

# 7. Indonesia

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## INTRODUCTION

Indonesia is the most populous country in Southeast Asia. From the 1970s until the mid-1990s, the country experienced a period of rapid economic development and urban growth. However, the 1997 Asian financial crisis had a major impact on the economy, and a period of civil and regional unrest followed shortly thereafter. These events led to pressure for greater democratization and decentralization. The national Government has introduced a series of laws since 1999 to begin a rapid multifaceted process that is dramatically changing the way the country is governed. Relevant statistics on the development of Indonesia are presented in Table 7.1.

This chapter examines trends and issues related to urbanization in Indonesia prior to and following decentralization. Three case studies are presented: balanced development in Tarakan, East Kalimantan; management of rapid urbanization and good governance in Sleman, the Special Region of Yogyakarta; and combining long-term goals with short-term improvement in Jembrana, Bali. Lessons from the case studies and strategies to improve approaches to sustainable urbanization are presented in the final part of the chapter.

## COUNTRY CONTEXT

Indonesia is a 5,000 kilometer (km) long archipelago of more than 17,600 islands.<sup>1</sup> This sprawling country had a population of around 225 million in 2005, the fourth most populous country in the world. The population is culturally very diverse with over 300 local languages.<sup>2</sup> Interestingly, the remarkable diversity of this huge nation has become the *raison d'être* for two opposing approaches to governing the country: the heavily centralized system of government during the first 4 decades after independence, under the presidencies of Sukarno and Suharto (who thought the diverse nation needed a strong unifying national government), as well as the much more decentralized system of government in contemporary Indonesia, which is based on the notion that empowered local governments can understand better the various aspirations of their

**Table 7.1: Country Development Profile, Indonesia**

Human Development Index rank of 177 countries (2003) <sup>^</sup>	110
GDP growth (annual %, 2004)	5.13
GNI per capita, Atlas method (current \$, 2004)	1,140
GNI, Atlas method (current \$ billion, 2004)	248.0
GDP per capita PPP (\$, 2003) <sup>^</sup>	3,361
GDP PPP (\$ billion, 2003) <sup>^</sup>	721.5
Population growth (annual, 2005-2010, %) <sup>#</sup>	1.13
Population, total (million, 2005) <sup>#</sup>	225.31
Urban population, total (million, 2005) <sup>#</sup>	107.88
Urban population, % of total population (2005) <sup>#</sup>	48
Population of Largest City: Jakarta (million, 2005)	13.19
Population growth: 30 capital cities or agglomerations > 750,000 inhabitants 2000 <sup>#</sup>	
- Est. average growth of capital cities or urban agglomerations 2005–2015 (%)	29
- Number of capital cities or urban agglomerations with growth >50%, 2005–2015	0
- Number of capital cities or urban agglomerations with growth > 30%, 2005–2015	15
Sanitation, % urban population with access to improved sanitation (2002) <sup>**</sup>	71
Water, % of urban population with access to improved water sources (2002) <sup>**</sup>	89
Slum population, % of urban population (2001) <sup>**</sup>	23
Slum population in urban areas (million, 2001) <sup>**</sup>	20.88
Poverty, % of urban population below national poverty line (2001) <sup>**</sup>	n.a.
Aid (Net ODA received; \$ million, 2003)	1,743.5
Aid as share of country income (Net ODA/GNI, 2003 %)	0.9
Aid per capita (current \$, 2003)	8.10

GDP = gross domestic product, GNI = gross national income, ODA = official development assistance, PPP = purchasing power parity.

Sources: See Footnote Table 3.1, World Bank (2005); OECD (2003); United Nations (2004, 2005).

people. While debates over centralized versus decentralized systems of government in Indonesia have been around since its independence in 1945, the current shift encompasses more than the substance of the original debate and is much more wide-ranging, embracing various aspects of governance (Vickers 2005).

Indonesia is undergoing four major transformations: decentralization; a drastic progression toward democratization of the political and governance system; rapid urbanization; and, perhaps least apparent, the privatization of various socioeconomic activities. Although these transformations are not independent of each other,<sup>3</sup> it is remarkable that such radical processes are occurring almost simultaneously. Despite the resulting problems, there are promising indications that such changes—especially those of decentralization and democratization—will provide stronger and more sustainable bases for the development of Indonesia as a whole. Several examples of good practices in local governance have arisen as a result of these transformations, of which three are presented in this chapter.

In the late 1990s, Indonesia embarked on the process of the so-called “big-bang”<sup>4</sup> decentralization (World Bank 2003) and subsequent democratization, after decades of a very centralized and, to some extent, authoritarian government. The aim of decentralization was to move public decision-making processes closer to the people most affected by those decisions. Similarly, but not in spatial terms, the democratization process aimed to provide civil society with a greater role in developing and governing the country while at the same time improving the “checks and balances” mechanisms in the country’s governance system. After decades of debate and delay in implementing decentralization and democratization, the Government eventually hurriedly adopted the concepts following instances of regional unrest, as well as the emergence of widespread demands from civil society for radical political reforms. In particular, the 1997 financial crisis—followed by economic as well as political crises, including the downfall of the New Order regime in 1998—was the initial trigger for sweeping governance reforms in Indonesia.

Decentralization was initiated through the enactment of Law 22/1999 on Local Governance (which has been amended by Law 32/2004) and Law 25/1999 on Fiscal Balance between National and Local Governments (which has been amended by Law 33/2004). The law on local governance (known as the decentralization law) transfers a large number of the Government’s obligatory functions from the national Government to local governments, leaving only matters related to national defense and security, foreign affairs, the judicial system, fiscal and monetary affairs, macro-economic planning, judicial system, standardization, and a few others as the prerogative of the national Government. Additionally, the accompanying fiscal decentralization law (the law on fiscal balance) aims to provide the necessary financial resources for local governments to carry out their newly expanded responsibilities. Along with the transfer of functions and financial resources, the decentralization drive also included the reassignment of 2.3 million staff from 4,000 departmental offices and the assets of 20,000 public facilities to local governments, all implemented in 1 year (Turner et al. 2003). While many related problems remain unresolved, this drastic drive to decentralize conducted within a very short period of political and economic volatility, has been applauded by the international community and various domestic stakeholders.

Concurrent with decentralization, democratization was initiated through various amendments to the country’s Constitution and related laws, which fundamentally reorganized the governing structure; reformed state institutions; introduced direct elections for the heads of national, provincial, and district governments; simplified the formation of political parties (while at the same time increasing the political parties’ roles in channeling the people’s aspirations); and many other changes. On the surface, democratization was

articulated by the increase of civil society's participation—quantitatively as well as qualitatively—in governance. This was essentially an acknowledgment of the ownership by the people of public processes, in contrast to the previous paradigm where the processes were seen as owned by government, with possible participation by the people.

Indonesia's decentralization and democratization efforts have been so dramatic that they effectively changed the way the country is governed at all levels. New institutions were created and old ones terminated. Numerous existing laws and by-laws currently require modification, amendment, or even replacement, some of them urgently. Government officials and stakeholders at all levels need to learn what their roles are in the new system of development and governance. Members of civil society have become more vocal about their role in the development processes. Members of civil society have established various urban forums to provide an additional vehicle for participation in development. Even private enterprises—domestic as well as international—find themselves needing to adjust to the new environment, not only in the form of more transparent ways of doing business or working with local governments more than ever before but also in responding to the increasing demand to assume corporate social responsibilities.

Rapid urbanization in Indonesia is compounding the pressures identified above. The proportion of people living in urban areas is predicted to exceed 50% by 2010 and to reach 60% by 2025. Most city governments—and also *kabupaten* (county) governments that cover a significant proportion of urbanized areas—have been overwhelmed by the ever-increasing demand for urban services, infrastructure, housing and facilities, and employment. The urban informal sector, within which most rural-to-urban migrants find refuge, has become ubiquitous in Indonesian urban landscapes but has not been seriously or strategically addressed by many city governments (ILO URDI 2005, UNDP URDI 2004). The urbanization trend and attendant consequences have intensified debates over balancing rural-urban development and other related issues, discussed below.

The private sector—which has practically recovered from the late 1990s crisis—has taken an increasing role in development, including in areas traditionally handled by the Government. Privately developed, large housing complexes or even new towns around such metropolitan areas as Jakarta and Surabaya have become more common—to some extent contributing to the creation of urban sprawl. Private enterprises (including foreign ones) have also undertaken to provide public services, such as water supply, waste processing management, and toll roads.

