Chapter 2 Urban and Land Management System in Indonesia

2-1 Historical Context of Urban Development

The main streams of the laws and regulations issued by the government, and the plans and programs related to the city planning and development are illustrated in Tables 2-1-1 and 2-1-2 respectively. These streams tell the historical context and perspective of the Indonesian urban and land development and management, which are shown in Figure 2-1-1, and outlined below.

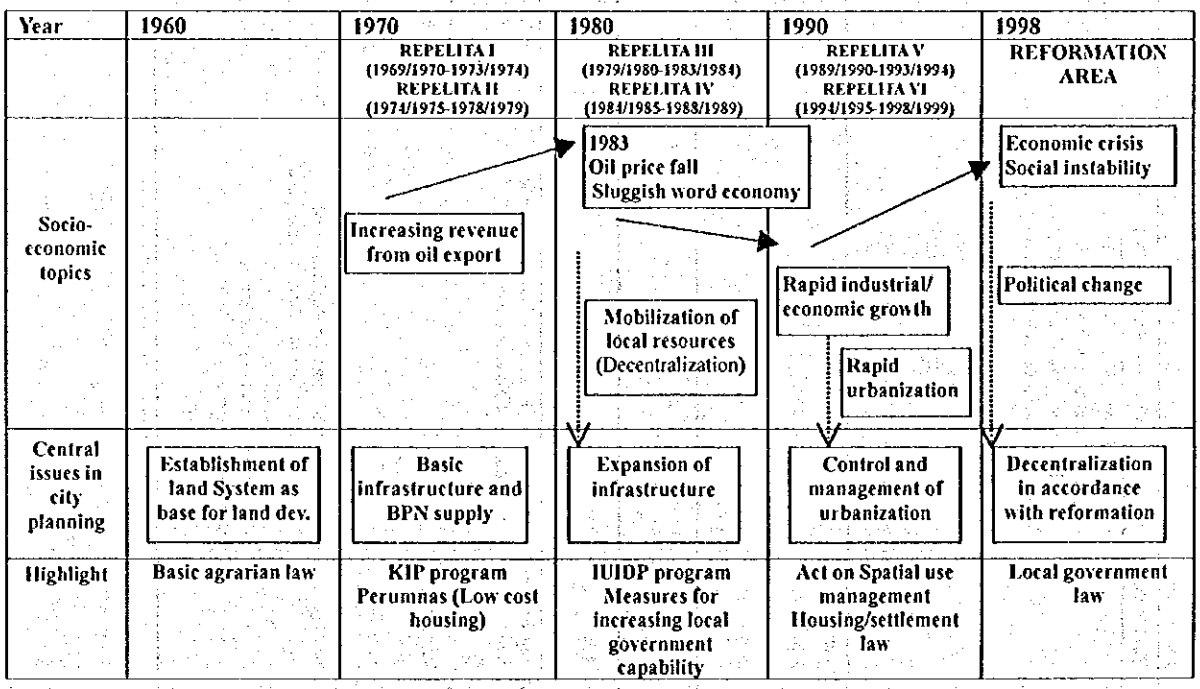


Figure 2-1-1 Historical Context of Urban Development in Indonesia

[1960-1970 (Before REPELITA) - Establishment of the Indonesian Land Tenure System for Urban and land Development/Management]

This period is characterized by the establishment of the Indonesian land Tenure system directed by the 1960 Basic Agrarian Law, followed by the related governmental regulations for the law execution. It is said that the foundation of the Indonesian land administration and management system was basically created during this period. Especially the 1960 Law that has been predominant not only in the field of the land tenure but also land use and development due to the particular feature of the Indonesian land philosophy and concept, represented by the constitution.

[1970-1980 (REPELITA I, II) - Basic Infrastructure and BPN provision]

Since the REPELITA started with a poor urban infrastructure and services in early the '70s, projects for improving the basic infrastructure, targeting at basic human needs provision were the major concern of the urban development. This benefited from the increasing government revenue generated by high price oil export. The KIP upgrading the blighted conditions of the Kampung, the establishment of Perum Perumnas for low cost housing is highlighted in this period.

Table 2-1-1 Law and Regulation of Indonesian City Planning and Development

PERIOD	CITY PLANNING and DEVELOPMENT	ADMINISTRATION/ORGANIZATION	LAND MANAGEMENT	HOUSING DEVELOPMENT
1945-1970	- Urban Structure Law No. 168, 1948 (Substitute by law No. 24, 1992) (Staatsvormings Ordonantie) - Basic Provision of Housing law No. 6, 1962 (Substituted by Law No.1, 1964) - Law No.1, 1964 (Substituted by Law No.4,1992)	- 1945 Indonesian Constitution	- State land Control Law No.8, 1953 - **Agrarian Basic Law No. 5, 1960** - Prohibition on Land Use without permission from right holder or authorized person, Law No.51, 1960 - Fixation of size of Agriculture Land Law No.56, 1960 - Government regulation on land registration No. 10, 1961 - Revocation of Right upon the Land and the Things on it Law No.20, 1961	- The Government Regulation on Establishment of National Saving Bank No.20, 1968
1969/1970-1973/1974 REPELITA I	- Water Resource Development Law No.11, 1974	- Government **Administration in Region** (Local Government) Law No. 5, 1974		- Government regulation Establishment of **Perum Perumnas** No. 29, 1974 (substituted by Government regulation No.12, 1988) - Ministerial Decree, establishment of BTN, as instruction for prepare fund for Project Housing Development No. B-94/MK/IV/I/1974
1974/1975-1978/1979 REPELITA II		- Village Administration Law No. 5, 1979		
1979/1980-1983/1984 REPELITA III	- Environment Management Law No.4, 1982 (Substituted by Law No. 23, 1997)			- Establishment of Papan Sejahtera Bank for housing, Ministerial Decree 1980
1984/1985-1988/1989 REPELITA IV	- Environment Impact Assessment, Government Regulation No.29, 1986 (Substituted by Government Regulation No. 51, 1993) - Guidelines for Formulating Spatial Plan No. 59, 1988	- Allocation of Property and Building Tax to Level II Local Government Regulation No. 12, 1985 - Delegation of Task of Public Work to Local Government, Government Regulation No. 14, 1987 - Coordination of Development Program among Government Regulation No.6, 1988	- Regulation of Head of BPN on Registration of multistory Flat No.2, and No.4, 1989	- Establishment of Menpera, Presidential Decree No. 25, 1983 - Multi-Story Flats, Law No.16, 1985 - Government Regulation on (implementation of Law No. 16, 1985) Multi-Story flats, No.4, 1988 - Ministerial Decree on Guideline of Local Regulation for Multi-Story Flat No.3 1992 - Perumnas Government Regulation No. 12, 1988
1989/1990-1993/1994 REPELITA V	- **Spatial Planning Law No. 24, 1992** (Substitute Law No.168, 1948) - **Housing and Settlement Law No.4, 1992** (Substitute Law No.6, 1992 / No. 1, 1964) - The Road Law, No. 13/1990 - Environment impact Assessment, government regulation No. 51/1993		- Acquisition Of Land for Realization of Development in Public Interest Presidential Decree No.55, 1993 - Ministerial Regulation on Stipulation of Implementation of P/D No.55, 1993, No. 21, 1994	- Urban Redevelopment on State Land Presidential Instruction No. 5. 1990 - Regulation on Guideline for Balanced Housing Provision (1:3:6 Policy) ministers' Decision 1992 - Government Regulation 24, 1995 National Saving Bank
1994/1995-1998/1999 REPELITA VI	- **(Regulations for Law No. 24 1992 and No.4, 1992** have been Prepared Drafting of Regulations on KASIBA and LISIBA, on Provision for Housing and Settlement) - Environment Impact Assessment Law No. 23/1997 (Substitute law No. 4/1982)		- Land registration, Government Regulation No.24 /1997 (Substitute Government Regulation No. 10/1961)	

Table 2-1-2 Urban/land/Housing Development Plan and Program/Project

Five Year Development Plan	REGIONAL & URBAN DEV'T PLAN	URBAN AND INFRASTRUCTURE DEV'T	HOUSING DEV'T	LAND SUBDIVISION PROJECT
1945-1970	Master plan for DKI Jakarta 1965-85, 1965			
1969/1970-1973/1974 **REPELITA I**		- KIP Urban I (1975) WB		
1974/1975-1978/1979 **REPELITA II**	JABOTABEK Metropolitan Development Plan 2010 (1980)	- KIP Urban II WB(1976) - KIP Urban III WB(1978)		
1979/1980-1983/1984 **REPLITA III**	Structure Plan for DKI Jakarta 1985-2000, 1984	- KIP Urban IV WB(1981) - KIP Urban V WB(1984)	- Low-cost Housing Program (Perumnas 120,000, Private 30,000 unit)	
1984/1985-1988/1989 **REPLITA IV**		- **Integrated Urban Infrastructure Development Program (IUIDP) (1985)** - Urban Sector Loan WB(1987) - Regional Cities Urban transport WB (1987) - Jabotabek Urban Dev. WB (1988)	- Housing Sector Loan WB (1986) - Low-cost Housing Program (Perumnas 140,000, Private170,000 unit)	
1989/1990-1993/1994 **REPELITA V**	**JABOTABEK Metropolitan Development Plan Review (1993)** National Spatial Plan Jabotakek Spatial Plan Bogor Spatial Plan Bekasi Spatial Plan Jatiasih Spatial Plan Parung Panjang Spatial Plan	- Second Jabotabek Urban Dev. WB (1990) - Third Jabotabek Urban Dev. WB (1991) - East Java -Bali Urban Dev. WB (1991) - Surawesi -Irian Jaya Urban Dev. WB (1991) - Bandar Lampung Urban Dev't Project ADB(1991) - Bogor & Palembang Urban Dev't ADB (1991) - Central Java ,D.i Yogyakarta Urban Dev. ADB (1992) - Metro Botabek Urban Dev't ADB (1996) - Cap. Bldg in Urban Infrastructure Mgmt ADB (1997) - Metro Medan Urban Dev't ADB (1997)	- Low-cost Housing Program (Perumnas 120,000, Private330,000 unit)	- Bekasi 2000 (2,000 ha) - Bekasi Terpadu (1,500 ha) - Cikarang Baru (2,00 ha) - Lippo City (2,000 ha) - Cariu (18,000 ha) - Jonggol (12,000) - **Bumi Serpong Damai (6,000)** - Tigaraksa (3,000 ha) - Modern Land (500 ha) - Lippo Village (500 ha)
1994/1995-1998/1999 **REPELITA VI**		- Surabaya Urban Dev. WB (1994) Semarang-Surakarta Urban Dev. WB (1994) - Second East Java UDP WB (1996) - Sulawesi II WB (1996) - Water and Sanitary Sector WB(1997) - Bali Urban Environment WB (1997) - Jabotabek IV WB (1998)	- Low-cost Housing Program (Perumnas 250,000, Private250,000 unit)	

[1980-1990 (REPELITA III, IV) - Expansion of Basic Infrastructure]
The basic infrastructure improvement projects initiated in the previous period were expanded into the Integrated Urban Infrastructure Development Program Scheme (**IUIDP**), which covers water supply, sanitation facilities, KIP, MIIP, urban drainage and urban roads. Resource generation and mobilization, particularly from local government level are the basic principles of the IUIDP, which were set forth in coincidence with the declining revenue of the central government due to the falling oil price in 1983. In line with this policy, the programs aiming at improving and strengthening the local government capability (financial, technical and managerial) were initiated and executed under the IUIDP. Decentralization became the persistent policy of the government, which has been pursued up to date. By nature, the role and responsibility of the local government is vital for the city planning exercise.

[1990-1998 (REPELITA V, VI) - Control and Management of Urbanization]
The Macro Economic Policies and measures of the Indonesian government boosted the industrial development, especially non oil & gas industries. This rapid industrialization was followed by the rapid urbanization especially in the Jakarta and, or JABOTABEK areas.
The increase of urban population has been accelerated through the continuing in-migration from the rural areas. This rapid urbanization, coupled with the intensive industrialization, brought about serious urban problems such as water and air pollution, traffic congestion, flood and so on. The Indonesian city planning reached a new horizon where the effective systems and measures for controlling and managing large scale urbanization became of great necessity to arrest such urban and environment problems and achieve economically and socially sustainable development.

The act on spatial use management, enacted in 1992, was an epoch making thrust for improving the city planning and development, which laid the foundation for measures to combat urban problems in the advent of the massive urbanization. The Government was in the midst of guideline and government regulation preparations for executing the law. On the other hand the **Housing and Settlement Law,** enacted in 1992, reflected the government's intention to more effectively control and manage the urban and land development in the face of the rampant urban sprawl around Jakarta and others cities. This JICA study was to propose an improvement plan of the KASIBA development system, which is one of the main components of the law.

[Recent Period (Reformation era) – Strengthening Local Government for decentralization]
As shown above, the government was in the process of reinforcing the city planning and development system by applying the innovative measures based on the new laws mentioned above. It may be said that Indonesia reached a new era of innovative city planning and is at the first stage of its improvement. Therefore, the JICA study was requested to be carried out in order to make a great contribution to the advancement of the existing urban development system through fabricating and equipping the effective and practical KASIBA and Land Readjustment of the Indonesian Society. This was a common understanding of both the Indonesian and Japanese panels during the first period of the study in 1998.
The recent economic crisis and social instability has triggered a great social and political environment change, which forced the Indonesia society into the reformation era.

The current government reformation movement is examined in more details in section of 2-6, highlighting decentralization policy affecting future urban and development systems in Indonesia.

