

# Good Governance and Provision of Affordable Housing in DKI Jakarta, Indonesia

CASE STUDY

Danang Widoyoko

Partnering to  
**COMBAT CORRUPTION**

*Series Editor: M. Sohail*



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A case study

Danang Widoyoko

Jakarta, Indonesia

2007



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## Glossary

BPS	Central Statistic Bureau
BTN	Bank Tabungan Negara
GBHN	<i>Garis Besar Haluan Negara</i> - Main Guidelines of State Operation
GCG	Good Corporate Governance
KPR	<i>Kredit Pemilikan Rumah</i> - House Ownership Credit
KSPP	<i>Kerja Sama Pembangunan dan Pemasaran</i> - Cooperation of Construction and Marketing
NJOP	Selling Value of Tax Object
PAD	Original Regional Revenue
REI	Regional Board of Indonesian Real Estate
RSS	Healthy Simple Houses
SMF	Secondary Mortgage Facility
SPPT PBB	Land building tax
YKPP	Foundation of Housing Welfare for Soldiers and Civil Servants of Ministry of Defence

# 1. Housing policy in Indonesia

Housing is one of the basic needs of human beings, on a level with food, education and health. The need for housing is therefore one of those that have to be fulfilled by the state. The United Nations has also included the right to housing in the International Covenant on Economic, Social and Cultural Rights in Article 11, which states:

The countries taking this Covenant acknowledge the right of everybody to an adequate standard of living, including the right to food, clothing, and housing... The countries will take measures to guarantee the realization of these rights...

The Covenant is binding to Indonesia as it was ratified in 2005. Apart from that, in the Indonesian Constitution, the right to housing is one of the basic rights guaranteed by the state. Article 28H (1) of the Constitution 1945 as amended stipulates:

All people are entitled to a healthy life, physically and mentally, and housing, as well as a good and healthy environment, and are entitled to access to health services.

Meanwhile Law number 4 Year 1992 on Housing and Settlement, particularly Article 5 point (1), provides:

All citizens are entitled to reside in or enjoy and/or own a proper house in a healthy, secure, orderly environment.

The state of Indonesia is therefore responsible for providing decent and healthy (in other words, conducive to inhabitants' well-being) housing for all citizens. This is however not an easy task as Indonesia is a country with the fourth biggest population in the world. In 2000, the population of Indonesia was 209 million. Although Indonesia is managing to reduce its overall population growth, the population growth in urban areas is still high, scoring around 5 per cent per year. In 2000, 40 per cent of the population lived in urban areas. This percentage is expected to continue to increase every year. United Nations Center for Human Settlements predicts that, in 2025, the urban population will reach 61 per cent<sup>1</sup>.

Urbanization and the growing concentration of population in big cities, particularly in Java, will create a number of problems, placing pressure on transportation, sanitation and general provision of healthy environment. As the main island, Java is home to 120 million of people or 60 per cent of the country population. 20 per cent lives in Sumatera Island and the remainder lives in the other islands<sup>2</sup>.

The decreasing rural population is a consequence of the declining role of the agricultural sector in Indonesia's economy. The development strategy that has been put in place systematically starting in the 1960s brings industry as the main engine of economic growth. Although the agricultural sector was considered an important one in the Main Guidelines of State Operation (*Garis Besar Haluan Negara*, GBHN) that was the development strategic plan of the New Orde Government, in fact the industrial and service sectors were the backbone of growth. The minimal investment and innovation

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<sup>1</sup> ADB, 2001

<sup>2</sup> ADB, 2001

made the agricultural sector unable to grow more than 3 per cent, while the service and industrial sectors could grow more than 10 per cent<sup>3</sup>.

The problem arising from this situation is that the industrial and service sectors develop in the urban areas with complete infrastructure. This leads to flow of urbanization to big cities. The agricultural sector in rural areas cannot support many livelihoods and people are forced to find work in industrial and service sectors in the urban areas. The problem grows even bigger with the increasing gap between big cities in Java, particularly Jakarta, and other cities in the other islands. With its supporting infrastructure, Java becomes the main target of urbanization.