Private enterprise has demonstrated that it is more efficient and client-oriented than government agencies. However, such (formal) private sector-

led development cannot be expected to always resonate with the needs of the urban poor, which by 1999 constituted about 40% of the Indonesian urban population (World Bank 2003). This is especially so if Government (national or local) cannot create the necessary conditions for (formal) private sector involvement. While privatization indeed provides solutions to some urban problems, it is certainly not a panacea. Private developers, for example, have not been able to provide affordable housing for the poor in the inner city areas where land prices are high.<sup>5</sup> As a result, most of the urban poor are given a choice of either residing in inner-city informal settlements or in low-cost housing areas located far from the city center.

Privatization is becoming an attractive option in Indonesia to provide basic infrastructure and public services because national and local government's economic and financial resources are limited. Public finance capacity is relatively lower now than during the 3 decades prior to the 1997 financial crisis. This is partly because of slower economic growth (from more than 7% to less than 6% annually), increasing debt service obligation, increasing domestic demand for public services from the growing and increasingly more demanding population, greater sharing of resources with local governments, and diminishing utilizable natural resources. Further, there are increasing calls for the government to reduce its dependency on loans to fill budget gaps and instead pay for necessary development.

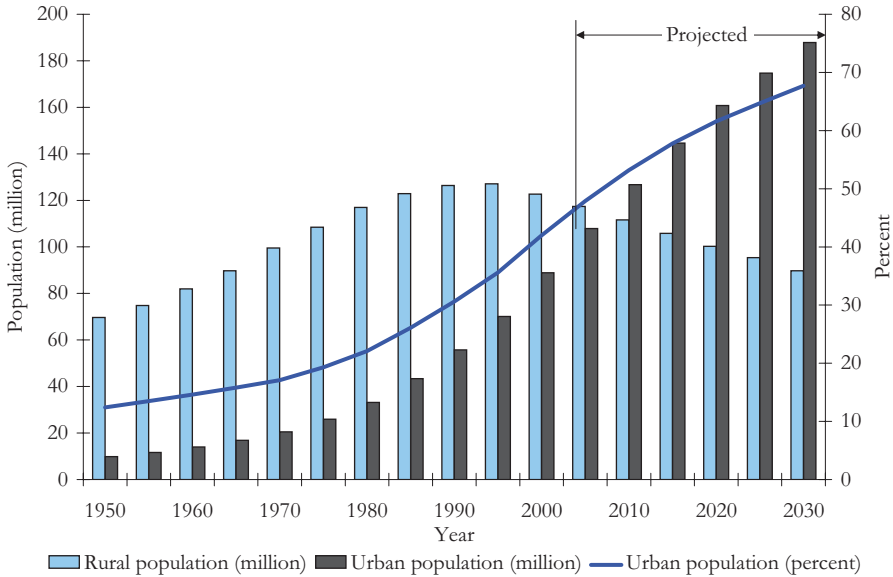
In addition to these complex transformations, Indonesia has witnessed three presidential successions in 6 years. The successful first direct presidential election in 2004, which brought in the current administration of President Susilo Bambang Yodhoyono, is expected to provide some stability to the country. The years to come may not be as volatile as the past several years, but the multidimensional metamorphosis of this diverse nation is far from complete.

## **URBANIZATION ISSUES**

### **Sustainability of Urban Population Growth**

During the period of relatively rapid economic growth in the 3 decades prior to the 1997 financial crisis, and also in the recent years of economic recovery, Indonesia experienced accelerated urbanization.

Figure 7.1 shows that, until 1980 or thereabouts, the urban and rural populations increased in unison. Thereafter, growth in the rural population began to fall. Indonesia is at the point where rural and urban populations are about equal. Urban population is expected to exceed 65% by 2030 (United Nations Secretariat 2002). The implication of these demographic changes is

**Figure 7.1: Trends in Urban and Rural Population, Indonesia**

that urban population will increase by 70% from 108 million at present to 187 million over the next 25 years. In excess of 5,000 square kilometers (km<sup>2</sup>) of mainly productive farmland is likely to be converted into urban use during this period.

A key factor in rapid urbanization is the concentration of industrialization and economic growth in some major urban areas, while employment in rural areas has become less attractive to the younger members of the population. Urban migration—especially to the national capital, Jakarta—started in the 1950s and 1960s after unrest broke out in parts of the country.<sup>6</sup> Even after the rebellions subsided, however, the streams of people moving to urban centers continued through the 1990s, primarily because of rapid industrialization in a small number of urban centers. In the 1990s, the urban population grew at a rate of 4.4% per year, while the national population growth rate over the same period was 1.7% per year (World Bank 2003).

Cities and towns have been expanding through conversion and subdivision of nonurban areas on the periphery of major cities and along the main roads. However, it is clearly visible to anyone traveling on roads between major cities that the conversion of land tends to be disorderly rather than carefully planned. Industrial factories built on what used to be ricefields are very common along the major roads, although better planned industrial estates do exist in some metropolitan regions, such as Jakarta, Surabaya, and Makassar. Moreover, much of the land conversion is based on speculative

rather than calculated considerations (Firman 1997). Such a phenomenon has occurred despite the fact that most districts in Indonesia have spatial plans that should direct physical development better.<sup>7</sup> Urban service improvement and urban infrastructure development generally lagged behind the ever-increasing demand brought about by the urbanization processes outlined above. As discussed below, the Government has become much more resolute about addressing such land-use practices and urban infrastructure issues. However, concrete results of specific policies remain to be seen, while many other urbanization-related issues linger.

Critical issues related to urbanization include the dire need for urban employment opportunities (including more attractive conditions for private investment as well as more appropriate and strategic treatment of the urban informal economy); adequate urban infrastructure and services (including energy, water supply, and waste management); affordable decent housing and settlements (especially for the urban poor); urban poverty and slum improvement; affordable land for urban development; security of tenure; land-use planning and development control; financing for urban development; urban economic development; urban environment regulation (including air, water, and soil pollution); safety; and many other issues (including those specific to women, youth, and the disabled) that city governments need to address internally.

From a more regional perspective, critical issues include those around rural-urban linkages—different issues faced by metropolitan areas, secondary cities, small towns, and urban fringe areas. Another key concern is the lack of balance in development between rural and urban areas and also nationally, where development has been concentrated in the Java-Bali region. Even within this large region, development has been concentrated in the Jabodetabek (Jakarta-Bogor-Depok-Tangerang-Bekasi) metropolitan area, which had a population in 2000 of more than 13.2 million people, encompassing the total population of the five cities, but excluding three kabupaten in the metropolitan region with significant urban areas. While population concentration cannot always be equated with development, Table 7.2 below helps illustrate the unevenness of urban development in Indonesia, represented by the fact that 5 out of the 12 largest cities in Indonesia are in the Jabodetabek metropolitan region.

It is important to note that in the Indonesian context, urbanization cannot be represented solely by cities (*kota*). At the district level, there are two types of administrative unit: *kota* or city and *kabupaten*, which is probably equivalent to a county in the United States. Both administrative units are autonomous under the decentralization policy. *Kabupaten* are not necessarily entirely rural. Often, significant urbanized areas are within *kabupaten*—as represented by Sleman in this chapter.

Table 7.2: 12 Largest Cities in Indonesia<sup>8</sup>

No	City	Population in 2000 (rounded figures)	Average Growth 1990–2000 (%)
1	Jakarta*	8,347,000	0.17
2	Surabaya	2,600,000	1.75
3	Bandung	2,136,000	3.48
4	Medan	1,904,000	1.17
5	Bekasi**	1,638,000	5.19
6	Palembang	1,452,000	2.45
7	Semarang	1,351,000	1.67
8	Tangerang**	1,312,000	4.29
9	Depok***	1,143,000	2.03
10	Makassar	1,113,000	1.64
11	Malang	757,000	not available
12	Bogor**	751,000	1.47

Notes:

\* The Special Capital City (DKI) of Jakarta actually consists of five municipalities and one sparsely populated kabupaten, Thousand Islands.

\*\* The cities of Bekasi, Tangerang, and Bogor do not cover the kabupaten of Bekasi, Tangerang, and Bogor, which are separate districts with the same names.