2-2 Main Stream of City Planning in the Government Organization

The organizational system for the Indonesian government's city planning is examined as follows. With local governments being the main executing agencies of city planning, the central government mandated by the President guides, assists and supervises local governments in line with the government policy of decentralization/deconcentration.

While the provincial governors and the mayors/regents, elected by the local assembly and approved by the upper organization, enjoy autonomy to some extent, they are also mandated by the President for governing the regions. The organizations of the central government involved in city planning are the followings:

- **Department of Home Affairs (Directorate General of Regional Development)** Regarding the regional and urban development planning, programming and budgeting, and enforcement of rules and regulations of city planning (Spatial plan, Development permit and others).
- **Department of Public works (Directorate General of Human Settlement)** Regarding technical aspects of city planning, especially spatial plan and IUID programs.
- **State Ministry for Agrarian affairs / National Land Agency (BPN)** Regarding the management and development of land administration.
- **State Ministry of Housing and Human Settlements**
- Regarding the housing and human settlements

The Indonesian Urban and Management function can be found into two streams of activities, both from the central and local government structures, as shown in Figure 2-2-1.

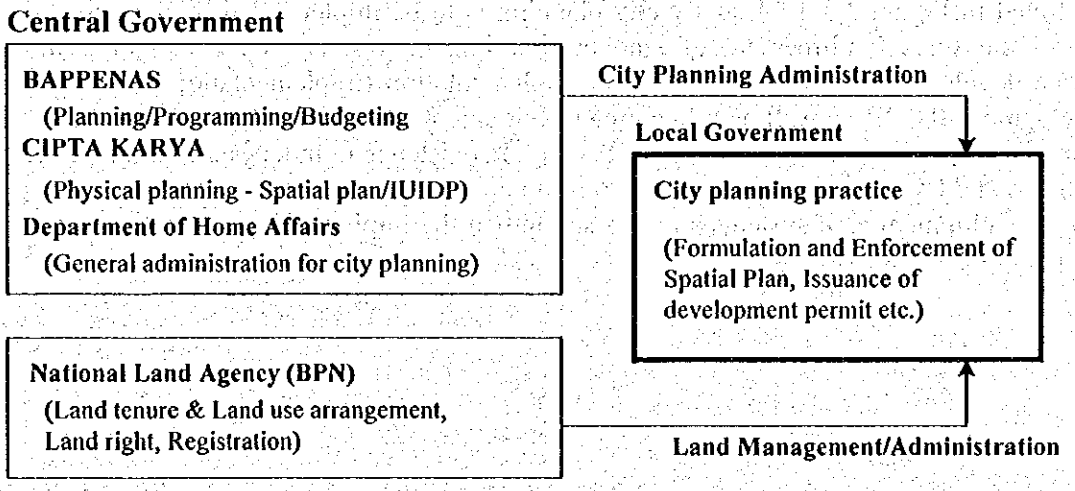


Figure 2-2-1 Main Stream of City planning in the Government Organization

One is the ordinary stream, (which is more or less common to many other countries in the world), of the administrative activities for the regional and urban development between the central and local governments. This is represented by; Bappenas, in charge of planning and programming; Cipta Karya, in charge of physical planning, especially spatial plan and urban infrastructure development plan program (IUID program); and, the Ministry of Home Affairs,

in charge of general affairs for regional and urban development (more administrative) on the central government's side and Bappeda on the side of the local government.

The other is a stream of the land management activities made by the National Land Agency. Coordination and cooperation of the two streams are the main functions of city planning activities in the local government. This accrues from the land special definition and the land management special role in the Indonesian society. Land management by the government entrusting BPN consists mainly of land tenure arrangement/land reform, land right management, land right certification (Land tenure) and land use as well. On this legal basis the BPN participates in the city planning process of the local government. The BPN exerts its influence over the local government through the BPN's local offices.

The normal city planning and urban infrastructure development is more decentralized as noted in 2-2 than the land management. The latter is more centralized. This may be understandable since land management is vital for governing the nation, more so in an archipelago consisting of thousands of islands with thousands of tribes like Indonesia, and is an important revenue generator supporting the national budget. The Indonesian government structure is characterized by a combination of decentralization and centralization. This characteristic reflects on the city planning and development administration discussed in 2-3.

The recent reformation movement of the government has been changing this situation by transferring the right of issuing location permits from the BPN to local governments.

2-3 City Planning and Development Administration

The essential key factor of the Indonesian city planning is the formulation and legal authorization of spatial plans. The national, provincial and municipality/regency spatial plans are subsequently formulated and authorized in conformity with the 5-year development plan as illustrated in Figure 2-3-1. Usually city planning is to be implemented by a combination of control measures (enforcement of land use/building control and development permits on private development projects) and project implementation (implementation of infrastructure development-IUIDP, as well as urban area development like those of urban renewal and new urban development area, which at present are not in existence in Indonesia). In this respect the KASIBA and Land Readjustment/Land Consolidation are expected to be effective and practical urban development area systems so as to strengthen the implementing capability of the local city planning.

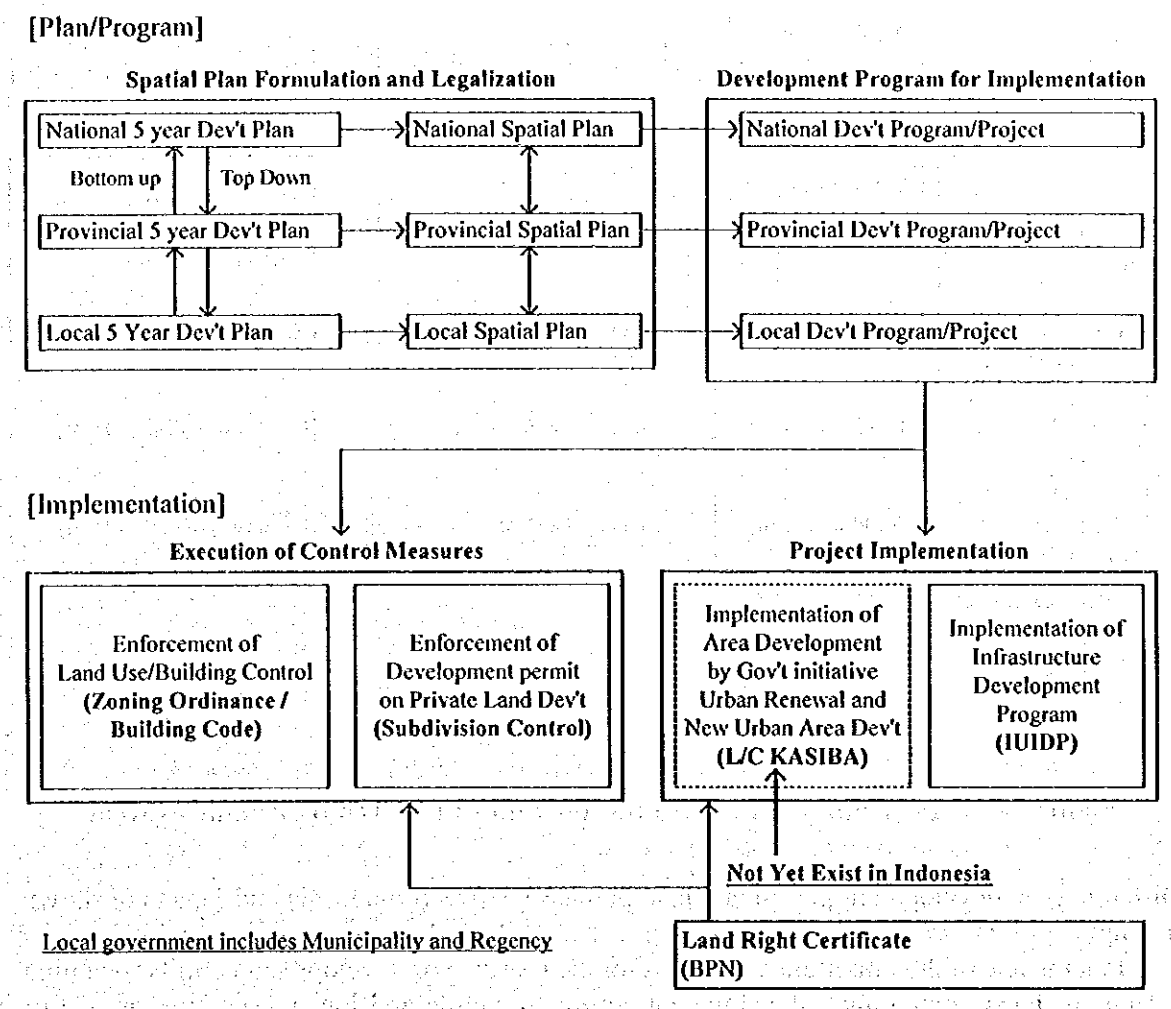


Figure 2-3-1 Indonesian City Planning / Development Administration

The Indonesian development permit system and procedure as outlined in Figure 2-3-2 are quite unique and peculiar in the following points.

[4 step permit granting]
The private real estate developers have to clear the 4 different permit regulations—**Principle permit, Location permit, Planning permit and Building permit**—by stage, before starting the actual land development.

A principle permit is to be issued to the projects that are defined to be in consistency and compliance with the development plan and spatial plan in force by the local government (Level II). After the principle permit, a location permit is to be granted by the National Land Agency, which duly checks the project from the viewpoint of land management and administration. This location permit is discussed in association with land tenure procedures in the following section. The location permit actually permits to purchase/acquire land in the project area.

In order to secure the development (ex. Infrastructure and services) and building standard, the planning permit and building permit must be cleared by the local government as well.

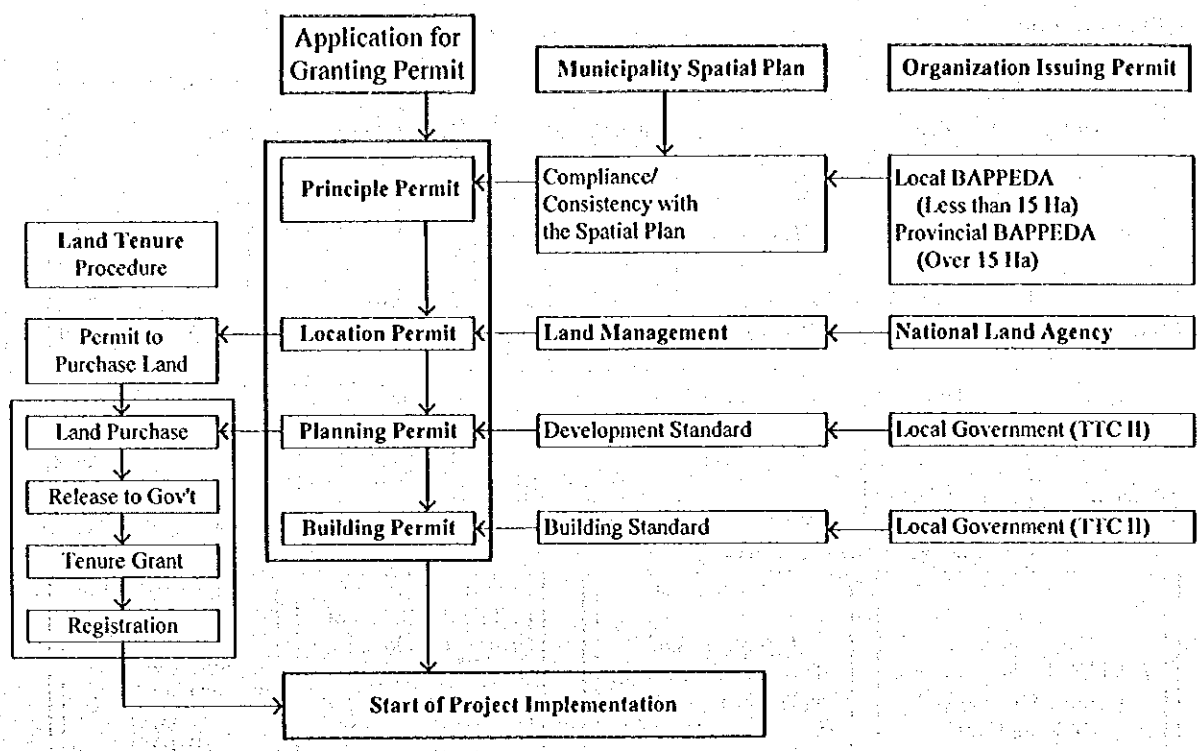


Figure 2-3-2 Development Permit Procedure and Land Tenure Administration

Differences in development permit and land purchase between Indonesia and Japan are shown in Figure 2-3-3. While land purchase, or consent of landowners to sell their land to the developer is one of the important conditions for the issuance of development permits (planning permit) in Japan, obtaining a development permit (principle and location permits) is one of basic conditions for land purchase in Indonesia.

The Japanese location permit is to give privileges to developers and impose restrictions on land ownership as follows:

Privilege to developers: a single developer is granted exclusive rights to negotiate with and buy land from landowners. However landowners' rights are safeguarded in a manner that the granted right to the developer is due to expire when the developer fails to purchase land in a certain fixed period of time. (Project implementation is uncertain depending on the land owners' will to sell).

Restriction on landowners: landowners cannot sell their land to other developers than the granted developer or even not be provided with land certification and develop houses on their own land.

It is considered that this intents to prevent excessive competition among plural developers and speculators resulting in land price escalation, and disorderly/disintegrated urban development by plural developers. Critics say that developers enjoy too many privileges while landowners are under a series of restrictions. In order to safeguard landowners' property rights and the certainty of project implementation, obtaining land ownership through free transaction or their consent to sell land is a basic condition for issuing development permits in Japan.