In the coming years, the urban areas will be under the pressure to provide housing for their residents. Although decentralization policy was issued and the local governments are granted autonomy to manage their own administration, in reality development is still concentrated in big cities and Java Island. Even the infrastructure development project launched by Susilo Bambang Yudhoyono administration still put an emphasis on projects in Jakarta and Java Island. The absence of incentives in, for instance, some tollroad development project bids leads to competition among contractors only in projects around Jakarta. Other tollroad projects, especially outside Java Island, do not attract interest.

Given the wide gap between the infrastructure in the urban and rural areas as well as between Java Island and the others, the flow of urbanization never changes. The figure keeps going up even though the rate is not as high as previous years. As a result, the housing issue is one of the strategic and urgent problems to settle.

## **1.1 The need for housing in Indonesia**

How big is the need for housing in Indonesia? The Ministry for Settlement and Regional Infrastructure predicts that the need for housing in Indonesia will soon reach 800,000 units per year. This prediction is in addition to the backlog or gap in provision of housing that has not been met before: 5.93 million houses in 2003. If the government provides 1,150,000 houses per year, the need for housing for the whole population of Indonesia will be fulfilled in 17 years<sup>4</sup>.

Professor Johan Silas, of Institute of Technology (ITS) based in Surabaya, asserted in a seminar on people's housing in Jakarta on January 6, 2006, the need to comprehend the issue of backlog critically. The data on the backlog actually came from a survey conducted by BPS (Central Statistic Bureau). However, the parameters used to determine whether a house is healthy or not need to be examined; for instance, whether the wall can be made from wood or a house can serve multiple purposes. Culturally, there are many ethnic groups in Indonesia with a tradition of having houses made from wood or bamboo and they are healthy houses. Similarly, many houses also serve as business places so that they become classified as 'unhealthy'. It has been a tradition that a house is not only where people live but also used for other purposes.

Professor Silas described the Javanese family's house. In the night this is a place to sleep, in the morning a place to cook, in the afternoon a place for other household activities and back to a place to sleep in the night. According to BPS survey, this kind of house falls into the category of unhealthy house or below living standards. Consequently,

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<sup>3</sup> Kuswantojo, 2005: 73

<sup>4</sup> [www.satujutarumah.com](http://www.satujutarumah.com)

according to Prof. Silas, the approach to deal with the backlog problem cannot be a one-size-fit-all national policy, but a policy that can be adjusted with unique cultures in different regions.

Generally, from the existing housing, there are 14.5 million or 28.22 per cent houses that are below living standards. In addition, the slum area in Indonesia is as many as 10,065 areas inhabited by around 17.2 million people, scattered in 10,000 locations, with an area as large as 47.4 million hectare<sup>5</sup>. Meanwhile, the Asian Development Bank (ADB) makes an estimation of housing need in detail as illustrated in Table 1.

**Table 1. Estimation of housing need (in thousands)**

Year	1990	2000	2000 – 2010	2011 – 2020
Total population	179.379	212.739	277.684	362.457
Urban population, in percentage of total		40.3%	50%	60%
Urban population	55.428	85.734	138.842	217.474
Size of household		4.3	4.2	4.1
Rate of population growth		2.7%	2.7%	
Total households	12.890	19.938	33.058	53.042
Increase in number of households			13.120	19.985
Ratio household/house		0.9	0.9	0.9
Housing needed			11.808	17.986
Annual rate of mobility		0.01	0.01	0.01
Increase of annual rate of mobility			2.650	4.305
Total new houses			15.769	24.290
Gap/backlog	7.7%			
Figure to close the gap		<b>1.382</b>		
Average need for housing/year			<b>1.646</b>	<b>2.498</b>
Most needy group	8%		132	200
Needy group	27%		444	674
Very low income	23%		379	575
Low income	35%		576	874
Middle and upper income	7%		115	175
<b>Total</b>	<b>100%</b>		<b>1.646</b>	<b>2.498</b>

Source: ADB, 2001.

As can be seen in Table 1, ADB estimates that over the 10-year period between 2000 and 2010 the urban population will become 50 per cent of the total population of Indonesia. By the end of 2020, the percentage of urban residents will become 60 per cent or 217.47 million. The population growth in urban areas will in turn increase the demand for housing.