\*\*\* Formerly part of Kabupaten Bogor, Depok but is now a separate city (and, unlike Bogor, Tangerang or Bekasi, there is no such thing as Kabupaten Depok).

There is also what the urban geographer Terry McGee<sup>9</sup> calls the *desakota* phenomenon (a complex mix of urban and rural physical as well as sociocultural conditions but that may not necessarily be a transitory stage of urbanization) that usually but not necessarily occurs along major regional roads and in the urban fringe areas. The poverty mapping study conducted in 1999 (PODES) calculated that the number of villages with *desakota* characteristics increased from around 10.9% in 1980 to 18.0% in 1999 (SMERU 2005). It is believed that the trend is continuing. Such a phenomenon is especially common in the densely populated islands of Java and Bali (McGee 1989). The Indonesian urbanization “pattern” is further obscured by the existence of circular migration, by which rural people move temporarily but regularly to urban areas while waiting for harvest time. Most circular migrants live in affordable rented shelters in urban slums and prefer to send remittances to their villages rather than help improve the physical conditions of the areas where they live in the cities.

## Poverty<sup>10</sup>

One of the main factors contributing to poverty in Indonesia is the disparity of regional income and investment, which is heavily biased toward the larger urban regions and regions endowed with natural resources. The gross domestic product (GDP) per capita in 2003 ranged from \$7,666 in Jakarta to \$863 in



East Nusa Tenggara. Urban poverty is becoming a significant issue as more people migrate to the cities in search of employment.

In the context of addressing urban and rural poverty, the current administration under President Susilo Bambang Yudhoyono, has completed a draft poverty reduction strategy (PRS) *Strategi Pengentasan Kemiskinan*. The strategy outlines various poverty-target programs. It is part of the *Rencana Pembangunan Jangka Menengah* and is a government strategy and action plan that aims to attain the goals and objectives of poverty reduction over the 5-year period 2004–2009.

The strategy acknowledges poverty as a multidimensional problem. It is not just a problem of inadequate income but also embraces the deprivation of human dignity encompassing a lack of voice, power, and choices. It is characterized by poor health; lack of basic education and skills; insecurity; inadequate access to land and other assets; and vulnerability to economic shocks, natural disasters, social conflicts, and other risks. To address the multidimensional nature of poverty, the policies and programs outlined in the national PRS use a rights-based approach, defining poverty as the nonfulfillment of certain basic rights. The rights-based approach also emphasizes the state's responsibility (executive and legislative branches at all levels, and other state institutions, including the army and the police) to strive for the progressive realization of basic rights of the poor. It provides a framework for the prioritization of limited resources, at the same time making the fulfillment of these basic rights the Government's overriding priority.<sup>11</sup>

The national poverty reduction strategy provides a clear framework for the Government, the private sector, the general public, and other stakeholders to build a national movement for poverty reduction. The strategy's aim is to strengthen the commitment of all stakeholders to address the underlying causes of poverty, to build a consensus to support the rights-based approach, and to strengthen Indonesia's commitment to meet the Millennium Development Goals.

## **National Regional Development and Decentralization Policies**

The central Government still plays a major role in monitoring and evaluating the decentralization process. A significant problem that has emerged recently is the increased number of district and provincial units to be monitored since decentralization. Provincial government units have risen from 26 prior to decentralization to 33, and the number of district/municipal governments, from 290 in 2000 to 440.

Unbalanced urban development poses serious problems in a vast country with a diverse population like Indonesia. It is widely understood that an urban

primacy—with Jabodetabek region as a dominant urban center—emerged as the result of a heavily centralized governance system in the decades prior to the introduction of the decentralization laws. The current decentralized system of governance has, therefore, been expected to spread development more widely around the sprawling archipelago. The process will certainly be long and gradual. Cities in provinces with rich natural resources, such as East Kalimantan, South Sumatra, and Riau, have been relatively quick in seizing the opportunity provided by the decentralization laws, giving them many more financial resources (especially from revenue-sharing of natural resources utilization) than ever in the past. Other cities have to rely on whatever resources or advantages they have—relatively good infrastructure, a better-educated population, or others—to support their development and improve the welfare of their people. But many cities (and kabupaten) greatly need external support to cope with the various challenges, at least in the beginning of decentralization. Fiscal transfers alone—discussed below—cannot be expected to help reduce uneven urban development.

It is with such a background that a national urban development strategy is needed in addition to the decentralization laws. Indonesia initially issued the National Urban Development Strategy (NUDS) in 1985, which was then followed by the implementation of the Integrated Urban Infrastructure Development Strategy as a means to help stimulate planned and nationwide urban development through integrated infrastructure improvement. However, it became apparent that these national policies, strategies, and programs alone could not cope with the rapidity and dynamics of urbanization. Ownership of such efforts needs to be actively shared with appropriate local governments. It is, therefore, plausible to expect that decentralization will help increase awareness among local governments of the need for better urban strategies.

However, decentralization also has its own challenge with regard to developing a more coherent urban strategy. In their “euphoria” for having more powers of their own, many city governments have found it difficult to work in cooperation with their neighboring local governments. The capital city of Jakarta, for example, has been facing the challenging issue of finding suitable places to serve as the final dumping ground for its solid waste. In this regard, what Kabupaten Sleman has done with the “Kartamantul” joint secretariat (to be described later in this chapter) can be seen as a good example of intergovernmental cooperation in the decentralization era.

Since NUDS was formulated long before the introduction of the decentralization policy, it has been seen as pertinent to have a new and more contemporary one. Efforts have been made in that direction, the most recent being the introduction of the Ministerial Decree of Public Works<sup>12</sup> No. 494/PRT/M/2005 on the Policy and Strategy for National Urban Development

(KSNPP – *Kebijakan dan Strategy Nasional Pengembangan Perkotaan*), which, among other things, puts forward the following three main policies and their corresponding strategies:

**Policy 1:** To clarify and strengthen the roles and functions of cities in national development, for which the following strategies are recommended: (i) development of national urban infrastructure and facilities to support national, regional, and local economic development; (ii) development of cities as centers for urban services as well as collection and distribution of goods within the related regions; (iii) support for cities with significant national or international roles; (iv) support for cities with special characteristics (such as fast-growing cities, cities near international borders, cities within special international cooperation regions, and underdeveloped cities); and (v) formulation of the necessary guidelines for city governments.

**Policy 2:** To develop livable, prosperous, culturally rich and socially just settlements, for which the following strategies are proposed: (i) development of basic urban infrastructure that is socially just; (ii) development of livable and affordable housing and settlements; (iii) improvement in financing mechanisms and provision of land for participatory housing development; (iv) development of globally competitive urban economies; and (v) creation of socially and culturally conducive urban living.

**Policy 3:** To strengthen the institutional capacity and human resources in urban management, for which the following strategies have been suggested: (i) human resource and institutional capacity building at the national, provincial, and local levels; (ii) improvement in the mechanisms to involve stakeholders; and (iii) creation of an urban information system at the national, provincial, and local levels.

The ministerial decree also outlines the vision of national urban development: “the creation of urban areas that are safe, livable, socially just, prosperous, culturally rich, productive, and progressive in sustainable ways through participatory, responsive, transparent, and accountable processes that involve all stakeholders.”

To further bolster the central Government’s role in managing urban development, the Directorate General of Spatial Planning of the Ministry of Public Works recently announced the creation of technical implementation units (UPT – *Unit Pelaksana Teknis*) in all provinces—except Jakarta—to assist local governments closely in dealing with spatial planning and land-use management (including development control and law enforcement). To provide a stronger legal basis for land-use management, the central Government

is working on a draft law on spatial planning. This law is expected to be passed by Parliament before the end of 2006.

As for the decentralization policy, as mentioned earlier, Law 22/1999 on Local Governance was amended by Law 32/2004. While the basic concept of transferring a wide-range set of government functions to provincial as well as local governments remains intact, the latter law was deemed necessary to clarify the earlier law, especially on the roles of provinces (which principally perform dual roles: the “deconcentration” function as the representatives of the central Government in their particular regions and the decentralized function as autonomous regions), and specific responsibilities of the local governments.