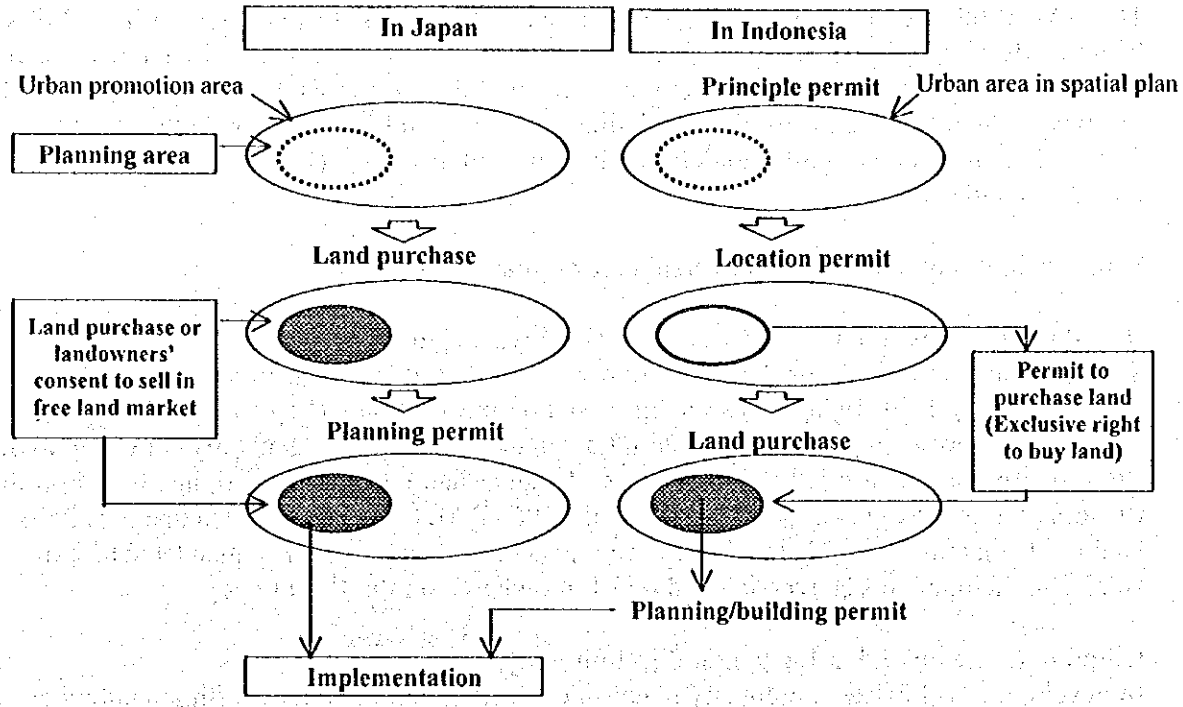


Figure 2-3-3 Comparison of Development Permit and land purchase

Transfer of the right of issuing location permit with its re-definition]
The Agrarian Minister has redefined the meaning of location permits through the ministerial Decree No. 2/1999 with the clarification in the ministerial letter (February 1999) addressed to governors, Bupati and Walikota as follows:

1. Location permits are applied for investment activities (industries, tourism and plantation).
2. Location permits will no longer grant any rights to the location permit holders. Location permits are only referring to spatial plans.
3. Location permits will no longer be issued by the BPN but the local government.

This simply means that developers' privileges and landowners' restrictions have been repealed.

2-4 Land Administration and Management in City Planning and Development

The Indonesian Constitution of 1945 (Article 33) provides that land, water, air and the natural richness contained therein shall be under the control of the state, and used for the maximum well being of the people. Under the principles of the Constitution, the Basic Agrarian Law 1960 (BAL) states that the state has the inherent right to control all aspects of private land ownership and use to ensure that it is used for the benefits of the people. The 1960 Law also established the Land tenure system, based on the Customary Law representing the land philosophy of Indonesian people as noted above, abolishing the European Land Law. Through administering this system, the BPN, as the state agency for all land in Indonesia exerts the power to control, allocate and limit the ownership rights of private individuals, groups or organizations to possess, use and transfer land.

The BAL 1960 Law defined the land tenure among others, Right of Ownership (Hak Milik), Right of Building (HGB), Right of Use (HP) and Right of Management (HPL) as well as the conversion and registration of land tenure. The eligibility of the Right of Ownership is only reserved to Indonesian citizens, thus excluding foreigners and corporations of this right with a few exceptions. The eligible holders of the Right of Building (HGB) are corporations or Indonesian citizens.

Some examples of land tenure conversion are outlined below:

[Land tenure conversion to the system of Basic Agrarian Law]
While the Indonesian citizens' land right of ownership, based on the customary law, is due to be converted to the land Right of Ownership based on the 1960 law (September 24th, 1960), the land Right of Ownership based on Western Law in the colonial era is generally converted to the Right of Building or use only. Large areas of Indonesian citizens' land rights, based on the Customary Law, have not been registered on the 1960 BAL Law. It is reported that only 25% of land rights, in terms of land area, have been registered in Indonesia. The mandated task of the BPN is to facilitate this conversion and registration based on the 1960 Law.

[Land tenure conversion for urban development]
In developing real estate, a company makes a contract of land purchase with a landholder on Hak Milik tenure (Right of Ownership). Then the landholder is to release the land on Hak Milik tenure to the government to obtain a State land status. Subsequently, the government is to grant the land on HGB tenure to the real estate developer since a corporation is not allowed to hold land on Hak Milik tenure. The developer subdivides the land and sells it to the customers on HGB tenure with a maximum term of 30 years that can be prolonged for 20 years and be renewed for 30 years. In certain cases HGB tenure can be converted to HM tenure. In the case of a direct transaction between Indonesian individuals, the land on Hak Milik tenure can be transferred, (excluding foreigners and corporations).

In these situations, the JABOTABEK METROPOLITAN DEVELOPMENT PLAN REVIEW (JMDPR) [PU-CIPTA KARIA] note "The drafters of the BAL intended HGB tenure as the basic tenure for urban land development. But it is not clear why persons buying ready-made houses from housing developers should be restricted to HGB tenure, whereas the persons building their house can do so on land they acquired or converted to and hold on Hak Milik tenure."

[Land tenure conversion in development permit system]
As discussed in 2-3 City Planning Administration, once the location permit is issued, the developer is to be granted a permit to purchase/acquire land. Almost the same procedure as above is to be followed.
Land purchase ⇒ Release to government ⇒ Tenure granted ⇒ Registration

[Land tenure conversion in land consolidation]
As discussed in Chapter 4, the land tenure conversion in land consolidation system in Indonesia is quite unique if compared to those of land readjustment in other countries. Although this system also features "the release to government and grant to holder" as exercised in the real estate development, the original rights are to be released through the government to the new land holders after right grant and registration by the BPN.

Land Tenure Conversion to Basic Agrarian Law 1960

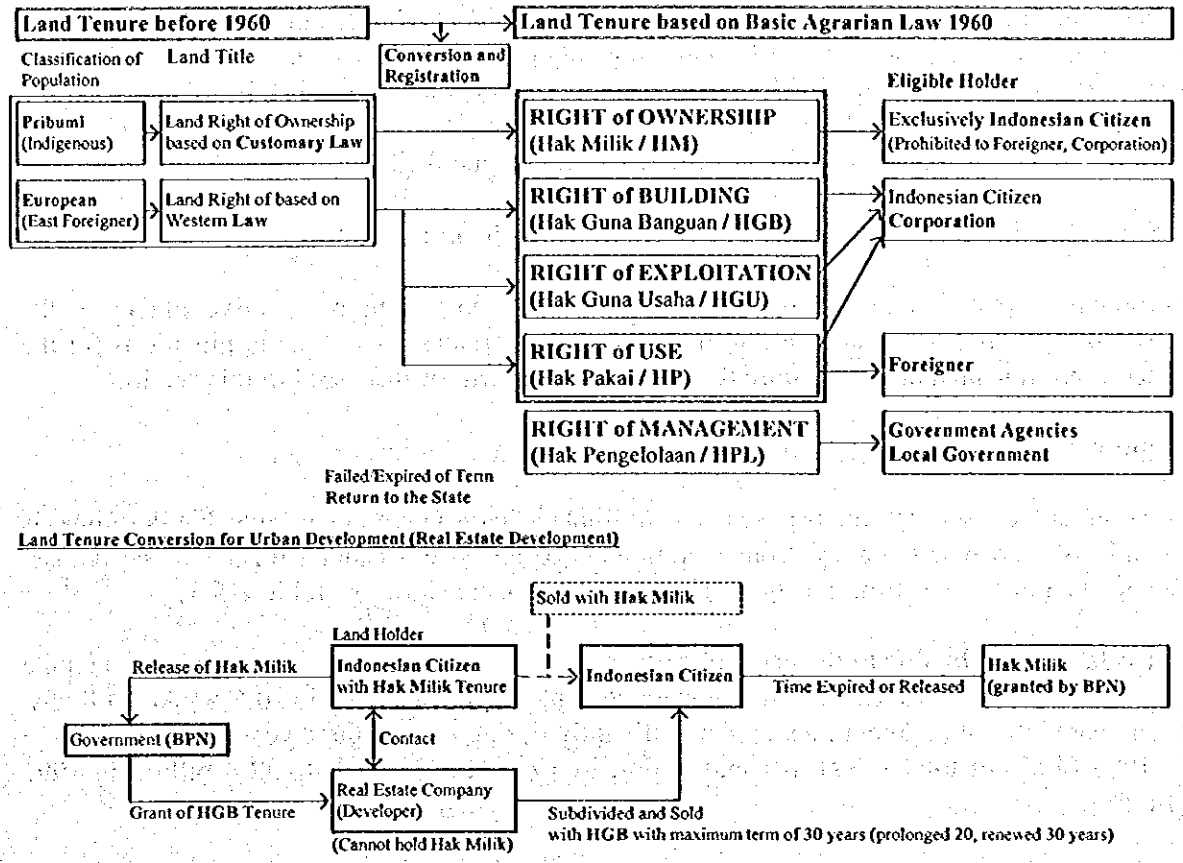


Figure 2-4-1 Land Tenure and Conversion System for Urban Development

2-5 Financial System for Urban and Housing Development

2-5-1 Overview of the Land and Housing Development Financing in Indonesia

Housing development in Indonesia is mostly dependent on private financing sources. Equity and commercial bank lending are the major financing sources for housing developers including the Public Housing Corporation, Perum Perumnas.

Sources of funds for commercial banks (except for the BTN–National Saving Bank) are mostly comprised of demand deposits and time deposits due within one year. Although housing development is a medium-term investment, developers have to depend on commercial banks' short-term lending for the financing of their projects. Moreover, since commercial banks' lending for land acquisition is limited to low-cost housing by Government regulation, developers sometimes issue short-term commercial papers to construct medium to high-priced homes. The mismatch of the financing term and the recovery period was not a serious problem when the Indonesian economy was booming and housing demand exceeded the supply. However, the increase in the interest rates and a drop in housing demand due to the economic crisis caused a serious setback in housing development, emphasizing on the constraints of the conventional housing development financing.

Although the BTN plays a substantial role in the provision of low-cost housing loans, it has already reached the Government's target amount of loan set up to Feb. 1999. The unavailability of subsidized loans causes Perumnas to currently hold 26,000 houses in stock. Constraints in the present financing methods for land and housing development need to be examined for the successful implementation of KASIBA and land consolidation schemes. In this section, the financial requirements of the public and private housing development sectors, including the current Government budget situation, will be examined and their constraints identified.

2-5-2 Housing Development by the Public Sector–Perum Perumnas

Perumnas, a public housing corporation, is the most important prospective player in the KASIBA system. Perumnas' current financial characteristics, as well as implications for the successful implementation of future KASIBA projects, will be discussed in this section.

[Commercial-Based Cost of Financing]

Government loans to Perumnas have been minimal since the Government says that Perumnas is capable of borrowing money from commercial banks. As of June 30, 1998, Perumnas' financial sources apart from its equity, (Rp.421 billion), are shown in Table 2-5-1.

Since January 1998, due to the economic crisis, commercial bank financing has become quite costly. As shown in Table 2-5-1, Perumnas' current cost of financing is 20.6%. Accordingly, Perumnas' interest payment increased significantly during the last three years: Rp.13.1 billion in 1995 (4.8% of total sales), Rp.36.0 billion in 1996 (12.3%) and Rp.52.8 billion in 1997 (14.2%).

Table 2-5-1 Perumnas' Financial Sources as of June 30, 1998

Lender		Outstanding Amount (Rp. Million)	Interest Rate	Repayment Period	Due Date
World Bank		3,182	9.6%	24 years	Jun. 2006
		887	0.0%	18 years	Sep. 2006
ADB		2,407	7.4%	29 years	Jan. 2008
		3,736	10.1%	24 years	Sep. 2006
		10,521	11.0%	24 years	Sep. 2008
Taperum (1)		40,000	7.0%	4 years	Dec. 1998
		100,000	8.0%	5 years	2001
Ministry of Finance		6,540	8.0%	10 years	Oct. 1998
Exim Bank (2)		100,000	17.0%	4 years	Mar. 1999
		50,000	18.0%	2 years	Dec. 1998
BTN (3) (National Saving Bank)	MTN	50,000	37.5%	1 year	Aug. 1996
	MTN	30,000	37.5%	1 year	Mar. 1997
	MTN	25,000	37.5%	1 year	Dec. 1996
	MTN	50,000	37.5%	1 year	Jun. 1997
	C/P	12,000	18.6%	2 years	Sep. 1998
Total		484,273	20.59%		

MTN: Medium-Term Note C/P: Commercial Paper
Source: Perum Perumnas

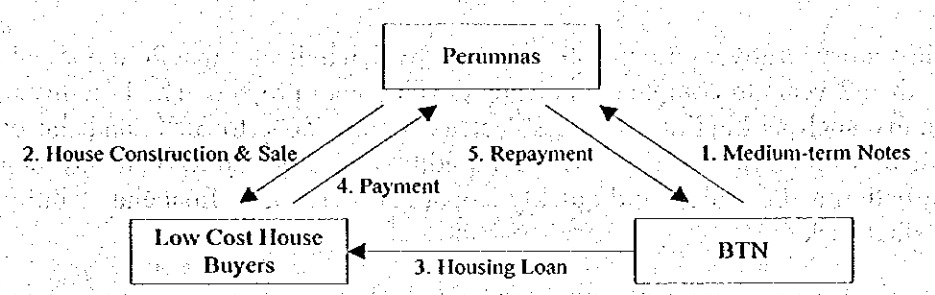
(1) The 7% loan was rescheduled: the original due date was Dec.1997.
(2) Exim Bank, Perumnas's main bank, offers a favorable interest rate.
(3) All of the medium-term notes (MTN) were rescheduled.