<sup>5</sup> www.satujutarumah.com

In 2000, there were almost 20 million households and this will increase by the end of the decade to 33 million and to 53 in the next decade. The increased number of households will boost the demand for housing. With the assumption that the ratio of household/house is 0.9 at the end of 2010 it is estimated that 15.77 million houses will be needed and 24.29 million more at the end of 2020. Calculated annually, between 2000 and 2010 there will be a demand for 1.646 million houses per year, and this increases in the decade of 2011-2020 to 2.498 million houses annually.

Looking at the projection, despite the government's success in launching the project of one million houses per year, the real demand is not yet fulfilled when the population who do not own a house are taken into account. ADB notes that 1.38 million houses were needed in 2000 to cover backlog. The figure has gone up and Ministry of Settlement and Public Infrastructure calculated in 2003 that the backlog reached a figure of 5.93 million houses.

When the need for housing is put into detail of demand for each segment of society, the demand of upper and middle class is only 7 per cent. This means that the market share of upper-middle class housing that does not require subsidy and government's intervention is only 115 million/year in the period of 2000-2010 and 175 million/year in the following decade. Meanwhile, the remaining 93 is the lower-middle income group who needs government's assistance.

It is to be noted that the estimates released by ADB do not included the category of unhealthy houses and slum settlement, while these constitute an urgent issue to overcome, both by the national and local governments.

Given the facts, the government – with an obligation to provide decent housing for the people – faces a serious problem. This is even so if we consider the impact of economic crises and the large amount of fuel subsidy the government has to finance. Along with the pressure of the debt repayments, domestic or foreign, all these make the Indonesian government unable to secure funding for provision of housing.

As a strategy to overcome the gap between actual and ideal conditions, the government launched the National Movement of One Million House Construction in 2003. However, the government has failed to complete it. 600,000 houses were constructed independently by the community and 200,000 underwent quality enhancement. The government only provided technical assistance such as provision of drawings of a 'healthy, simple house' [homes that use simple construction technologies and are conducive to the health of those living in them] that can be used by the community<sup>6</sup>. This contribution is very small and insignificant as the government is unable to reduce other costs paid by the community, such as land and licensing cost.

## **1.2 Secondary mortgage facility**

In the One-Million-House Movement, the government's direct contribution was channelled through Perumnas, a government housing company, and in the form of a subsidy through House Ownership Credit (*Kredit Pemilikan Rumah*, KPR) for 200,000 houses. While the interest rate of KPR is 15 per cent, through the subsidy the recipients

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<sup>6</sup> Interview with Iskandar Saleh/Ministry of Housing

will only have to pay 5 to 6 per cent interest rate per year. However, this subsidy is provided in phases over five years. After five years, the buyers have to pay the normal interest rate<sup>7</sup>.

In future, the government's contribution in housing provision will be channelled through Sarana Multigriya Finansial Ltd, a Secondary Mortgage Facility established by the government of Indonesia in mid 2005. Being a new state-owned enterprise, Sarana Multigriya Finansial Ltd will get an initial capital of IDR 2.5 trillion. 1 trillion of the capital comes from the National Budget while the remainder comes from Jamsostek, the state-owned enterprise managing pension funds for private sector workers and state-owned enterprise employees. In addition, Sarana Ltd will receive technical assistance from international financial institutions, e.g. ADB and International Finance Corporation, an institution under the World Bank<sup>8</sup>.

The Secondary Mortgage Facility (SMF) is an institution that is expected to be able to support housing finance. Most of funds collected by the banks from society are short-term savings, while housing finance credit is long-term credit. If the savings are suddenly withdrawn by the society, banks will face difficulty. This adds to the problem caused by the low confidence that society has in the banks. The 1997 crisis, which was followed by closure of a number of banks and massive withdrawals of savings, forced the government to intervene. The guarantee by Indonesian Central Bank, Bank Indonesia, until 2005 and the establishment of Saving Guarantor Institution (*Lembaga Penjamin Simpanan*) for all funds deposited by the society in Indonesian banks are indicators of how prone the banks are to monetary instability.