The new decentralization law also attempts to rectify what were seen as fallacies, such as the statement of nonhierarchical relationship between provinces and districts, which was thought to be an obstacle to necessary regional cooperation. The new law was also intended to correspond better with the democratization process. For example, while Law 22/1999 still stated that district heads (mayors and *bupatis*—the heads of *kabupaten*) were elected by their respective local councils, the new Law 32/2004 dictates that the heads of districts are to be directly elected by the citizens.

By devolving almost all government functions, except those related to national defense and security, foreign affairs, the judicial system, fiscal and monetary affairs, macroeconomic planning, standardization, and a few others, it is expected that the development processes will be much closer to the people and their aspirations will be better heard by the decision makers. In some districts, decentralization goes even further than required under Law 32/2004 by transferring some of the Government’s functions from the district to the lower levels of governments (*kecamatan*, *kelurahan* or villages) along with block grants to enable the transfer of functions to proceed effectively.

With regard to the relationship between urbanization and decentralization, it is important to note that both Law 32/2004 on Local Governance and the accompanying Law 33/2004 on Fiscal Balance between National and Local Governments do not differentiate between districts with an administrative status of *kota* (cities) and those of *kabupaten*. There has not yet been any in-depth study on the impact of such an approach, but it is widely understood that urban areas (both in the cities as well as in *kabupaten*) demand more infrastructure and services as a consequence of population concentration and corresponding socioeconomic and other characteristics.

The rapid growth in the number of district and provincial government units mentioned previously, which occurred in just 4 years, has caused problems in their financing, monitoring, and evaluation. It has led to reduced per capita allocation of national grants and transfers to established local gov-

ernments. Larger urban governments have been affected most. The national shortage of public sector administrative skills is affecting the performance of local governments, especially in remote urban centers in eastern Indonesia. These remote urban centers have weak health, education, and community facilities, making it extremely difficult to attract professionals away from larger urban centers. This is a significant challenge in endeavoring to improve the efficiency and effectiveness of local government.

### **Regional Economic Governance and Intergovernmental Financial Relations**

As stated earlier, Law 25/1999 on Fiscal Balance between the National and Local Governments was amended by Law 33/2004. This amendment essentially conforms to the amendment of the decentralization law. In general, it is intended to provide the financial resources for local governments to undertake their new responsibilities. Under the fiscal decentralization law, local government revenue consists of fiscal transfer from central Government to local governments, local governments' own revenue, and other revenues. The main mode of fiscal transfer is known as the General Allocation Fund (DAU – *Dana Alokasi Umum*), which comes from the national Government budget, amounting to at least 25% of the central Government's revenue after tax and distributed as block grants to all provincial and local governments according to a transparent formula. Another and much smaller mode of fiscal transfer is Special Purpose Transfers (DAK – *Dana Alokasi Khusus*), which also comes from the national Government budget for its predetermined purposes (such as for environmental protection). In addition to these two modes of fiscal transfer, local governments also receive revenue sharing of taxes (property taxes, property transfer taxes, income taxes) and revenues from the utilization of natural resources (forestry, general mining, fisheries, and oil and gas, including geothermal energy).

Local governments' own revenue consists of local taxes, local charges, profits from local government-owned enterprises, and other sources (such as sales of assets, bank interest, and grants). In their efforts to enhance their own revenues, many local governments introduced new local taxes during decentralization. However, the business community has tended to see such taxes as economic disincentives, jeopardizing longer-term, local economic development. In response, the central Government has attempted to regulate local taxes. Local governments can also borrow money from the central Government, other local governments, banks, nonbank financial institutions, and the general population (through local government bonds) to support their budget, but this is subject to central Government regulations and limitations.

Some studies (World Bank 2003) have indicated that with all these fiscal transfers and arrangements, local governments still find it difficult to carry out their new as well as old responsibilities, especially to provide basic services and infrastructure to their citizens. Much of the block grants is spent for routine expenditure, including government operational costs, building maintenance, and salaries of civil servants. The number of civil servants has increased because of the transfer of school teachers and medical doctors previously funded by central Government. City governments have been facing much greater challenges than their counterparts in less urbanized kabupaten due to: (i) higher demand for urban services and infrastructure as the results of rapid urbanization; and (ii) the need to encourage increasingly competitive industrialization and information economies.

Local governments are not allowed to borrow money directly from foreign sources except through a “two-step mechanism,” in which they borrow from the central Government, which borrows from foreign sources. The local governments bear all costs, including cost of foreign exchange risk, a condition that deters most local governments (except for those few considered credit worthy). All of the above exemplifies the challenges facing local governments, especially city governments, in Indonesia in their efforts to develop their economies in more sustainable ways.

## **Infrastructure**

The lack of infrastructure, especially roads, has hampered efforts to develop and diversify local economies and attract new private and foreign investments to regions outside Java. The central Government’s approach to the development of infrastructure divides Indonesia into three zones: the developed regions of Java, located in the western part of Indonesia; the developing regions (e.g., Sumatra, Sulawesi, and Bali); and the newly developing regions (e.g., Papua) in the eastern part of the country. The difference between the three zones is that the developing regions are seen by the development sector to have low investment attractiveness due to the geography, the narrowness of the resource base, ethnic problems, logistics, and high servicing costs. These are significant barriers to regional development that must be overcome if the current disparities in investment, poverty, and income are to be reduced.

Indonesia has one of the lowest investment levels in infrastructure as a proportion of GDP, especially that of private participation in infrastructure development (Infrastructure Summit 2005). Since the early 1990s, expenditure on infrastructure as a proportion of GDP has continued to decline. Infrastructure investment in 1993–1994 was 5.3% of GDP. By 2001, it had fallen to 2.3%, but has subsequently risen to about 3% of GDP.

In all sectors there are significant infrastructure deficiencies. Only 39% of urban areas are serviced by reticulated water supplies; road density levels are 1.6 km per 1,000 people; electricity consumption is just 319 kilowatt-hours (kWh) per capita, with 45% of households not connected to electricity; only 3% of urban areas are served with fixed-line telephones, with only 27 lines per 1,000 people (Coordinating Minister of Economic Affairs 2005). It is not only the lack of services that is a problem; the quality of services is poor, maintenance is minimal, there is a lack of equity and transparency in tariff policies, there is a biased and inconsistent regulatory framework, and there is limited infrastructure-funding capacity.

The Asian financial crisis slowed down the construction of infrastructure and had a serious impact on the country's economic development. At the beginning of the crisis in mid-1997, many infrastructure projects were postponed or scaled back under a presidential decree *Keputusan Presiden* 39/1997. In an attempt to address the rapid decline in infrastructure investment, the Government issued regulations, such as *Keputusan Presiden*<sup>13</sup> 7/1998 and *Keputusan Presiden* 81/2001, in an attempt to accelerate the development of new infrastructure projects, albeit with limited success. Demand for infrastructure still far outpaces the ability of the public and private sectors to meet supply.

There are also significant problems with asset management and valuation. Many city governments have no idea of the value of private or public sector assets under their jurisdiction. Under decentralization, over 20 thousand public facilities have been transferred from the central to the regional government. The inventory and valuation records for these assets are poor. Subsequently, most cities own a large pool of public assets, or dead capital (De Soto 2000), that are generating limited or no returns. These are assets that are not taxed or used for public and private sector investment and revenue generation. Many regional governments find themselves in the position of being asset-rich and cash-poor. They need capacity building to manage their assets better and to reduce the dependency on debt financing, especially to fund salaries.

Several organizations are involved in overseeing improved management and financing of infrastructure. Public Private Infrastructure Advisory Facilities<sup>14</sup> is a World Bank agency that assists local governments improve their ability to involve and partner with formal, small-scale, water providers in urban areas. This activity aims to establish a quantitative and qualitative framework to assess the financial, technical, and organizational performance of regional water utilities in Indonesia on urban water service delivery. There is also the *Komite Kebijakan Percepatan Pembangunan Infrastruktur* (KKPPI – Committee on Policies for the Acceleration of Infrastructure Development), an interdepartmental agency established through *Keputusan Presiden* 81/2001, with the aim to foster, synchronize, and oversee infrastructure development in the country.