The following is the current situation of Perumnas' financing sources:

- **Taperum** (Tabungan Perumahyan Pegawai Negeri Sipil, Savings for Housing of Government Employees)

  Taperum (or Baper Tarum) is a compulsory saving facility for Government employees to be used for mortgage down payments. Since its creation in January 1993, Taperum has grown to Rp.1,293 billion, of which Rp.555 billion have already been disbursed. The rest of the money is deposited in the BTN (National Saving Bank) and commercial banks. Taperum also provided a Rp.60 billion four-year loan at 7% to Perumnas in 1994 and a Rp.100 billion six-year loan at 8% in 1996. After the due date, Rp.40 billion out of Rp.60 billion were rescheduled for another year at 8% although Taperum requested 17% as the new interest rate.

- **BTN** (Bank Tabungan Negara–National Saving Bank)
  Perumnas has two types of BTN loans, Rp.155 billion in medium-term notes and Rp.12 billion in commercial paper as of June 30, 1998. Medium-term notes were issued based on the agreement that 60% of each loan, provided by the BTN to the buyers of Perumnas's low-cost homes, ultimately be returned to the BTN as repayment for the medium-term notes. The following money cycle between the BTN, homebuyers and Perumnas takes place:



  The medium-term notes were issued at discounted with interest rate of 16% to 18%. In June 1998, the BTN reached the Government's target for low-cost housing loans–600,000 units between March 1994 and February 1999. Due to the unavailability of Government-subsidized loans, the BTN has had to stop low-cost housing loans. Because Perumnas is currently not able to sell its low-cost homes since all its customers are dependent on BTN's subsidized loans, it is holding 26,000 houses in stock. As a result, Perumnas is not able to pay back the medium-term notes and thus both parties have agreed to let them roll over at the current interest rate (37.5% as of June 1998). With regard to the commercial paper issued for the KASIBA Driyorejo pilot project (discounted on interest rate fixed at 18%), Perumnas and the BTN have not yet agreed on the conditions to roll over this debt.

- **Exim Bank** (Export Import Bank)

  The Exim Bank is Perumnas' main bank, managing most of Perumnas' deposits. In 1995 and 1996, the Exim Bank provided Perumnas with Rp.150 billion worth of loan at a three month floating rate. Although the Exim Bank's commercial-based interest rate was 37.5% as of June 1998, its loans to Perumnas are provided at favorable interest rates of 17% and 18%.

Implication for KASIBA Projects

An additional soft loan to the BTN will be necessary for the continuation of housing loans. Considering the extremely high interest rate in Indonesia's current economic climate, it will be also necessary to provide a soft loan to the KASIBA management body in order to decrease the interest cost. The management body will be able to reduce the price of homes by combining the soft loan with commercial banks' lending.

[Insufficient Liquidity in Financial Management]

Perumnas is dependent mostly on short to medium-term loans, and the average cost of financing was 20.59% in June 1998. Perumnas depends on short-term loans even for investment in land purchase that sometimes takes a long time period. In September 1996, for the Perumnas' KASIBA pilot project, in Driyorejo, Gresik, Perumnas borrowed Rp.16 billion in commercial paper from BTN at 18.6%. Although this is due in September 1998, the land acquisition has not yet been completed and the housing construction has not started. BTN is requesting a 50% interest rate on the rollover of the commercial paper, and is still negotiating with Perumnas regarding these terms.

Perumnas' increasing dependency on short-term financing has significantly decreased its liquidity. The following are Perumnas' financial indicators related to liquidity for the last three years:

The inventory turnover ratio in 1997 was 0.43, which indicates that Perumnas takes, on average, more than 2 years to complete a housing development project. The liquidity ratio, excluding inventory such as land and houses, decreased from 56% to 38%, and the quick ratio also declined from 29% to 13%. These liquidity indicators show that any delay in housing construction and/or sale could quickly jeopardize Perumnas' financial stability by increasing the default risk.

Table 2-5-2 Perumnas' Liquidity Indicators: 1995, 1996 and 1997

		31-Dec-1997	31-Dec-1996	31-Dec-1995
Cash & Deposits (Rp. million)	A	71,649	110,024	107,786
Short-term Assets excl. Inventories (Rp. million)	B	211,016	238,141	205,384
Inventories (Rp. million)	C	915,762	745,734	510,710
Current Liabilities (Rp. million)	D	559,542	456,007	368,790
Sales (Rp. million)	E	396,356	311,828	302,775
Liquidity Ratio (1)	(B+C)/D	201%	216%	194%
Liquidity Ratio (2)	B/D	38%	52%	56%
Quick Ratio	A/D	13%	24%	29%
Inventory Turnover Ratio	E/C	0.43	0.42	0.59

Source: Perumnas Financial Report 1996, 1997

According to Perumnas, the Government has approved to inject funds into Perumnas as paid-in capital, while also considering giving further injection of capital for housing development projects and approval for Perumnas's engagement in the sale of higher priced homes.

Implication for KASIBA Projects

The KASIBA management body should not be overly dependent on short-term loans. Long-term investment, such as equity participation by developers or landowners as well as Government soft loans, should be sought.

[Burden of Land Acquisition]

Perumnas' housing development starts from the purchase of the targeted land and ends with the sale of the homes. Perumnas normally needs one year to complete a sale after land acquisition. Land acquisition, which sometimes takes several years, is the biggest obstacle to the housing development process. The more time Perumnas needs for land acquisition, the more expensive the land becomes. In addition, the current high interest rate is making this lengthy land acquisition costly because of a rise in financial costs.

Land expropriation had been enforceable for housing development through the official land acquisition committee until the enactment of the Presidential Decree No. 55/1993, "Land Acquisition for the Realization of Development for the Public Interest". Since housing development projects are no longer of a "public interest" nature, as stipulated in Article 5 of the Decree, land acquisition has become quite difficult when landowners oppose the price and/or the sale of their land. In other words, the Presidential Decree No. 55/1993 has given landowners absolute bargaining power in the cases of housing development. Landowners can raise the land price as much as they want, knowing that Perumnas will eventually accept their price. In the case of the ongoing Parung Panjang housing development by Perumnas, which started in 1995, the price of the land (mostly infertile farmlands) in the first and second purchases (22.8ha and 84.5ha, respectively) increased from Rp.4,000/m^2 to Rp.6,000/ m^2. In the third purchase (118ha) starting in 1996, Perumnas was obliged to buy land at Rp.8,000/m^2 to Rp.10,000/m^2 and at the end of the year 1996, the price rose further to Rp.10,000/m^2 to Rp.12,000/m^2. As such after three years in the third phase, Perumnas had merely purchased 30 ha of land.

Implication for KASIBA Projects

Measures to shorten the land acquisition process, such as land consolidation, should be applied for housing development. Joint operations with landowners, such as community-based development, could also reduce the necessity for land acquisition.

[Government Support for Infrastructure Construction]

The Government supports Perumnas' housing development by constructing major infrastructure such as arterial roads, water supply facilities, drainage canals, although there are no explicit rules regarding the Government's contribution to Perumnas' housing development. The Government pays Perumnas Rp.700,000 for the construction of each RSS house (very simple house), which is equivalent to around 30% of the total infrastructure costs in the ongoing Parung Panjang housing development. On the other hand, Government support was quite limited in the KASIBA pilot project in Driyorejo; the Government only assured the connection of state roads and other infrastructures to the project site.

[Joint Operations with Private Developers]

In many cases, Perumnas has joint operations with private developers, sharing costs and revenues. The Government support mentioned in the section above, which is only applicable to Perumnas' housing development projects, makes joint operations attractive to private developers. On the other hand, private developers' participation into finance and construction helps Perumnas to achieve more rapidly its low-cost housing production target.

Implication for KASIBA Projects

LISIBAs, which are the subdivision of KASIBA, would not always attract private developers without Government support, since the profits from land development will be shared between the KASIBA management body and developers. Private developers would prefer finding another location and carrying out housing development by themselves, except when the development of the wider peripheral designated KASIBA area is prohibited.

[Cross Subsidies between Low Cost Houses and Medium Cost Houses]

The price of an RSS (very simple house) is determined by the Government at Rp.4,900,000 for the type 21/54 (floor size: $21m^2$ & land size: $54m^2$) and Rp.6,900,000 for the type 36/60. However, it is becoming quite difficult for Perumnas to keep the construction cost below these levels in the Jakarta metropolitan area. In Parung Panjang, in 1996, for example, the RSS construction cost averaged Rp.5,200,000 for type 21/54 (Rp.300,000 above the price) and Rp.7,400,000 for type 36/60 (Rp.500,000 above the price), including land, connection of public services, interests and overheads. On the other hand, Perumnas is free to determine the price of an RS (simple house); in 1996, the average RS mark-up rate in Parung Panjang was 16.6%. The Parung Panjang housing project is expected to ultimately yield a 9% return.

Implication for KASIBA Projects

Cross subsidies will be unlikely if the KASIBA project is designated for an area where access by car is difficult from Jakarta. On the other hand, if the KASIBA site is too close to Jakarta, high land prices will make it difficult to construct low-cost homes. Future KASIBA areas should be carefully chosen, taking into consideration the possibility to apply cross-subsidies between low-cost houses and medium to high-priced houses.

2-5-3 Subsidized Housing Credit - BTN (National Saving Bank)

The Bank Tabungan Negara (BTN, National Saving Bank) is a 100% government-owned bank which provides 60% of the subsidized housing loans in Indonesia.

(1) Financing Sources and Lending Rates

BTN offers low interest rates for low-cost houses by mixing three sources of funding: the Bank of Indonesia (interest rate 3.0%), the Ministry of Finance (2.0%) and BTN itself (saving rate 14% to 16% in 1997). The following are BTN's interest rates applied to RSS (very simple houses) and RS (simple houses) and their composition of financing sources as of June 1998.

Table 2-5-3 BTN's Subsidized Interest Rates until June 1998

Type of House	Subsidized Interest Rate	Composition of Financial Sources
RSS (Rp.4.9 million to Rp.6.9 million)	8.5%	RDI 25%, KLBI 60%, BTN 15%
RS type 18 up to 21 (floor size m2)	11.0%	RDI 25%, KLBI 35%, BTN 45%
RS type 27 up to 36	14.0%	RDI 12.5%, KLBI 20%, BTN 67.5%

RDI: Ministry of Finance, KLBI: Bank of Indonesia Source: BTN

Under normal circumstances, BTN could make a slight profit on these subsidized housing loans. However, since January 1998, due to the economic crisis, the rapid increase in the BTN's cost of financing has made it difficult for BTN to maintain the same lending rates. In July 1998, the interest rate on the BTN's savings account reached 41%. Thus the Government decided to change the composition of financing sources as shown in the table below. Although the new rates do not cover the costs, BTN agreed with the Government to modify its interest rates.

Table 2-5-4 BTN's Subsidized Interest Rates from July 1998

Type of House	Subsidized Interest Rate	Composition of Financial Sources
RSS (Rp.4.9 million to Rp.6.9 million)	8.5%	RDI 25%, KLBI 67.5%, BTN 7.5%
RS type 18 up to 21 (floor size m2)	11.0%	RDI 20%, KLBI 60%, BTN 20%
RS type 27 up to 36	14.0%	RDI 12.5%, KLBI 62.5%, BTN 25%

Source: BTN

The following table shows the outstanding amounts of subsidized loans by the Central Bank and the Ministry of Finance.

Table 2-5-5 BTN's Outstanding Amount of Subsidized Loans in 1995, 1996 and 1997

(Rp. billion)

	Dec. 31, 1997	Dec. 31, 1996	Dec. 31, 1995
Central Bank Borrowings	2,000	1,402	1,114
Ministry of Finance Borrowings	196	149	78

Source: BTN Annual Report 1996, 1997

(2) BTN's Loan Portfolio

In 1997, BTN experienced a 40% growth in its total lending compared to the previous year. Housing loans increased 20% in the same period, totaling Rp.7.4 billion as of December 31, 1997. The following table shows BTN's loan portfolio in 1995, 1996 and 1997.

Subsidized loans (RSS and RS) constitute 85% to 90% of BTN's housing loans. In June 1998, BTN fulfilled the Government's target for the sale of low-cost houses–600,000 units (500,000 units defined in REPELITA VI and an additional 100,000 units). Thus, no more funding is currently available for subsidized housing loans.

