide logistical support for the planned relocation of the capital to East Kalimantan (Pemprov Kalbar (2022a)). Additionally, the logistics distribution will be supported by a toll road, which completed its feasibility study phase in 2022, between Pontianak City and Kijing District. The toll road between Pontianak and Kijing will be divided into two sections. The first section runs between Pontianak and Batulayang for 37.6 km, while the second runs between Sei Pinyuh and Port of Kijing for 31.83 km (Pemprov Kalbar (2022b)). It is

expected that the existence of this toll road can reduce the time required for travel between Pontianak Urban Area and Kijing port, as well as support the logistics network around the port.

5 Concluding Remarks

A variety of issues at the provincial level are believed to contribute to the disparity within the Kalimantan Region. As the new home of the capital city, East Kalimantan has demonstrated its superiority over the years through its socioeconomic performance in all ACI competitiveness environments. Meanwhile, the second-best province, South Kalimantan, continues to be challenged by low labour productivity, while the third-best province, North Kalimantan, has been facing issues associated with low financial inclusion and financial literacy rate. As for Central Kalimantan, the province has been suffering from fiscal stability issues over the past few years and requires greater effort to increase local revenue optimisation. Finally, West Kalimantan, the province with the lowest overall performance in the region, continues to suffer from the inadequate quality of its educational infrastructure, especially among those living in the border areas.

Based on the cluster analysis, it becomes evident that the top performers (South Kalimantan and North Kalimantan), which have a smaller gap with East Kalimantan, have an economic structure that is similar to that of East Kalimantan. These two provinces are dominated by the mining and quarrying sector. Both also excel in the provision of state electricity services. In contrast, the performance of the two lowest-ranked provinces in the region (Central Kalimantan and West Kalimantan) are adversely affected by their challenging geographical conditions, including a high risk of natural disasters. This has resulted in a lower QLID score than that of South Kalimantan and North Kalimantan.

In order to avoid enlarging the gap between these provinces and East Kalimantan, the challenges faced by each province should be addressed early, prior to the capital city relocation. The majority of the provincial governments in Kalimantan have made various efforts to address specific issues related to their provinces. Among the initiatives that have been implemented are: (i) increasing the utilisation of South Kalimantan's training centres (BLKs); (ii) implementing the One Account for One Student (KEJAR Program) by the Team for Accelerating Regional Financial Access in North Kalimantan; (iii) increasing the potential revenue from business services in Central Kalimantan; and (iv) implementing the Mobilising School (Sekolah Penggerak) and Secondary Education Affirmation Program (ADEM) in West Kalimantan.

A lot can be learned from East Kalimantan, which has achieved outstanding results in nearly every aspect of its socioeconomic development. Toward increasing labor productivity, South Kalimantan may adopt East Kalimantan's approach by implementing Yellow Cards for job seekers and apprenticeship programs to reduce skill mismatch, as well as adopting SIMPPRO and bestowing Siddhakarya to promote firm productivity. In North Kalimantan, BPD transformation and the provincial government's commitment to implementing the Laku Pandai OJK program may also be options for increasing financial inclusion. Additionally, Central Kalimantan may be able to maximize its regional income by maximizing the biggest tax contributor sectors, such as motor vehicle tax. It may be possible to maximize this effect by providing tax incentives and facilitating access and tax payment bureaucracy, such as the Sadelpo program in East Kalimantan. Finally, West Kalimantan can build integrated schools and guarantee the quality of teacher in order to improve the quality of education in border areas.

To conclude, each province in Kalimantan should leverage its unique strengths in order to maximize the benefits of the capital city relocation. A key effort is to maximise the National Strategic Project

(PSN) that has been implemented by the national government in each province in Kalimantan, with the aim of supporting the relocation of the capital city. The strategic projects include the expansion of the Syamsudin Noor Banjarbaru International Airport (South Kalimantan), the Indonesian Green Industrial Zone in Tanah Kuning (North Kalimantan), the Food Estate Program (Central Kalimantan), and the Kijing Port (West Kalimantan). It is hoped that by addressing each province's issues and optimising the benefits of the strategic initiatives, the gap between East Kalimantan and the rest of the Kalimantan provinces will be reduced.

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