## **The Role of International Aid in Supporting Regional Development**

Understanding that successful decentralization is crucial for Indonesia, many international agencies and their Indonesian Government counterparts have, since 2001, undertaken supporting programs to enhance local governments' performance, in the following areas: (i) role and functions of local councils, (ii) supervisory mechanism between levels of government, (iii) public service delivery at the local level, (iv) local development planning, (v) local public finance, (vi) local economic development and employment promotion policies, (vii) local government organizational development, (viii) human resources development, (ix) interregional cooperation, and (x) other types of support.<sup>15</sup> Some projects involve activities covering more than one category.

The partners in these international aid-supported capacity-building projects are not limited to local/city governments, but also provincial governments and even the national departments/agencies (which can be in the form of capacity building for national government officials to perform their new roles in the decentralized government system, or in the form of a nationwide project to support local governments or communities carried out by national government departments/agencies). Some programs/projects involve direct assistance to urban poor communities, such as in the World Bank's Urban Poverty Program, the Asian Development Bank's Neighborhood Upgrading and Shelter Sector Project, and UN HABITAT's Slum Upgrading Facility.

The types of international support include technical assistance, program loans (involving financing for specific local support programs), and investment loans (involving financing for specific local infrastructure or other development projects). Large projects, such as ADB's Community Empowerment and Local Government Support Project and the World Bank's Urban Sector Development Reform Project and Initiatives for Local Government Reform, involve loans and additional technical assistance. This involves providing support to local government reform prior to, during, and after their commitment to loans in the areas of participation, transparency, accountability, sustainability, and other principles of good governance—which are seen as measures to improve the effectiveness of the loans.

ADB's Sustainable Capacity Building for Decentralization can be seen as an innovative and comprehensive approach to support the improvement of local capacity. It provides more local-based capacity building, including local-based training providers than was the case in the top-down design of many previous local capacity-building programs implemented by national and international training institutions. The activities are no longer limited to conducting conventional training or dispatching traditional in-house experts



(to work out the reform from within the local government agencies and on some occasions perform “gap-filling” work), but involve various other capacity-building exercises.

An inventory study of initiatives for strengthening local government capacity in Indonesia indicates that the majority of the capacity-building assistance is still concentrated in provinces with large populations on Java and Sumatra, which in absolute terms have a larger number of poor people than do the other islands. However, there are capacity-building programs in the islands of Kalimantan, Sulawesi, Bali, Nusa Tenggara, Maluku, and Papua. In fact, there are programs specifically for one or more of these regions, such as the German Agency for Technical Cooperation (GTZ) recently concluded Promis-NT, which focused on community-based poverty reduction in the Nusa Tenggara islands.

## **GOOD PRACTICE CASE STUDIES**

Clearly, there is considerable need for local capacity building in order for local governments and other stakeholders to carry out their new responsibilities. While arguing that local governments and other local stakeholders need capacity building to make decentralization successful, the central Government also needs further structural reforms to make decentralization successful. Such reforms may not be in the form of “conventional capacity building”—central government officials and organizations now tend to have “overcapacity”—but more in the form of streamlining the organizations and developing better understanding and skills for their new roles as a consequence of the transfer of many obligatory functions to local governments.

Despite these problems, a number of good practices in local development offer the promise for a more sustainable development in Indonesia than provided under the centralized system. The following sections summarize case studies on the island-city of Tarakan in East Kalimantan Province, the regency of Sleman in the Special Region of Yogyakarta, and the Regency of Jembrana in Bali Province.

The three cases were selected from a number of examples of good local development practices in Indonesia after decentralization. Others include the city of Blitar in East Java Province (especially in its community economic empowerment policy), the city of Medan in North Sumatra Province (and its acknowledgement of the importance of the informal economy), the city of Mataram in Lombok Province (and its participatory development planning and budgeting), the city of Balikpapan in East Kalimantan Province (and its comprehensive local poverty reduction efforts), and the Kabupaten of Kebumen

Figure 7.2: Map Showing Location of the Case Studies



in Central Java (and its transparency and participation in local governance). The three selected cases stood out because the innovations in the three districts are not limited to one or two particular sectors or parts of the district, but balanced across sectors—a factor considered to be a prerequisite for sustainable local development.

Note that only one of the three cases bears an administrative status of a city (Tarakan), while the other two are kabupaten. However, Sleman is very urbanized because it provides space to most of the overspill from adjacent Yogyakarta, the special region's capital. The kabupaten of Jembrana, with the town of Negara as its administration center, is on a major regional road connecting Bali and Java islands. As stated earlier, rural-to-urban land-use conversion is particularly common along main roads connecting major urban centers.

### Balanced Development in Tarakan, East Kalimantan

Tarakan is a 251-km<sup>2</sup> island-city in East Kalimantan with a population in 2004 of 155,000 people. Traditionally, Tarakan has been a trading center and a stop-over or transit place for travelers in the East Kalimantan–Sulawesi–Sabah area.<sup>16</sup> During the Dutch occupation, Tarakan was one of the oil exploration centers, attracting many people to live there.

However, the oil sector now only contributes around 6% (\$7.7 million<sup>17</sup>) of the total annual Tarakan economy (around \$120 million) (Panolih 2003, p. 458).

Nevertheless, the city maintains its role as a trading center for fishery and forest products and domestic goods. While Tarakan can be considered rich compared to the average district in Indonesia, its economy is the smallest among districts in resource-rich East Kalimantan Province.

After Law No. 22/1999 took effect in 2001, and under the strong leadership of Mayor Yusuf Serang Kasim (first elected in 1999 then reelected in 2004), Tarakan has undergone significant changes, especially in the areas of good governance, urban management, financing, and cost recovery as well as environmental sustainability. The innovations and changes have led to a development approach in which economic growth is balanced with environmental protection and social development.

Prior to the introduction of various initiatives, Tarakan was faced with

- A rapid population growth at 7.19% annually from 1999–2004, largely as the result of in-migration from other areas;

GOOD PRACTICE	
Good Governance	✓
Urban Management	✓
Infrastructure/Service Provision	✓
Financing and Cost Recovery	✓
Sustainability	✓
Innovation and Change	✓
Leveraging ODA	

- threats to the environment from rapid population and economic growth, in particular the chronic problems of flooding and landslides;
- problems with energy supply, with the monopolistic state power company failing to provide an adequate supply of electricity, thereby discouraging potential investors;
- lack of infrastructure and facilities in general; and
- lack of local government financial reserves, especially to anticipate unprecedented expenses, such as unexpected natural disasters.

In general, Tarakan's administrative status as a town under a kabupaten in East Kalimantan prior to decentralization provides a partial explanation for the "backwardness" in its physical development and in the development of its human resources amid the rapid growth of its economy and population. This overall situation was the background against which Mayor Yusuf had to make the best out of Law 22/1999 and 25/1999 by launching various local initiatives.

To guide the development of the newly autonomous island-city, Mayor Yusuf outlined five main missions: (i) provide good public services, (ii) create a more conducive environment for Tarakan to become a regional trading center, (iii) improve people's welfare on the basis of fairness and justice, (iv) develop a healthy and sustainable city, and (v) cultivate a "civilized" or "cultured" local society. In addition, the new local administration also established the so-called "three pillars" of Tarakan development: (i) human resource development, (ii) rule of law and law enforcement, and (iii) economic development in the broadest sense (not only economic growth but also the development of its people's welfare (Kasim 2005). The island city-state of Singapore was considered by the mayor as an appropriate model and source of inspiration for Tarakan. Interviews with the mayor revealed that Singapore provided inspiration not only because it is similarly an island-city but also because it has been able to provide good services to the people, and educate its citizens on how to live in a densely populated urban environment as well as create a livable and green urban environment. All these references were made with a full understanding that Tarakan is much smaller than Singapore in most respects.

In its drive for development, Tarakan also applied Law No. 23/1997 on Environmental Conservation and Management, which calls for integrated efforts to manage and conserve the environment through development involving all stakeholders (Kasim 2005). For this reason, the local government and the local people have rejected an investment proposal to exploit coal in the island despite potentially generating annually around \$1.2 million to the local government, on the basis that such exploitation could damage the

environment. The city is eager to invite private investors as long as the investment projects do not harm the environment.

### ***Conservation of the Environment***

Besides making environmental considerations a part of every major decision-making process, Tarakan has also achieved something more visible in terms of protecting the natural environment. Adjacent to the island's ever-expanding commercial center, in which new stores, hotels, and offices constructed in the last few years are an indication of economic vitality, there is a natural mangrove forest that is set to remain untouched by economic growth. When the idea of protecting the mangrove forest first surfaced in Tarakan's early years as an autonomous administration unit, a large proportion of the mangrove forest had already gone to provide space for the physical development of the city. It was almost too late, but the decision saved the remainder of the mangrove forest.