The Indonesian banking situation means that few banks have the courage to provide long-term housing credit. Only banks with big capital reserves dare to enter the housing finance business. The percentage is also still small in comparison to BTN – Bank Tabungan Negara – which focuses on housing finance. Credit channelled by BTN to the housing sector is more than 90 per cent of the total housing credit. Most big private banks, even when they enter the housing business, provide very small funds due to their limited experience and knowledge as well as low commitment. Moreover, apart from the long term of the credit, i.e. 10-15 years, the profit gained from housing credit is not as large as corporate credit. In order to encourage banks to provide funds to the housing sector, a guarantor institution in the form of SMF is much needed. SMF will buy long-term housing credit so that banks do not have to worry about providing housing credit for society over a reasonable period.

Apart from providing a guarantee against mismatch of short-term savings and long-term credit, SMF also guarantees several other risks in housing funding<sup>9</sup>. First of these is the risk of interest rate. Housing credit is usually offered at a relatively stable interest, while funds provided by third party are offered by banks with floating interest rate. If the interest rate suddenly rises, as when it went up to 18 per cent at the end of 2005 following the rise of fuel prices, the ability of people to access housing credit will decrease.

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<sup>7</sup> Interview with Lukman Purnomosidi, Chairman of National Board of Real Estate Indonesia (REI).

<sup>8</sup> property.net 26/5/05.

<sup>9</sup> PSPI&PSA, 2005: 4-20

Secondly, SMF guarantees the credit risk. The investor putting funds in will avoid credit risk as the loan provided to a KPR lender is guaranteed by a bank credit. A guarantee against credit risk is much needed in Indonesia, primarily because of the experience of the economic crisis in 1998. Many credits that were not guaranteed dragged banks to bankruptcy and eventually recapitalized<sup>10</sup>.

The presence of SMF also provides an alternative for investment for non-bank financial institutions such as insurance companies and pension-fund managers. Ultimately, SMF will decrease the interest rate of housing credit and increase opportunity of the society to own a house. In addition, similar institutions have been established and gained success in several neighbouring countries, such as Malaysia and Thailand.

However, SMF cannot afford to fund all demands for housing in Indonesia. From the plan to construction of one million houses, only 200,000 units can be supported by SMF. The remaining 600,000 units will be constructed independently and 200,000 in the form of quality enhancement of housing. This illustrates how important are the roles of private sector and community self-reliance in provision of houses.

The big role of community self-reliance in provision of houses is estimated to reach 80 per cent of total houses in Indonesia<sup>11</sup>. The role of the society is also reflected in the condition of most big cities in the country. The settlement in Indonesia, known as *kampung* or informal housing, is usually not developed with planning. Only 10 to 20 per cent of housing areas, known as formal housing, are developed systematically and with good planning.

Informal housing is an accumulation of houses constructed by families or individuals without following a rule or formal plan issued by an authority. The services and facilities like roads, drainage, sanitation and drinking water supply are not designed and prepared before. All are sought by families or individuals. Table 2 compares formal and informal housing areas in Indonesia.

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<sup>10</sup> i.e. restructuring a company's debt and equity ratio with the aim of making a company's capital structure more stable.

<sup>11</sup> ADB, 2000

**Table 2. Settlement in Indonesia**

Initiative of housing development		Development initiator
Formal	Organized	Government and companies (Perumnas, developers and other housing development organizations) and following rules stipulated by the regional/city government.
	Individual	Individual/family following rules and infrastructure network determined by the regional/city government.
Informal	Legal	Individual/family/group developing on their land without following construction rules and generally not equipped with infrastructure network.
	Illegal	Individual/family/group constructing not on their land and not following construction rules.

Source: Modified from Kuswanto, 2005: 108.

A kampong or informal settlement develops on the community's initiative and grows naturally so that the shape and arrangement of the city vary. Unfortunately, because of the pressure of urbanization in big cities and the rising land price, the number of houses and the size of the kampong do not grow but the number of inhabitants rockets. As a result, the kampong changes into slum areas.

Indonesia's government itself has not provided housing for its people in either of the two ways: developing directly or controlling the housing development. We can compare this with the situation in Europe where 40 to 60 per cent of the housing is developed by the government. Meanwhile in China, before 1980, all housing was developed by the government<sup>12</sup>.

Even when the Indonesian government is said to provide housing, it is mostly in the form of houses for civil servants, such as those managed by Housing Saving Advisory Board (*Badan Pertimbangan Tabungan Perumahan, Bapertarum*). Up to 2005, Bapertarum had provided housing for 30,000 civil servants. For the Indonesian National Military Forces (*Tentara Nasional Indonesia*) and employees in the offices under Ministry of Defence, housing is provided by the Foundation of Housing Welfare for Soldiers and Civil Servants of Ministry of Defence (YKPP).