Table 2-5-6 Composition of BTN's Loan Portfolio in 1995, 1996 and 1997

(Rp. billion)

	Dec. 31, 1997		Dec. 31, 1996		Dec. 31, 1995	
	Amount	Share	Amount	Share	Amount	Share
Housing Loans	7,376	58%	6,149	68%	5,075	82%
Low Cost Houses	5,143	41%	4,142	46%	3,316	53%
Medium Cost Houses	1,303	10%	1,073	12%	855	14%
Other Housing Loans	929	7%	934	10%	905	15%
Non-Housing Loans	5,277	42%	2,946	32%	1,147	18%
Total Loans	12,654	100%	9,095	100%	6,222	100%
Non-performing Loans	156	-	107	-	57	-
Total Performing Loans	12,498	-	8,988	-	6,165	-
Total Assets	15,363	-	11,361	-	9,523	-

Source: BTN Annual Report 1996, 1997

(3) Application Conditions for Low-Cost Houses

Housing loans with subsidized interest rates are provided only to low income borrowers. The applicants' monthly income must not exceed Rp.275,000 for RSS houses and Rp.100,000 for RS houses. The repayment capacity is set at one-third of the monthly salary and the maximum loan period is 20 years. BTN uses its own appraisers in determining the mortgage value of both land and houses, and provides loans up to 80% of the total mortgage value. The ceiling of lending is Rp.15 million for low-cost housing loans, while it is Rp.200 million for commercial housing loans. BTN is providing commercial loans to Perumnas and other developers, giving priority to the clients of these corporations since the availability of subsidized loans is limited.

2-5-4 Private Financial Institutions

The commercial banks have been providing an important banking service in Indonesia. Indonesia's commercial banking sector consisted of 222 banks at the end of 1997, of which 7 were state banks, 144 private national banks, 34 joint venture banks, 10 foreign bank branches and 27 regional government banks. BTN, the National Saving Bank, is also one of the state-owned commercial banks.

Mobilization of low-cost and long-term funds is crucial for any project in achieving a good financial result. Before the monetary crisis, the foreign capital played a substantial role in providing such funds and stimulating the national economic development including land development. Since the crisis, however, neither foreign capital can be counted on as much as before, nor the national commercial banks can be expected to play a complementary role to provide sufficient funds due to the low level of Capital Adequacy Ratio (CAR) resulting from the crisis.

CAR is a ratio of equity to risk-weighted assets. Banks are required to keep it above 4% for sound banking operation. The Government categorizes the banks according to their CAR.

- Category A: CAR above 4%
- Category B: CAR between less than 4% and minus 25%
- Category C: CAR less than minus 25%.

Reportedly, 62 banks are currently classified in Category A, 66 banks in Category B and 38 banks, including 7 state banks, in Category C.

Since the economic crisis, the CAR has sharply declined due to increasing amount of bad debts. This low level of CAR makes banks reluctant to increase loans and rather active in reducing loans considered as risk-weighted assets.

The banks' source of funds, except for BTN, is largely comprised of demand and time deposits, mostly due within one year. Raising long-term funds from commercial banks is almost impossible for land developers, or, even when it is possible, as shown in Table-2-5-7, the interest rate would be too high because of the banks' high level of short-term lending rates. Thus, few business plans can attain financially satisfactory performance under the current circumstance.

Table 2-5-7 Short-term Lending Rate of Bank

(Unit: %)

	1994	1995	1996	1997	1998
Lending rate *	21	22	22	33	55

* At the end of the year

A sound banking system is the basis for any business activities in the country. To restore this system is currently the Government's top economic policy priority.

Government would allocate Rp.18 trillion (equivalents to 8% of the State budget) to the bank recapitalization program, providing funds to Category B banks to raise their CAR to the minimum level of 4%. On the other hand, Category C banks (reportedly approximately 40 private national banks) would be closed down except for 7 state banks and regional government banks.

Other large financial institutions such as insurance companies and pension funds have a similar conservative attitude toward long-term investment. In spite of the increasing size of their long-term funds, they are not yet willing to provide long-term loans. The majority of their funds concentrate on time deposits in banks (time deposits are, so to speak, a safe haven for non-banking financial institutions).

2-5-5 Private Developers

The financial solution taken by most of the developers before the crisis was to involve investors into their development plans through the establishment of joint venture companies. These investors are normally landowners and/or companies that have strong relationships with banks. The participation of landowners in joint ventures was often a practical solution for land acquisition since their land can be offered as a paid-in capital while other partners provided funds for development expenditures. Bumi Serpong Damai (6,000ha), Telaga Kahuripan (750ha) and Kota Legenda (2,000ha) are successful examples of this type of land development projects.

The banks that have a strong relationship with housing developers gave a priority to the house buyers who were going to buy houses from developers. In this way, the banks enjoyed 'two profits', from loans to developers and from loans to house buyers. Since these banks were drawing funds from the foreign market in foreign currency for this purpose, they have been financially in critical situation due to the sharp depreciation of Rupiah.

2-5-6 State Budgets

The new fiscal year's budget for 1999/2000 was approved by the House at the end of February. Under the economic crisis, the State revenue is estimated to decline sharply.

(1) Government's Revenues and Expenditures

Routine revenues consist of revenues from oil and natural gas, and tax/tariffs, while the source of development revenue is basically from foreign aid.

The share of routine revenues in terms of total revenues declined from 85% in 97/98 to 56% in 98/99. This is mostly related to the fact that tax revenues and the likes, which had constantly increased until 96/97, have declined sharply since 97/98 due to the economic crisis. As a result, the government was obliged to largely depend on foreign aids in 98/99. As seen in Table 2-5-8, revenues in 99/2000 under planning are not expected to recover yet.

Table 2-5-8 State Budget from 94/95 to 99/2000 (in Rp. trillion)

	94/95	95/96	96/97	97/98	98/99	99/2000
Revenues						
Total	76	83	96	101	264	218
Routine	66	72	85	88	149	141
Development	10	11	11	13	114	77
Expenditures						
Total	75	83	95	101	264	218
Routine	44	53	62	62	171	135
Development	31	30	33	39	93	83
-Rupiah Financing	21	19	22	26	52	53
-Projects Aid	10	11	11	13	40	30

Note: Actual revenues and expenditures – 94/95, 95/96 and 96/97
Budgeted revenues and expenditures – 97/98 and 98/99
Planned revenues and expenditures – 99/2000
Source: Statistics Indonesia 1997 and Ministry of Finance

Under the economic crisis, the Rupiah experienced a sharp depreciation against the dollar. The State revenues and expenditures on a US$ basis are shown in Table 2-5-9. The total amount of the State revenues and expenditures peaked in 96/97 and has declined sharply since then.

Table 2-5-9 State Budget in US$ (in US$ billion)

	94/95	95/96	96/97	97/98	98/99	99/2000
Revenues						
Total	34.5	36.1	40.0	23.0	33.0	27.3
Routine	30.0	31.3	35.4	20.0	18.7	17.7
Development	4.5	4.8	4.6	3.0	14.3	9.6
Expenditures						
Total	34.1	36.1	39.6	23.0	33.0	27.3
Routine	20.0	23.0	25.8	14.1	21.4	16.9
Development	14.1	13.0	13.8	8.9	11.6	10.4
-Rupiah Financing	9.6	8.2	9.2	5.9	6.6	6.6
-Projects Aid	4.5	4.8	4.6	3.0	5.0	3.8
Rp/US$ *	2,200	2,300	2,400	4,400	8,000	8,000

* Estimated at the end of calendar year

The Ministry of Finance determines the allocation of the routine expenditure budget while the development expenditure budget is allocated in line with the BAPPENAS (National

Development Planning Board) planning.

There are two types of Government loans: Rupiah Financing and Project Aid. The source of Rupiah Financing, which is called RDA (Regional Development Account), is the repayment of loans from borrowers such as SOEs and local governments. Rupiah Financing is principally applied to cost recovery projects such as water supply systems, bus terminals, public markets, solid waste and hospitals. The source of Projects Aid is foreign aid loans. Foreign aid loans have been included in the State budget since a few years ago under the instruction by the IMF to clearly show the revenue and expenditure amounts.

Both of these funds are used to finance projects of the 100% state-owned enterprises and governmental agencies including local governments. These funds are not used to support private sector projects.

(2) The Budget of the Housing and Human Settlement Sector

The development expenditure budget planned by the BAPPENAS is allocated to 20 sectors. One of these sectors is the Housing and Human Settlement Sector, managed by the Ministry of Public Works. The expenditure budget to be allocated to this sector is estimated to decrease sharply in 1999/2000 as shown in Table 2-5-10.

Table 2-5-10 Housing and Human Settlement Sector Budgets (in Rp billion)

	94/95	95/96	96/97	97/98	98/99	99/2000
Budget allocated	888	1,102	1,326	1,534	5,615	3,218
(% to Gov. Development Budget)	(3.2)	(3.6)	(3.8)	(3.9)	(6.1)	(3.8)

Source: Statistics Indonesia 1997 and the Ministry of Finance

Since this Sector is considered as one of the priority sectors in the State policy, the share of this sector increased every year until the fiscal year of 98/99. The share is estimated to decline sharply in 1999/2000 due to the Government's priority policy for restoring the banking system and the decrease in the State revenue.

In 1999/2000, Rp.2,100 billion would be used for increasing needs of housing and human settlement such as the preparation of basic infrastructure for 100,000 units of RS/RSS and house ownership credit for RS/RSS. According to Government officials, an amount of Rp.620 billion would be allocated to the house ownership credit budget. This amount is smaller than in 1997, when an estimated Rp.650 billion were provided to the BTN as a subsidized loan from Government, and not enough to meet the national housing demand (approximately 700,000 units in 1999 according to the Ministry of Finance).

The expenditures for the KASIBA and LISIBA would be allocated for the first time to three locations in the sub-sector budget of the Housing and Human Settlement Sector. According to Government officials, Parung Panjang would be one of the three locations. The amount to be allocated is estimated at only Rp.1 billion for each location for the year. This is far below the infrastructure construction cost estimated by the Study Team at Rp.76 billion for 300 ha in the Parung Panjang area.

2-6 Current Government Reformation

2-6-1 Outline of Government Reformation

The reformation movements have been progressing in Indonesia since the political change in the middle of 1998 as outlined in Table 2-6-1. In fact many new laws and government regulations enhancing the government reformation have been enacted, and still others are prepared/drafted. As shown in the table, the government reformation covers almost all sectors of government.

Table 2-6-1 Outline of Current Government Reformation Movement

Democratization/Human rights	
	Revision of law on election, Protection of landowners from large capitals and governmental powers-reinterpretation of location permit
Decentralization	
	Act No. 22/1999 regarding Government in the region
	Act No. 25/1999 regarding Financial system between central and local government)
	Transfer of authority (Location permit to local government)
Organizational reform	
	Reformation of State Owned Enterprise (SOE)-Privatization of Persero and Streamlining/not newly establishment of Perum, Restructuring into holding companies
Policy reform	
	Economic/industrial policy (Priority on small-medium scale companies and cooperatives)
	Act No. 5/1999 regarding Anti-monopoly and Anti-unfair competition
Financial reform	
	Restructuring financial system (Bank reform including BTM, BPPN)
Land reform	
	Act No. 5/1960 Basic Agrarian (amendment?)
Judiciary reform	
	Amendment of 1970 Judiciary Law: "One roof policy"

It is certain that urban development systems including KASIBA and L/C will be more or less affected by those government reforms. However, the final outcome of the on-going government reformation movement cannot be precisely seen at this moment, maybe even at the end of this study period (November 1999). It is more so taking into consideration the fact that the implementation of the on-going government reformation movement relies on the decision of the forthcoming new government. It is not unusual that government reforms will be progressively made by phases. It may be certain that the reformation movement will continue even with turns and twists throughout various governments in the long run.

In its nature, urban development is related to all the spheres of society; e.g. politics, economy, judicial, finance, civil right and public power, and others. However, the basic government policy deciding the direction and scope of the reformation in these sectors is a decentralization policy, which structures all the aspects of society and politics. In addition, among the reformation measures, decentralization is most relevant to KASIBA and L/C because it is categorized into city planning, which is under the responsibility of local governments by nature.

In this regard, Law No. 22/1999 on Regional Administration and Law No. 25/1999 on Financial Proportion between the central and local government, which feature the decentralization policy of the Indonesian government, among others, are summarized as follows.

2-6-2 New Legislatures of Government Reformation

(1) Law No. 22/1999 on Regional Administration

This law is designed to facilitate the decentralization/deconcentration policy of the government with great emphasis on autonomy of local government. The basic features of this law is shown, among others, in Figure 2-6-1, and outlined as follows:

1. No hierarchical structure between central and local administration.

The local administration consists of 3 non-hierarchical regions: Provincial region, Regencial region and Municipal region in parallel with the line agencies of the central government.

2. Clear demarcation of function and authorities.

Authorities of the central government are concentrated on foreign policy, defense and security, judiciary, monetary and fiscal, religious matters, and others, while those of the regencial and municipal regions are in charge of local interests, covering public works, health, education and culture, agriculture, communication, industries and trade, cooperative and manpower. The provincial region is double-tasked as representatives of both central and regional governments are in charge of cross-regency and cross-city administration.

3. Political mechanism

One of the distinctive differences of the new regional administration from the old one is the establishment of a Regional House of representatives, which members are members of political parties resulting from the general election. In this manner legislature and administration are clearly segregated.

4. Clear administrative structure

The administrative structure of regions is streamlined with both regional secretariat and regional service under the direct control of the head of region.

(2) Law No. 25/1999 on Financial Proportion between Central and Local Governments

Before the adoption of the Law No. 25, 1999, the revenue sources of regencies/municipalities were subsidies from the Province and the State and regional original taxes. In most regencies, these revenues were used, for investment purposes, only to finance relatively small projects such as minor repairs or rehabilitation of infrastructures. Major projects in most regencies were financed and managed directly by the Province, the financial sources of which were provincial tax revenues and transfers from the State. As for strategically important projects, the State directly financed and managed the projects.