It is remarkable for many visitors to the island city to see a relatively dense mangrove forest, which is the habitat for a number of Kalimantan's endangered proboscis monkeys (*Nasalis larvatus*), and which also provides a breeding place for marine life and birds. To increase the people's awareness of the great value of their natural environment, the Tarakan government constructed a limited number of boardwalks for local residents and visitors to enable them to walk through the forest. The number of entrants to the reserve is limited at any given time in order not to disturb the local forest habitat.

The protection of a mangrove forest is only a small part of the city's efforts to look after the environment while, at the same time, promoting economic development. The city's Local Agenda 21 clearly shows Tarakan's strategy toward sustainable local development. Also, the city has attempted to maintain the island's biodiversity, especially by identifying, protecting, and, where possible, cultivating endangered plant species. The city administration is determined to increase the amount of forested land on the island by at least 150%, and to increase the people's awareness on the importance of environmental protection, especially the younger generation, through information dissemination in public schools and other venues. The city also passed a local regulation banning the trade of mangrove wood and other protected species.

### ***Development of Human and Social Capital***

Serious attention to human resource development is also apparent. While most resource-rich districts in East Kalimantan Province spend their newly and substantially enlarged budgets on lavish government buildings and facilities as

well as other (often extravagant) physical projects, Tarakan has instead spent its modestly enlarged budget on improvements in education and health facilities. The mayor continues to work in an unassuming office and lives in a modest official residence, at least by resource-rich East Kalimantan standards.

The local government of Tarakan has not only improved the physical facilities of public schools (elementary, middle, and high schools) and built a campus for a local university—which includes a seven-story library and education information center—but has also attempted to improve the welfare and caliber of the teachers as well as the quality of the curriculum. The local university invites education experts not only from Jakarta and other centers of education in the country but also from Malaysia, Philippines, and the United States (Santosa 2003). It has already introduced full-day schools while most Indonesian schools only have half-day teaching sessions. An incidental consequence of this is the provision of healthy lunches for the students. It has also introduced more experimental or active learning exercises for students in an Indonesian education system that is still dominated by conventional methods of teaching, where teachers speak and students listen or take notes. Relatively more classes are taught in English to equip Tarakan's younger generation to face an increasingly globalized world. Overall, the city administration now allocates approximately 30% of its annual budget to education.

Interviews with the mayor also suggest that the city administration is fully aware that education is not limited to classrooms, schools, or campuses. The city also pays serious attention to improving public facilities, such as community centers, public parks, and sport centers. While local sport clubs are admittedly still playing in lower divisions of a few sport leagues in the country, the city administration proudly offers facilities that meet international standards. Moreover, the mayor believes that community centers, public parks, and sports facilities—still a rarity in the Indonesian urban landscape in general—are a good investment for strengthening social and communal bonds among the citizens. Strong social capital is indeed one of the bases for sustainable development.

These serious considerations of environmental as well as social aspects of local development top the administration's continued efforts to develop the local economy and improve its people's welfare. Investment procedures have been eased, as long as new investments do not create significant negative environmental impacts. Traditional economic facilities, such as public markets, fishports and harbors, and local roads are continually being improved. Regular visitors to the island can see rapid economic growth through the physical changes taking place with the addition of new hotels, stores, and shopping centers.

## **Institutional Reform**

The city administration is also attempting to address the issue of energy. It believes the lack of energy supply in the city is not only due to bad management and inadequate technology used by the national energy company, but also because of shifts in people's attitude to consumption, which tends to be wasteful because energy is relatively cheap. The local government has issued a policy to increase local electricity basic rates and endeavor to change people's attitudes about the consumption of energy. The additional income gained from these pricing measures is used to improve the energy supply on the island so that economic development is not hindered through shortages.

## ***Managed Migration***

The progress made in Tarakan has attracted migrants to work and live there. As a part of a unified country, Tarakan certainly cannot stop such a population flow. To control the in-migration and mitigate its negative impact, the city administration has introduced tough population regulations, requiring new settlers to have permanent jobs within 6 months of their arrival or be asked to return home using the cash deposit required of new entrants who request residential permits. Similarly, strict law enforcement is also applied to maintain the cleanliness and orderliness of the city. In initiating and implementing this population management approach, Tarakan learned from a similar approach by the city of Balikpapan—an example that shows that such a transfer of experience, knowledge, and expertise does occur among autonomous local governments.

## ***Innovation and Change***

Importantly, the innovative changes in Tarakan are mostly initiated locally, with the mayor taking a dominant role and with minimum external support from the central Government or aid donor agencies. In personal conversations, the mayor acknowledged that external support might be needed to further foster the progress that has been made mostly through internal resources. The seven-story library and education information center in the new campus of Borneo University, for example, urgently needs to be filled with current books and other sources of knowledge, for which the local government needs support. However, the mayor also believes in being self-sufficient as much as possible. To strengthen the long-term financial capacity of Takaran, the local government has, since 2001, set aside approximately 10% of its budget for future reserves, which also functions as an emergency budget.

The brief description of developments in Tarakan above provides some evidence that the decentralization policy has created many opportunities for local governments to improve their services to the people, while also making local development more balanced. However, in the case of Tarakan (as well as in the following two cases), there is clearly a very strong dependency on strong, local one-person leadership. From a sustainability viewpoint, this dependency on one-person leadership certainly cannot be seen as sustainable. Yet, learning from the history of development worldwide, there is often a need for such a strong leadership in the early stages of development. If a charismatic leader is able to nurture future leaders, then progress can be continued.

### **Managing Rapid Urbanization in Sleman, the Special Region of Yogyakarta<sup>18</sup>**

Sleman Regency abuts Yogyakarta in southern Java. It has an area of about 575 km<sup>2</sup> with a total population in 2003 of 850,000 people. Some parts of the local government area have become urbanized as a result of the rapid expansion of Yogyakarta urban region. The agriculture sector still contributes approximately 19% to the district's total economy (Giannie 2003).

GOOD PRACTICE	
Good Governance	✓
Urban Management	✓
Infrastructure/Service Provision	✓
Financing and Cost Recovery	✓
Sustainability	✓
Innovation and Change	✓
Leveraging ODA	✓

Sleman is acknowledged as having one of the most progressive local governments in Indonesia. It has achieved a number of awards in recognition of its focus on achieving excellence in good governance, economic development, and financial management. Several urban development good practices were adopted by the local government that have significantly contributed to sustainability, as discussed in the following sections.

#### ***Center of Learning***

Sleman is unique, in that it not only houses one of the largest and finest universities in Indonesia—Gajah Mada University—but also is the home of no less than 35 other large and small universities. This makes Sleman, rather than Yogyakarta, more deserving of the title of Indonesia's "City of Education." Sleman has become an education cluster that has enabled it to develop a degree of competitiveness and specialization in knowledge and learning not found elsewhere in Indonesia.



The university campuses and their activities naturally attract economic development through multiplier effects—private dormitories or rented rooms for students, restaurants, photocopy service centers, bookstores, and various other retail outlets and facilities. Four subdistricts within the regency directly adjacent to Yogyakarta are already fully urbanized, predominantly but not exclusively with education-related facilities (Giannie 2003). The educational level of Sleman residents can be assumed to be relatively high compared to those in the average district in the country. This certainly poses another challenge for the regency government, as the citizens tend to be more rationally critical. This has provided an impetus for various good governance measures to be introduced.

### **Good Governance**

Sleman is acknowledged in Indonesia as a leader in good governance. The district has adopted good practice administrative procedures under its *bupati* (mayor) for the past 5 years. The Government, assisted by the USAID's performance-based budgeting training program, has adopted asset- and accrual-based accounting and valued the entire region's public assets. The asset appraisal process took some time to complete because the location of many utility services was not known, the result of poor plan record keeping. In 2003, it took the initiative to prepare and present publicly an annual financial report. An independent professional audit of this report was conducted to ensure that it complied with national accountancy standards. The audited financial report is considered a very important instrument in the operation of corporate governance. The report meets a number of objectives as follows:

- a manifestation of public accountability and transparency – of how far the Regent and the local government have carried out their respective authorities;
- an internal performance evaluation – to determine how well the government institutions of Sleman have implemented policies based on the regency's political documents and regulations issued by the higher governments;
- an analytical instrument – enabling other parties outside the local government to participate in local economics and investment considerations;
- a managerial controlling instrument – to determine the level of achievement of the central management in implementing the local political decisions and operational policies; and

- a regional planning instrument – that considers all aspects of strengths, weaknesses, threats, and opportunities.