On a limited scale, the Indonesian government has also provided housing for the public through Perum Perumnas, which is basically a real estate company owned by the government. However, due to various problems such as corruption, from 1974 to 2004 Perumnas could only develop 453,000 houses. Added to this was the tight set of requirements from banks to get a housing mortgage. As a result, the people have to provide their own housing. Then informal housing or kampong has grown naturally in big cities, and Jakarta as the capital has the biggest kampong in Indonesia.

### **1.3 Ministry of People's Housing**

The economic crisis taking place in 1997 not only increased the number of the poor but also decreased people's purchasing power, including the affordability for houses. Investment in the housing sector was much left behind compared to the developed countries. In Indonesia, the ratio of housing credit to GDP (Gross Domestic Product) was

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<sup>12</sup> Kuswanto, 2005: 10

only 1.4 per cent in 2002, and once reached its peak at 3.2 per cent in 1997. As a comparison, Malaysia's ratio is 27.7 per cent while the USA's was 45.3 per cent in 2002<sup>13</sup>.

In order to provide housing, President Susilo Bambang Yudhoyono re-established the Ministry of People's Housing. The Ministry was changed during the Abdurrahman Wahid administration into a directorate, i.e. Directorate of Housing and Settlement under the Ministry of Settlement, Infrastructure and Regional Affairs. The effectiveness of this ministry is questioned as it only has the status of a state ministry, not a department. This way, the ministry is capable of coordination, not policy implementation. Some policy implementation functions are still held by Ministry of Public Works.

In 2004, the State Ministry of People's Housing set a target to provide as many as 1,350,000 healthy simple houses, which would be developed in the five years from 2004 to 2009. Apart from that, the government would also provide rented simple flats (*Rumah Susun Sederhana Sewa, Rusunawa*), owned simple flats (*Rumah Susun Sederhana Milik, Rusunami*), self-initiated, also known as formal, housing (*Perumahan Swadaya*) and a facility for self-initiated housing (*Fasilitas Perumahan Swadaya*) and in the form of a Ready-for-Construction Area (*Kawasan Siap Bangun, Kasiba*) or Ready-for-Construction Land (*Lahan Siap Bangun, Lasiba*). *Rusunawa* is provided for people with fixed and not fixed income of IDR 350,000 - 1,500,000, while *Rusunami* for those who have fixed income of more than IDR 1.5 million and can access subsidized House Ownership Credit (KPR).

By the end of December 2005, the target was unattainable. Development of basic housing could only be done for 68,913 as opposed to the plan of 120,000. This even included 14,133 simple homes that had not been subsidized. Similar was the development plan of *Rusunawa* and *Rusunami*: the target could not be realized. Table 3 describes the mid-term plan, target and numbers achieved by 2005 as well as 2006 target of the State Ministry of People's Housing.

**Table 3. Plan and target of State Ministry of People's Housing**

Activity	Target of RPJM <sup>14</sup> 2004-2009	Target of 2005	Realization Dec 20, 2005	Target of 2006
<i>Rumah Sederhana Sehat</i> (Healthy Simple House)	1,350,000	120,000	Subsidized 54,780 Not-subsidized 14,133	130,000
<i>Rusunawa</i>	60,000	6,000	4,312	12,000
<i>Rusunami</i>	25,000	2,000	n.a.	5,000
Self-initiated Housing	3,600,000	720,000	n.a.	720,000
Facility of Self-initiated Housing	720,000	20,000	19,958	23,000
Kasiba/Lasiba	79	2	1	14

Source: Inforum, December 2005

<sup>13</sup> www.satujutarumah.com

<sup>14</sup> RPJM is the abbreviation of Mid-Term Development Plan, which lasts for five years.

The other complicated issue faced by the Minister of People's Housing is the support for Self-initiated housing and facility of Self-initiated housing. Self-initiated housing or informal housing is produced with minimum engagement of the government. The Ministry of People's Housing has not found the right formula to support self-initiated housing. Those that are developed fully on the initiative of the community mostly depend on the market. To construct or renovate a house, the people buy construction materials in the market. Only a small part of the capital needed is obtained by bank loan, particularly because the community cannot meet the formal requirements to get credit.