Under this fiscal scheme, the budgetary request of the Regencial government were examined on a project-by-project basis by the Province and the State. At each level, coordination between ministries had to be attained, and thus the final decision or allocation by the State did not always reflect the local needs.

REGIONAL ADMINISTRATION, NO. 22/1999

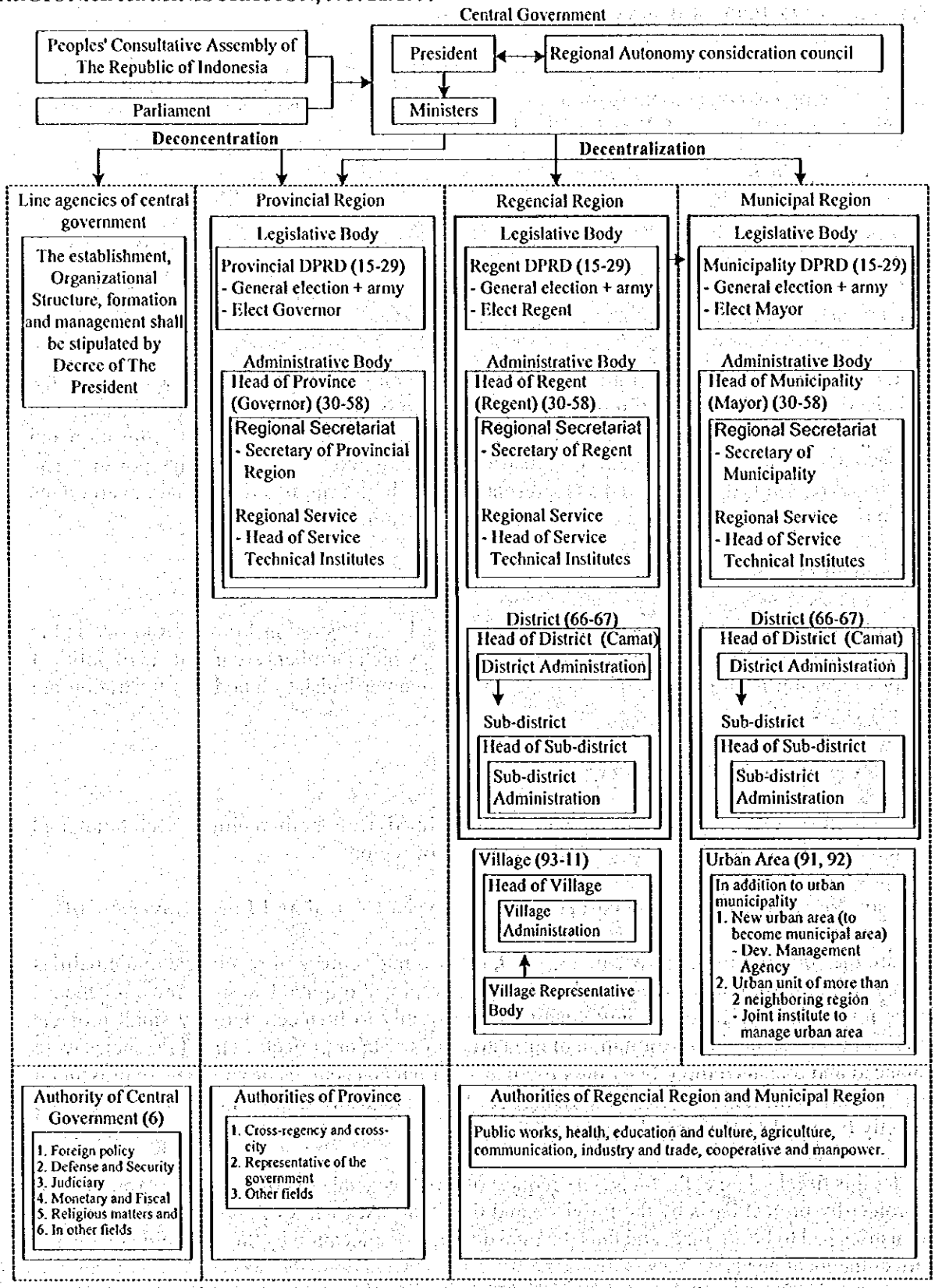


Figure 2-6-1 New Administrative System of Government

The Law No. 25, 1999 practically brought about two major differences. One is an increase in autonomy at the regional level. The State is no longer concerned with local level projects; subsidies (now are called "general allocations" and "special allocations") and are given to the regions without specifying their usage. Figure 2-6-2 and Figure 2-6-3 show the difference of subsidy transfer between before and after Laws No. 22 and 25, 1999.

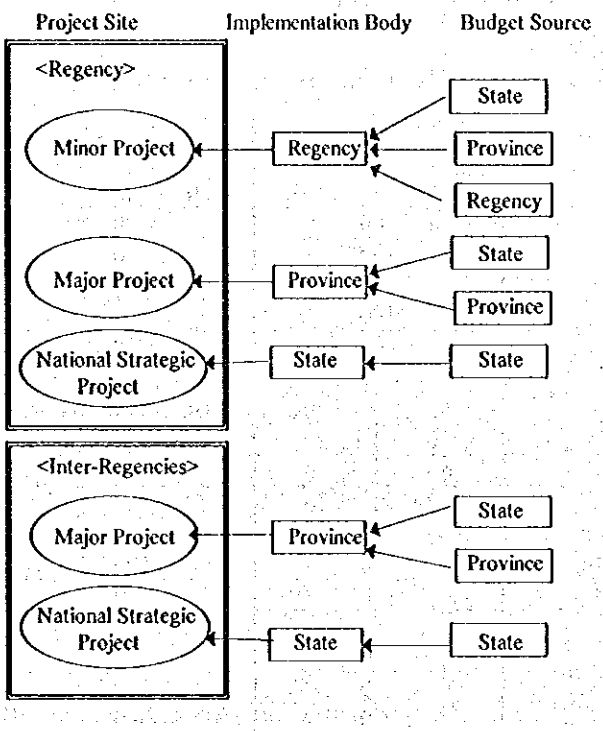


Figure 2-6-2 Subsidy Transfer before Laws No. 22 and 25, 1999

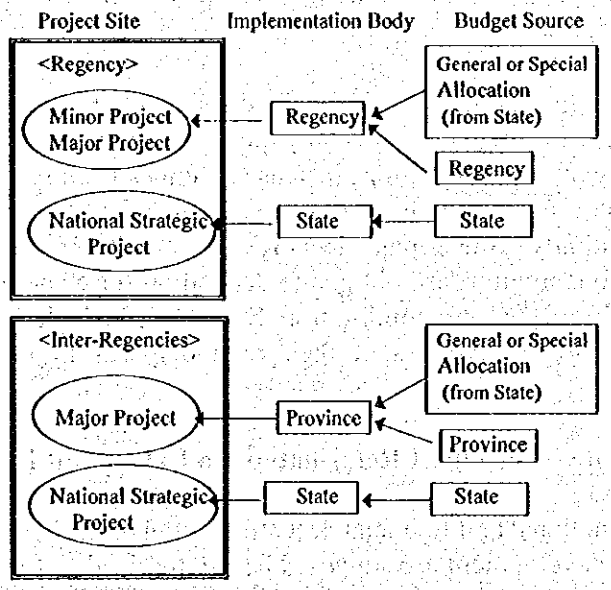


Figure 2-6-3 Subsidy Transfer after Laws No. 22 and 25, 1999

It is expected that the new budgetary system will make KASIBA and land consolidation easier to implement for the regional government since the regional budget can be utilized in a more effective and prompt way, reflecting local needs.

Another major difference brought about by the new law is the broadening of original revenue sources related to natural resources at the Regional level. Table 2-6-2 shows the disposition of revenue by tax source before and after the Law No.25.

Table 2-6-2 Disposition of Revenues before and after Law No. 25, 1999 (%)

	State		Province		Regency/Municipality	
	Before	After	Before	After	Before	After
Oil and gas	100	80.0	0	4.5	0	15.5
Income Tax	100		0		0	
Value Added Tax	100		0		0	
Import Custom	100		0		0	
Duty	100		0		0	
Export Tax	100		0		0	
Land and Building Tax	19.0		16.2		64.8	
Royalty of Forestry	55	20	30	16	15	64
Contract of Forestry	30	20	56	16	14	64
Land rent of Mining	65	20	19	16	16	64
Royalty of Mining	30	20	56	16	14	64
New land Registration Tax	20		16		64	
New car/motor Registration Tax	0		100		0	
Fuel Tax	0		10		90	
Hotel & Ret. Tax	0		0		100	
Entertainment Tax	0		0		100	
Public Light Tax	0		0		100	
Advertisement Tax	0		0		100	
Bus Registration Tax	0		0		100	
Mineral Tax	0		0		100	
Deep Well Tax	0		0		100	
Other Local Tax	0		0		100	

Source: Department of Finance

The change in the disposition of revenue does not, however, effectively support decentralization, since the change concerns only those regions that have revenues from natural resources. Moreover, even if some regions increase revenues from natural resources due to the above change, their total revenues would not increase since the State would decrease transfers to these regions accordingly. Since major local revenues are transferred to the State and then reallocated to the regions, regions are obliged to depend on the State (on average, 70% of the regional governments' revenues are coming from State transfers). It would be necessary to let regions have more original revenues at their own disposal in order to achieve further decentralization.

2-6-3 Implications of Government Reformation on Urban and Housing Development

The implications of functional and financial decentralization or the local government autonomy on urban and housing development are supposed be summarized as follows:

1. The local government will play a greater role as the **leading actor**, while the central government will act as a **supportive actor**. It means that the local government shall be the first responsible organization of KASIBA and L/C (initiator/promoter and implementing

agency).

2. The political/administrative decision-making process will become more participatory, democratic and transparent than ever. In other words, it will shift from a **top-down** system to a **bottom-up** system, respecting more the right and interest of local people. Decision-making will be done at a closer level to the community and people: at the grass-root. Administrative activities will always be watched by people.
3. Heavier responsibility will be placed on the local government in return of enlarged rights and authority. The decentralization policy will never be materialized without the **capacity building** of the local government and local people to fulfil the responsibilities. It tells that KASIBA and L/C cannot be implemented without the capacity building of the local government and empowering communities and people.
4. Higher priority will be placed on **urban and housing development**, which is more related to peoples' concerns and interests in their daily lives.

Above all, decentralization cannot advance without fostering the consciousness of self-responsibility and self-governance of local people, including politicians, government officials and local people themselves.

However, more important is the serious responsibility of the central government, with its advanced knowledge and experiences in government administration, to technically, financially and practically support the local government to substantiate the decentralization policy and establish real autonomy.

Chapter 3 System Improvement and Building of KASIBA

3-1 Outline of Law on KASIBA

3-1-1 General

The KASIBA (Kawasan Siap Bangun = Ready Built Area) system is based on the Law of the Republic of Indonesia (Law No. 4 of 1992, Regarding Housing and Settlements). Under this Law the KASIBA system will consist of the following 2 regulations (still under processing).

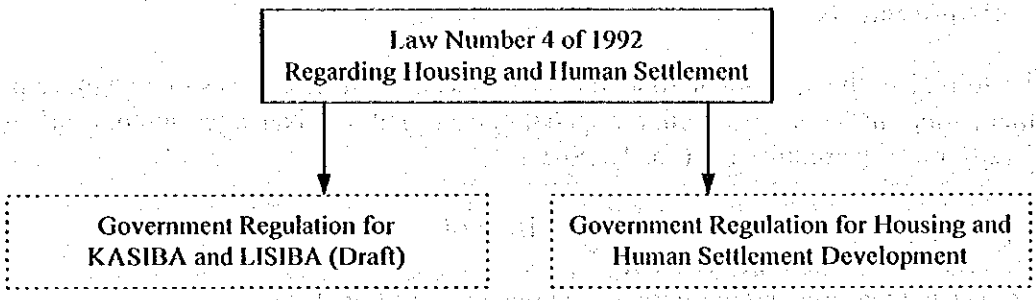


Figure 3-1-1 Law Component Regarding KASIBA System

It is stipulated that the proper, healthy, comfortable, harmonious and orderly development of housing and settlements, which is one of the basic human needs and comprises an important factor in enhancing the respect and self-esteem, quality of life and well-being of a society, should be fair and prosperous based on the Pancasila and the 1945 Constitution. National development ought to be pursed with integrity toward the whole of Indonesia and development of the entire Indonesian society.

More specifically KASIBA is defined in the scope of work on this study as follows:

"KASIBA is a piece of land which is prepared for large scale housing and settlements development and consists of one or more LISIBA, or Lingkungan Siap Bangun (RBE or Ready Built Environment). Its implementation is done sequentially, being started with the support of primary and secondary networks of environmental infrastructure suitable for the local spatial plan determined by the second level of Local Government, and satisfying the requirements of housing and settlements standards for infrastructure and public utilities."