These five aspects are contained in Sleman's financial report that comprises the regency's balance sheet report on the regency's revenues and expenditures, report on the regency's cash flow, and other related explanations.

Sleman became the first district in the country to report the summary of its annual budget and its implementation publicly through local newspapers. Although the same practices have been implemented by some other district governments, many other local governments are still content to report only to the local councils. Council finances are reported by journalists in newspapers, but the balance sheets are not reported. Sleman and a few other districts are pioneering transparency, which is demanded by a local population that is increasingly better informed and educated about matters of local government. Such a climate not only elicits a positive reception from the population but has also been seen as improving the environment for private investment. In various appraisals of investment opportunities among districts in Indonesia by independent bodies, Sleman has always performed well, although it is not necessarily the highest on the list.

### ***Urban Management***

Urban problems have become apparent for the kabupaten administration. Because most urban problems, such as transportation, waste, drainage, and water supply, are shared with two other districts, the city of Yogyakarta and the Regency of Bantul, Sleman has taken a leadership role in developing stronger and more institutionalized cooperation with the two districts to cope with inter-district urban problems. The three districts have established a joint secretariat "Kartamantul" (from the names Yogyakarta, Sleman, and Bantul), which has successfully dealt with the problems of solid waste collection and processing, wastewater management, public transportation management, and many other issues. While it was somewhat dormant in the years prior to decentralization, this entirely local initiative now provides the local governments with greater opportunity to deal with their own problems. More recently, it has obtained external support from development partners, in particular the GTZ Urban Quality program.

The above activities show that Sleman approaches sustainable local development through two main strategies: externally through leadership in cooperation with adjacent districts to solve common problems, and internally by implementing principles of good governance, such as transparency, participation, efficiency, and effectiveness.

The district has undertaken extensive mapping of social, environmental, and economic resources under a project known as AAA. This project has involved assistance from the Swiss Government to establish a geographic information system, linked to cadastral maps prepared for the region. The district has used the maps to analyze complex information and undertake detailed planning, monitoring, and evaluation of environmental impacts resulting from development. It has also shared information and has collaborated on projects with other districts in the province.

### ***Investment in Strategic Infrastructure***

Sleman has invested in building infrastructure and facilities, such as the Kebonagung-Kaliprogo bridge, roads, a sports and recreation center with road access, regional government office building, modeling school, Tambakboyo dam for water conservation and recreation, and Gamping market, and relocating the informal sector (*Pedagang Kaki Lima/PKL*) center. These investments have been important in developing a clean and efficient physical environment.

Sleman has been able to build unique strategic infrastructure to give it a competitive advantage over other regions in Indonesia in tourism, education, and specialized food industries. The large number of education establishments in the municipality has led to an informal industry cluster that the district is seeking to develop by encouraging international universities to establish campuses in the district. There is a growing synergy emerging between businesses, leading to an increased interest in development, innovation, and new small business activities. The extension of these networks into wider regional and global networks is considered important to the long-term development of the economy.

The district has invested extensively in the education of staff and government agencies, which have developed a high level of competency and expertise in addressing a wide range of development problems. The district has also focused on developing international linkages to identify opportunities for leveraging resources and cost-sharing arrangements. It has developed a high level of community consultation, which commands trust and respect from the community.

### **Community Improvement Program, Jembrana, Bali**

With an annual budget of about \$1.1 million (2004), Jembrana is the poorest regency in the Bali Province. Covering a land area of approximately 84,180 km<sup>2</sup>, the regency had a population in 2003 of 222,000 people. It remains rural in nature although it is located along the main road connecting Bali's capital

city of Denpasar and the harbor city of Gilimanuk, which functions as the island's gateway to the adjacent island of Java. Some urban activities exist along the main road, but are not very notable except in and around the town of Negara, the district's capital. While the kabupaten has beautiful beaches and other potential tourism features, tourism has not played a significant role in the lives of its people, unlike in the other parts of Bali.

GOOD PRACTICE	
Good Governance	✓
Urban Management	
Infrastructure/Service Provision	
Financing and Cost Recovery	✓
Sustainability	✓
Innovation and Change	✓
Leveraging ODA	

### **Strategic Planning**

The district administration sees the main issue as not only improving agricultural production, but more fundamentally eradicating poverty and developing local human resources. In 2001, the proportion of poor people was 19.4%, but it is widely believed that many people live only slightly above the poverty line, making them vulnerable to economic upheavals. Human resource development in Jembrana has been hindered by poor education and health facilities. In such circumstances, it is difficult to develop the local economy in sustainable ways. This situation has molded the strategy taken by the district's administration under the leadership of I Gede Winasa (2000–2005 and 2005–2010) as the *bupati* (regent).<sup>19</sup> Regent Winasa applies a business management approach to the problems that he and his staff face, especially by introducing efficiency and effectiveness in the government and related works (Winasa 2005).

### **Urban Management**

With a limited budget, ways had to be found to finance poverty eradication and human resource development. The local government structure has been streamlined by merging some local agencies (*dinas*). The use of government assets has been evaluated to take full advantage of them. A “one-roof” government service has been introduced to modernize the bureaucracy for various civil undertakings and economic investment and to create some savings in the government budget.

### **Learning Community**

The drive for efficiency also includes rationalization in the number of public schools. Some public schools had few students, making them inefficient, while at the same time giving the students poor quality education. Closing

down some of these schools and transferring the students to nearby schools has reduced the operating budget for schools. This created an opportunity for improvement in the remaining schools, including increasing teachers' salaries as well as teaching quality. The kabupaten has initiated a pilot project of full-day "special schools," which are aimed at introducing more active learning without lessening traditional student discipline; two such schools have been established in Jembrana.

As poor as the regency is, Jembrana has provided free education for students in public schools. It also provides scholarships for students from low-income families to attend private schools. Free education and scholarships have increased school attendance in Jembrana quite significantly (Prasojo et al. 2004). Interestingly, the funding for such long-term investment also comes from the efficiency efforts within the local government budget. One indication that such a measure is effective is that in recent years Jembrana students have performed much better on the average than those from other districts in Bali Province in most recent national tests, even achieving best performances on occasion.

### **Health Audit**

In the health sector, efficiency has been improved by evaluating the various components of health cost. One innovation has been the reduction in the costs of drugs without reducing the quality of services. Instead, the savings from unnecessary drug expenses have been used for improving the quality of health services, including the provision of health insurance for all Jembrana citizens.

While the above education and health improvement measures are aimed at long-term development goals, measures to support the livelihood of the people on a short-term basis have also been taken. These measures include revolving funds for fishers and farmers through a community approach to ensure that the money indeed revolves. Community monitoring tends to be more effective than government monitoring because community groups are fully aware that if the money does not revolve, some members will not receive financing for their working capital. The Government then complements such tough measures with capacity building so that the borrowing farmers and fishers will not default on their credit.

## **KEY LESSONS LEARNED**

Indonesia has taken up the opportunity provided by the late 1990s crisis to build a more sustainable basis for development through democratization and

decentralization and, to some extent, privatization. The ensuing strengthening of local governments is crucial in view of the challenges posed by continuous urbanization. Indeed, democratization—including the implementation of good local governance—and decentralization could be seen as one of the prerequisites for successful urbanization.

The three local good practices outlined above, as well as a number of other local good practices that are not presented in this short chapter, provide the following lessons:

- By transferring authority and necessary resources to the city/local governments, decentralization has provided opportunities for city/local governments to pay much more thorough attention to problems faced at the local level than could any central government.
- The Tarakan case highlights the real possibility of balancing economic, social, and environmental considerations in development—something that has been frequently said but rarely consistently applied in many rapidly growing economies.
- The Sleman case demonstrates that intergovernment cooperation can work to benefit all parties involved and shows that implementation of good governance principles can have positive outcomes for local governments.
- The Jembrana case shares lessons of efficiency and effectiveness while, at the same time, illustrating that it is possible to combine short-term objectives with long-term goals, even by a poor local government.