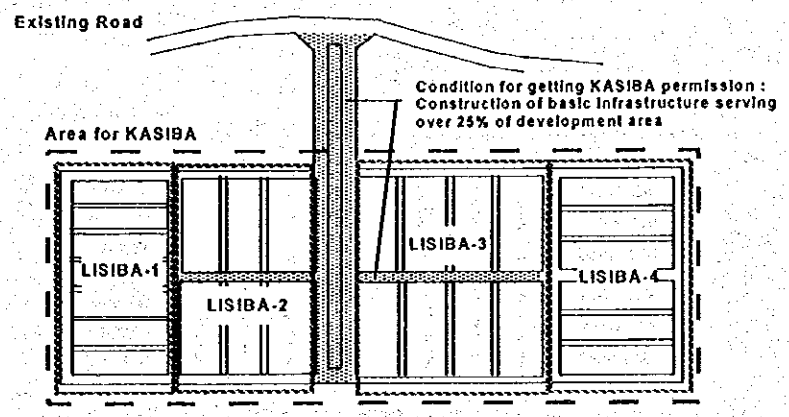


Figure 3-1-2 Image of KASIBA System

3-1-2 Purpose of the KASIBA

- To set up policy formulation in housing and human settlement sectors
- To solve various problems in those sectors such as, large scale real estate sprawl in sub-urban area by private developers
- To carry out supervision and control for sufficient infrastructure development in urban sprawl area
- To solve non-regulated or non-coordinated change of land use in urbanizing area
- To solve shortage of housing supply in urban area especially for low income groups

3-1-3 Requirements

In order to realize the settlement zone, the local government determines one or more parts of settlement zones in accordance with the spatial master plan of urban areas and non-urban areas that already meet the requirements as KASIBA.

The requirements must at least cover the provision of:

1. Detailed spatial master plan,
2. Data regarding extent, borders and ownership of the land,
3. Primary and secondary network of the environmental infrastructure

3-1-4 Development Activities

The development of LISIBA is to be done by stages, involving the following activities:

1. Land preparation,
2. Putting in order, utilization, control and ownership of the land,
3. Making available area / environmental infrastructure,
4. Replanting of the area,
5. Making available land for area/environmental facilities.

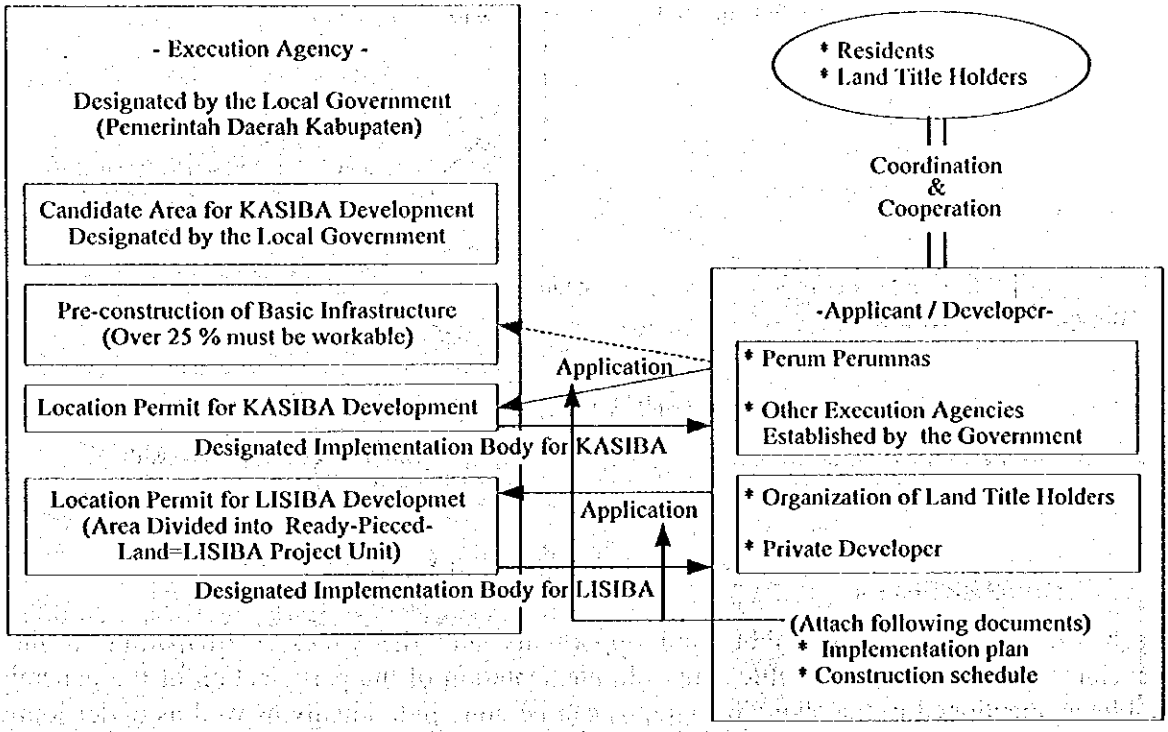


Figure 3-1-3 Procedure for Permission

Execution Agencies	Role of the Execution Agency	Information from Execution Agency for Implementation Body	Submission Document
Government of (Regency, Municipality)	Area Designation and Selection of Management Body for KASIBA / LISIBA	* Site Plan * Regional Devel't Plan * Public Facility Devel't Plan	* Detail Physical Plan * Engineering Drawings * Detail Implementation Plan
BPN Local Office	Issueing Location Permission	* Existing Land Use * Land Title / Tenure * Map of Land Property / Land Title, etc.	* Plan for Land Acquisition

Figure 3-1-4 Work Items for Implementation

The business enterprises in the field of housing construction that have developed LISIBA are prohibited from selling the ready subdivided land without houses.
By taking into account the stipulation in the LISIBA construction criteria, in accordance with the local needs, the business enterprises engaged in housing construction that have developed the LISIBA can sell the ready pieced land of small and medium size without houses.

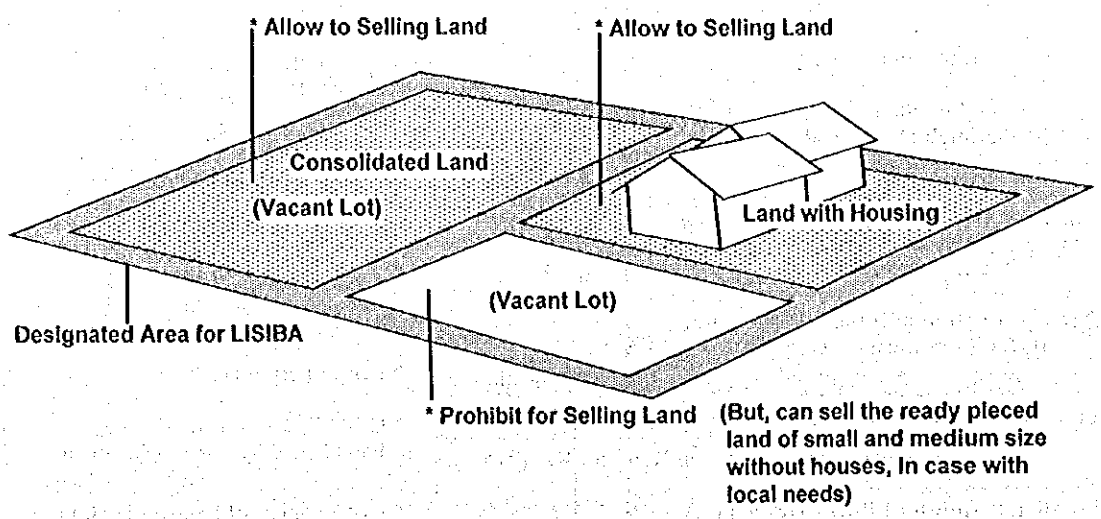


Figure 3-1-5 Transaction of Land

Each citizen has the same rights and opportunity and the widest participation in the development of housing and settlements. Implementation of the participation of the general public as mentioned in the above paragraphs can be done individually as well as under joint undertakings.

3-2 Classification/Application and Principles of KASIBA

3-2-1 Urban Control and Management Measure

KASIBA, as outlined in the preceding section, can be defined as urban control and management measure, (not project implementation measures), directly providing housing/buildings, as shown in Figure 3-2-1 and discussed below.

(1) KASIBA Urban Control

The real estate/subdivision projects may scatter and sprawl without KASIBA as evidenced in the past and current urban development pattern around DKI Jakarta. Once KASIBA areas are designated, the real estate/subdivision developments are to be guided into the KASIBA area so as to create an integrated and unified urban area and community, just as one city or town. This vision is supposed to be materialized by two measures, one is to discourage or prohibit the real estate/subdivision development outside KASIBA areas and the other is to offer attractive development and investment opportunities in KASIBA areas.

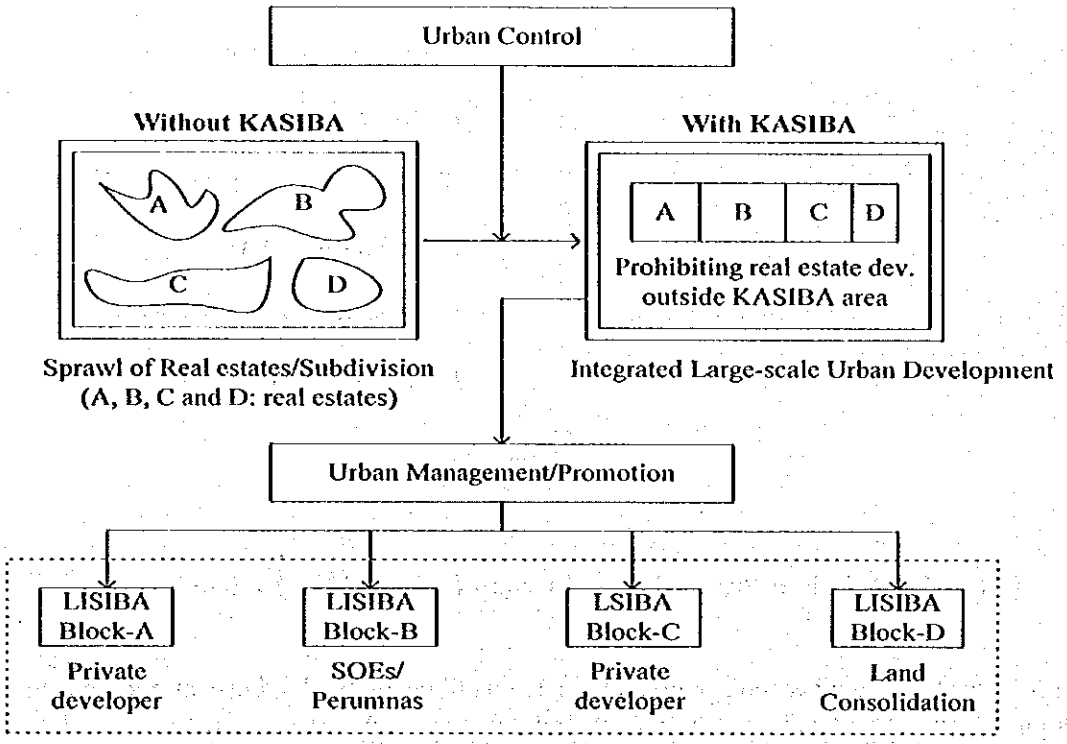


Figure 3-2-1 Urban Control and Management by KASIBA System

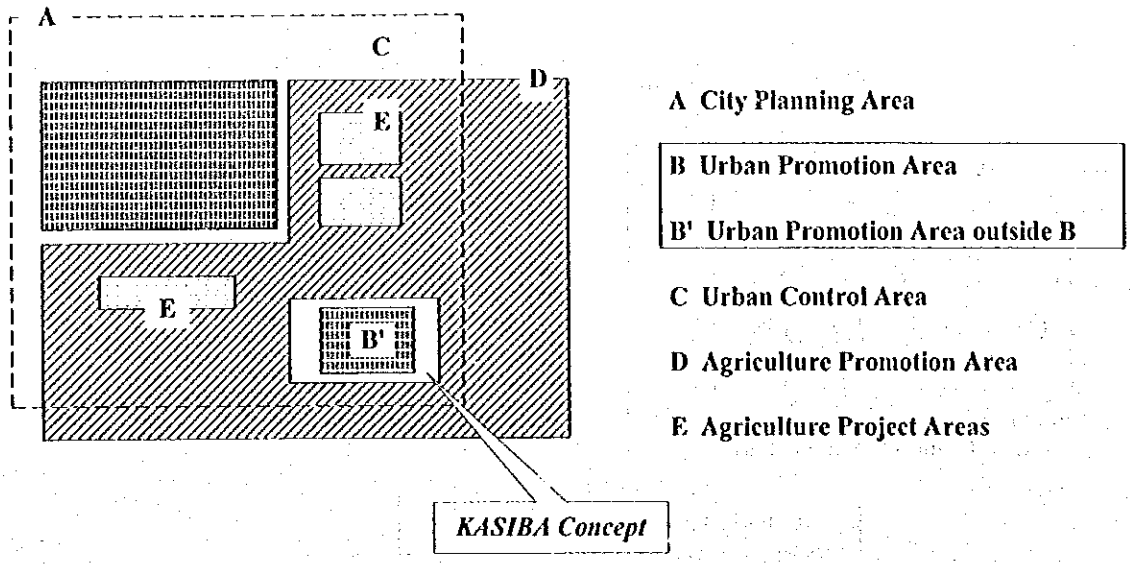
This sort of urban control system can be found in the **Area division system** of the Japanese City Planning as shown for reference in Figure 3-2-2, and outlined below in comparison with the KASIBA.

Area division systems are laid down to provide a basic framework to promote planned urban development and to prevent unsystematic urbanization. The systems decide the framework of city planning, size and form of urban areas.

City planning areas are designated to cover areas where urban activities are stretching in the municipalities. And they are divided into **Urban promotion areas and Urban control areas** as follows:

Urban Promotion Areas include already built-up areas and the areas for development in a planned manner within an approximate period of 10 years.
Urban Control Areas are areas where urbanization should be restrained.