In the three selected good practices—as well as in some other case not reported here—local leadership has been an imperative factor to success. However, to sustain good practice in the longer term, there should be a more concerted effort to reduce dependency on particular local leaders and to transform personalized leadership into a more systemic or institutional course of actions.

## **STRATEGIES TO ENHANCE SUSTAINABLE URBAN REGION DEVELOPMENT**

In the case of Tarakan and Jembrana, external support has been minimal; however, not all cities or districts are able to start reform initiatives on their own. Sleman received external support in the form of capacity-building programs, such as ADB's Sustainable Capacity Building for Decentralization, and technical assistance, such as that related to the WB's Urban Sec-

tor Development Reform Project and more especially GTZ's Urban Quality Support to the Kartamantul joint secretariat. External support is important in many cases to start up local initiatives for improvement. However, in such cases, external assistance needs to be designed based on local ownership and project sustainability.

Ownership of the initiatives has to be kept as local as possible (with local governments or communities). Many good projects in the past failed to be sustained because the ownership of the initiatives was too tightly attached to development partners or central government departments. Local political and popular support from local leadership and the community is crucial to the success of the initiatives.

Local contributions (financial or in-kind, including human resources) should be gradually increased during the projects or programs so that the activities can be sustained after external support ends. Even the poorest communities or cities can contribute something. Charity approaches only generate dependency. Similarly, the external support has to be flexible and adjust from time to time with the dynamics of the local conditions. Rigid project design from development partners or central government is a recipe for unsustainability.

## CONCLUSION

Indonesia has less than 5 years' experience in fostering regional development under decentralization. The progress on decentralization has been rapid, but there have been enormous problems that will take many years to solve. Coupled with the need for institutional reforms associated with decentralization is the high level of urbanization. Developing and managing land, housing, infrastructure, and community services for an expected 80 million people that will be added to the populations of Indonesian cities in the next 25 years will be a great challenge. The lack of institutional capacity and resistance to change, shortage of skills in local government agencies, and deficiencies in the decentralization laws are major factors contributing to the slowness in implementing many aspects of decentralization and improving the management of cities. These issues have been well documented by the Indonesian Government, development partners, and NGOs.

Few in Indonesia anticipated the difficulties that have been experienced with the implementation of the decentralization laws. The slow pace of change has caused disillusionment; however, the case studies presented here show that success stories are beginning to emerge. Enhancing the competitiveness of urban regions will be important to the development of a strong Indonesia,

but will take time, patience, and a concerted effort across all levels of government, and involve developing new modalities and systems to implement and finance urban development projects and programs.

Finally, it is apparent that there is an overwhelming need for a substantial program of capacity building for local government institutions in Indonesia. Unless this is done as a matter of priority, urban governance and management, investment attractiveness, and the competitiveness of Indonesian cities will fall behind those of many other Asian cities. The resources available for such a program are significant and beyond the capacity of the central Government to fund. All levels of government in Indonesia should, therefore, identify smart ways to unlock, develop, and leverage institutional and private capital and assets and maximize the multiplier effect of investments needed to strengthen the capacity of urban institutions and the business sector. This calls for institutional cultural change that will not occur overnight. Unless urban institutions are reformed, the ability of most Indonesian cities to support and attract development and investment will be very limited. The consequences will be a further widening of income disparities and the poverty gap.

## Notes

<sup>1</sup>The number of islands in Indonesia varies from one source to another; however, it is generally agreed that not more than half of them are inhabited.

<sup>2</sup>For most Indonesians, the national language, *Bahasa Indonesia*, is their second language after their own particular local language. The fact that Indonesia's founding fathers chose Indonesian as the national language instead of Javanese, which is spoken by more than 50% of Indonesians, has been seen as an advantage in the continuous and often-thorny attempt to unify this diverse nation.

<sup>3</sup>These transformations are not independent of each other (one does affect the other) but none of them is dependent on any other.

<sup>4</sup>The term "big bang" decentralization has been widely used to connote the radical transfer of wide-ranging government responsibilities from the national to local governments and appears in a number of reports and publications.

<sup>5</sup>However, it is important to note that if certain conditions are met, the private sector can contribute to providing decent housing for the urban poor.

<sup>6</sup>For further information about rural-to-urban migration as a consequence of regional unrest in the 1950s and 1960s, see Vickers (2005).

<sup>7</sup>There are districts that legally allow "contravention" of an existing spatial plan as long as the "violators" pay some kind of penalty. Such a local regulation has become a source of local income, while at the same time effectively making the local spatial plan useless.

<sup>8</sup>The sources for the population figures are *Profil Kabupaten dan Kota* (The Profiles of Kabupaten and Cities), Jakarta: Kompas, volumes 1, 2, 3, and 4.



The population growth figures are collected from BPS Statistik Indonesia 2001 (Jakarta), [www.prospektus.its.ac.id/sby.html](http://www.prospektus.its.ac.id/sby.html) (Surabaya), [www.kompas.com](http://www.kompas.com) December 6, 2004 (Bandung), [www.sumut.bps.go.id](http://www.sumut.bps.go.id) (Medan), [www.pilkada.parkai-golkar.or.id](http://www.pilkada.parkai-golkar.or.id) (Bekasi), BPS Palembang Dalam Angka (Palembang), [www.semarang.go.id/draft-rpjp.htm](http://www.semarang.go.id/draft-rpjp.htm) (Semarang), [www.kotatangerang.go.id](http://www.kotatangerang.go.id) (Tangerang), [www.depok.go.id](http://www.depok.go.id) (Depok), [www.makassar.go.id](http://www.makassar.go.id) (Makassar), [www.perhubungan.pemkot-malang.go.id](http://www.perhubungan.pemkot-malang.go.id) (Malang), and [www.kotabogor.go.id](http://www.kotabogor.go.id) (Bogor). All were accessed on 27 February 2006.

<sup>9</sup> McGee (1989), in which he adopted the Indonesian words of *desa* (village) and *kota* (city); when put together this term explains the phenomenon.

<sup>10</sup> Part of this case study used information from an internal report to ADB (2005) *Catalysts for Sustainable Urban and Regional Development in Southeast Asia: A Study of Best Practice Approaches*, Centre for Developing Cities, University of Canberra. [www.cities.canberra.edu.au](http://www.cities.canberra.edu.au)

<sup>11</sup> *Poverty Reduction Strategy*, by Sri Mulyani Indrawati.

<sup>12</sup> It is important to note that in Indonesia exist a number of national agencies dealing with the multidimensional issues of urban development. Most notable are the Ministry of Public Works (which is responsible for infrastructure development as well as spatial planning), Ministry of Home Affairs (which oversees urban governance matters), and National Planning Agency (Bappenas, which is in charge of development planning). However, in the decentralization era, there is no longer a formal linkage between Bappenas and the Bappedas (regional/local planning agencies) as there was in the past.

<sup>13</sup> *Keputusan Presiden 7/1998* is a presidential decree that relates to processes used for infrastructure development in Indonesia. Under this decree the Government sets regulations concerning cooperation between government and private sectors in the development and management of infrastructure. It also includes a mechanism for the implementation of infrastructure projects.

<sup>14</sup> See World Bank Public Private Infrastructure Advisory Facilities <http://wbln0018.worldbank.org/ppiaf/activity.nsf/0/a5f00937729cb84d85256c3600690d66>

<sup>15</sup> Adapted from the categories by the CIDA-Bappenas-Hicling mapping project as quoted in CLGI and URDI. 2004. *Initiatives for Strengthening Local Government Capacity*. Jakarta.

<sup>16</sup> The word *tarakan* in the local language, Tidung, literally means “a place to stay and eat,” especially for travelers.

<sup>17</sup> Assuming 1 US\$ = Rp. 9,500.

<sup>18</sup> Part of this case study used information from an internal report to ADB (2005), *Catalysts for Sustainable Urban and Regional Development in Southeast Asia: A Study of Best Practice Approaches*, Centre for Developing Cities, University of Canberra.

<sup>19</sup> I Gede Winasa of Jembrana and Jusuf Serang Kasim of Tarakan were originally medical doctors.