The basic purpose of the area division is to contain the urban development to the promotion areas for efficient land management and infrastructure provision and to prevent uncontrolled development in forest and farmland adjoining the existing built-up areas--**KASIBA concept.**



Data source:City Bureau,Ministry of Construction Government of Japan

Figure 3-2-2 Urban Promotion and Urban Control Area System in Japan

The area division system is accompanied by the legal effects on the land use, public investment, development project, development permit and taxation. Among others, items related to KASIBA are **urban development projects, which are all permitted and promoted only in the urban promotion areas.**

Urban promotion areas are areas designated for the urban development (prohibiting urban development outside the promotion areas) as well as the areas to which infrastructure is provided - Ready to build: This is almost the same concept as the KASIBA in broad sense.

Table 3-2-1 Legal Effects of Area Division

Item	In Urban Promotion Area	In Urban Control Area
Land use control	Land use zoning inclusive building regulation	Only agricultural land use
Public investment (Public facilities)	Government obligation once approved	Public investment for agriculture promotion
Urban development project	**Urban dev. projects approved and promoted by government** 1. Land readjustment 2. Urban redevelopment 3. New residential area dev.	None *KASIBA Development Project Control and Management*
Land development permission	Project more than 1,000 m² need approval by local government (Technical standard)	No urban development except large-scale development approved in exceptional cases
City planning tax	City planning tax for funding urban and infrastructure dev.	None

(2) KASIBA Urban Management

The other function of KASIBA is to manage the urban development in planned areas. The urban development implementation generally consists of the following 4 tasks:

1. Designation of development area

2. Infrastructure construction (Primary)
3. Land acquisition
4. Housing/building development (Final products of development)

The order in time sequence of item 2 (infrastructure construction) and item 3 (land acquisition) varies depending on development systems.

KASIBA and KASIBA Management

Urban development systems are theoretically classified into 5 types in accordance with the degree of the public participation in the above-listed tasks as indicated in Figure 3-2-3. In this respect, KASIBA is theoretically defined as a scheme of cooperation and sharing between private and public participation in city planning and development. KASIBA Management is to implement the tasks of public participation and control/promote the task of private participation. While the private sector is expected to be involved in as many tasks as possible in the government thrust of privatization, the public involvement is also requested so as to promote and maximize private involvement, and to secure the public interests and social welfare in urban development.

Type-1: Entirely Public Initiative (e.g. Perumnas housing development projects)

All the tasks for urban and housing development are to be carried out by the public sector such as Perumnas to provide the end products of housing and buildings under the national policies for promoting particular public interests, such as those of housing provisions.

Type-2: Provision of Infrastructure and Land by Public Initiative

With the provision of primary infrastructure and land by the public sector, the private sector takes charge of developing the housing and building on the land provided with infrastructure services.

Type-3: Provision of Infrastructure by Public Initiative

Real estate development projects, including land acquisition and housing development, are to be implemented in areas with services of primary infrastructure provided by the public sector.

Type-4: Designation of Development Area by Public Initiative

Mainly from the viewpoint of city planning, the public sector (government) designates the urban development areas, which are to be developed mainly by private initiatives, including infrastructure development, land acquisition and housing/buildings.

Type-5: Entirely Private Initiative

The private sector designates the urban development areas that it will implement, including all the necessary tasks, under the legal framework set by the government (especially spatial plan). This is a traditional urban/housing development procedure under the permit system (Principle/location permit) in conformity with spatial plans.

It is generally stated that these types of urban development systems should be flexibly applied in response to different situations of project sites, needs and purpose of development.

KASIBA can be expected to manage the urban development depending on the types classified below.

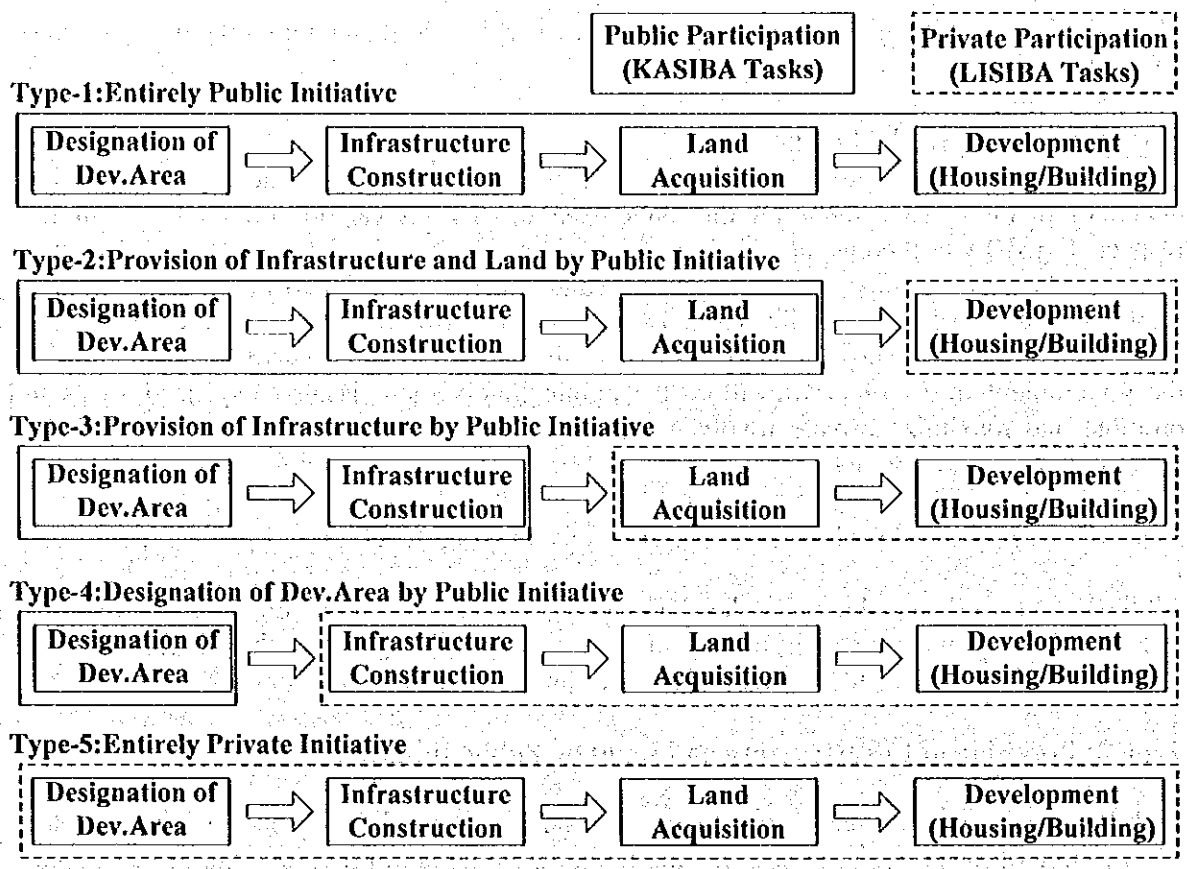


Figure 3-2-3 Types of Urban Management System with Degree of Public and Private Participation

3-2-2 Classification and Application of KASIBA System

Corresponding to the types of urban management system as classified above, 3 types of KASIBA systems are proposed to be applied in Indonesia as shown in Figure 3-2-4 and listed below:

KASIBA System-1: Type-4 (Designation of development area)
KASIBA System-2: Type-3 (Provision of infrastructure)
KASIBA System-3: Type-2 (Provision of infrastructure and land)

Through the examination of the implementation systems under the proposed KASIBA urban management scheme, as discussed in the following section 3-3, the Steering Committee confirmed that the proposed KASIBA systems are applicable and not contradictory to the 1992 Law on KASIBA, and on these premises concluded that KASIBA systems should include 3 options, either one or a combination of them as classified above.
It must be also stated that these 3 systems are slated through the examination of their possible application to the city planning and development in Indonesia as discussed below.

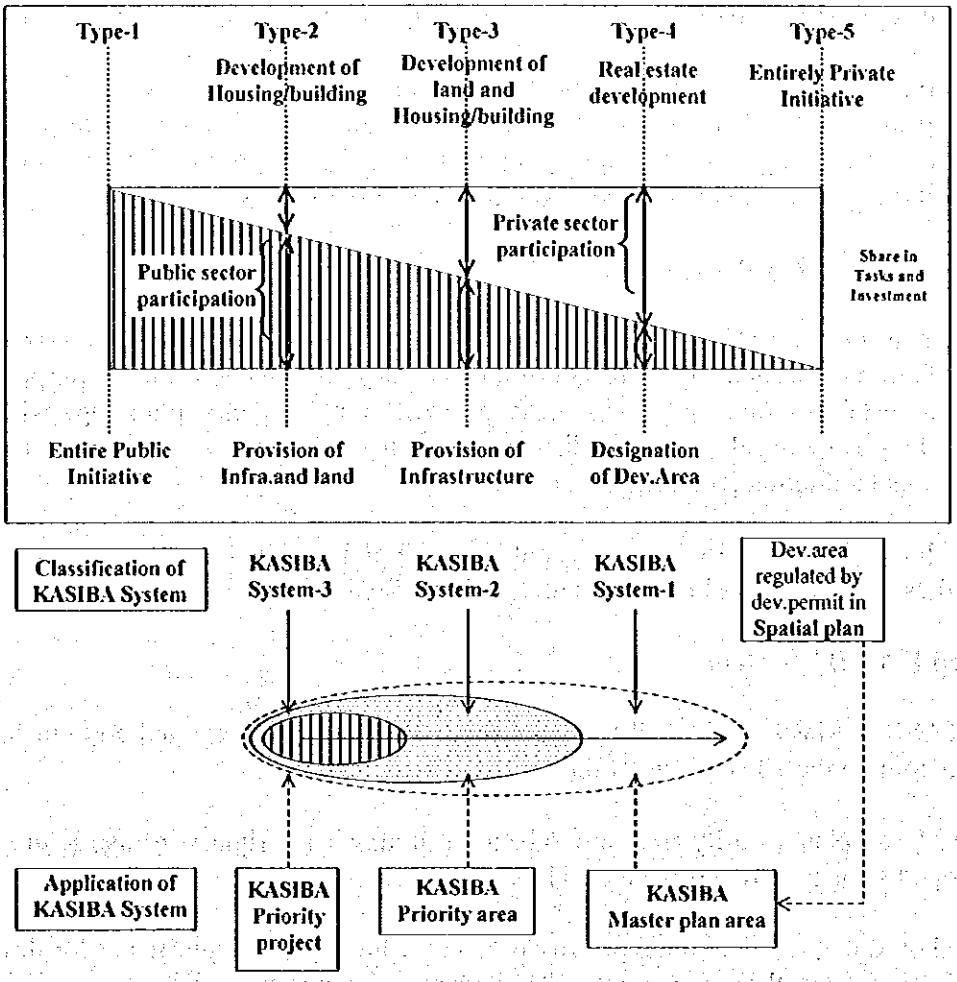


Figure 3-2-4 Classification and Application of KASIBA System

The KASIBA system was originally established in order to respond to urban problems/needs and government urban/land/housing development policies. To this end, different implementation systems under the KASIBA management should be prepared so as to be generally and specifically well catered to respond to a variety of present and future urban problems and needs.

KASIBA System-1: KASIBA Master plan area (Long term integrated urban area development).

In the current system, the government does nothing but wait for the development projects submitted by the private sector in any place in the urban area of the Spatial plan, for approval. In the KASIBA System-1, the government from the strategic viewpoint of city planning can positively designate urban development project areas. This is a great advantage for the Indonesian city planning since the government can more definitively and positively lead the implementation of urban development areas via the public initiative. The designation of KASIBA areas is to have another legal effect of regulation that all the urban development must be coordinated and conformed with KASIBA Master Plan.

In conclusion, the KASIBA system-1 can be utilized to strengthening the control of the Spatial

plan on urban development.

KASIBA System-2: KASIBA priority area (Directed and phased urban development)

KASIBA area of system-2 is to be designated in some priority areas that are very important for constructing the future urban structure of cities and leading urbanization. With provision of primary infrastructure services, urban development projects are promoted in the areas. This system should be applied to the phased development of urban areas.

KASIBA System-3: KASIBA project area

This system is to be applied for the land provision of specific purposes such as housing, industries, commercials and etc, on behalf of the agencies responsible for these purposes. It is advisable to establish this system in areas prioritized by the city planning, where land acquisition by private developers faces difficulties. This system must be equipped with special legal measures facilitating land acquisition.

As stated above, these proposed systems could be separately applied in the city planning. In addition, these can be utilized in combination as illustrated in Figure 3-3-2.

Integrated KASIBA System

1. The KASIBA Master plan shall be established, covering the integrated and unified urban area in coming the 10 years under the KASIBA system-1.

2. In the Master plan, priority areas are to be identified, where primary infrastructure shall be developed so as to attract private developers and investors.

3. Land should be provided to the priority projects, which is quite significant for developing priority areas as well as realizing the KASIBA master plan.

The sizes of the KASIBA area of system 1 to 3 must be carefully determined respectively taking into account the real situation of urbanization and the demand forecast of land and housing in every city where KASIBA is applied.

The following factors are crucially important in selecting the systems and determining their size.

1. Financial and implementation capacity of government

Provision of primary infrastructure and land for development imposes financial and practical (especially land acquisition practice) burdens on the government. Although the application of the system 1 or 2 and larger areas for them would be desirable in order to promote and facilitate more private urban development projects, the adoption of a system and the decision of an area size may be actually limited by the financial and implementation capacity of the government.

In this regard, utilizing a cost recovery system, reducing the financial burden and legal measures for facilitating the land acquisition is essential in building KASIBA areas as discussed in a following section.