The autonomous position of the local government enables the authority to create housing policy at the local level. Therefore, the policy of the Ministry of People's Housing is not necessarily followed by Heads of Region. As a result, the provision of various incentives for licensing simplification that has been proposed by the Ministry will be decided according to the political will of the local governments.

#### **1.4 Impact of crisis**

In 1997 Indonesia was dragged into the whirl of economic crisis. Indonesian economic growth dropped to minus 13.3 per cent and inflation rocketed to 77.9 per cent. The crisis resulted in the decreasing government capacity to provide subsidy for housing, especially as the crisis was accompanied by currency depreciation, from IDR 2,500/USD to IDR 17,000/USD before it stabilizes around the rate of IDR 10,000/USD. Rupiah depreciation raised the amount of foreign debt that the government had to pay and now almost half the state budget is spent on paying off the foreign debt.

For housing, the government allocates a budget through the Ministry of People's Housing and Ministry of Public Works. In the State Budget of 2005, the State Ministry of People's Housing received an allocation of IDR 314.45 billion. IDR 212.11 billion was used for housing development programme and IDR 101.34 billion was the fund for a housing community empowerment programme<sup>15</sup>. The fund for housing was also allocated by the national government through placement of capital in Sarana Multigriya Finance Ltd.

This amount is very small to be able to provide housing for the people. We can compare this with the large amount of debt repayment instalment that has to be paid and reaches IDR 63.6 trillion in State Budget of 2005. Meanwhile, at the same time people have to pay different kinds of taxes, which contribute to 80 per cent of the total revenue of the State Budget.

The other impact of crisis was the bankruptcy of a number of real estate companies. Before the crisis, there were 2,500 members of Real Estate Indonesia – the association of Indonesian real estate companies. Of these, 60 per cent or 1,500 went bankrupt. Meanwhile, among the 1,000 who escaped bankruptcy, 870 had to go under the oversight of BPPN (IBRA). Consequently, only 130 companies still exist and are actively developing housing; they are mostly small and medium-scale developers in the regions<sup>16</sup>.

After the crisis was gradually over and the economy was recovering, the property sector also awakened. Moreover, when BPPN managed to restructure bad credit in property sector, this sector started to recover. However, it was ironic that what were mostly

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<sup>15</sup> *Bisnis Indonesia Daily*, 19/07/05

<sup>16</sup> PSPI&PSA, 2005: 2-2

developed were office buildings, shopping centres, apartments and middle to upper class housing.

**Table 4. Capitalization of commercial projects during 2000 – 2005<sup>17</sup> (IDR billion)**

Project Title	2000	2001	2002	2003	2004	2005 amended
Jabotabek modern shopping centre project	2,756.09	4,484.30	9,828.00	15,937.90	21,368.02	19,363.63
Regional modern shopping centre project	181.20	577.90	4,152.30	13,440.37	16,538.99	13,367.96
Jabotabek apartment project	797.95	915.89	1,484.00	4,064.58	7,909.72	11,859.84
Regional apartment project	-	158.40	249.40	361.82	236.24	311.19
Jabotabek office project	726.70	604.20	106.14	577.43	870.90	1,066.25
Hotel project (national)	-	-	59,16	885.32	1,319.64	1,327.70
Housing project (national)	3,495.00	4,037.00	7,129.00	8,708.00	11,571.00	15,078.00
Home store / home project (national)	1,922.00	2,220.00	3,938.00	5,582.50	6,364.05	7,812.15
Capitalization of national property project	9,879	12,998	26,946	49,558	66,179	70,187

*Source: Modified from PSPI&PSA, 2005: 2-30.*

After the property sector started to recover, what grew fastest was the development of modern shopping centres, both in Jabotabek and in the regions. After that came apartment construction in Jabotabek, and only later capitalization of housing provision projects. So the awakening of the property sector is practically an attempt to reap profit by developing shopping centres.

The data above also show that the one significant contributor in the awakening of the property sector is the private sector, particularly top level developers. Therefore, the data also illustrate how the resurgence of property sector is purely boosted by business interests, to maximize profit with minimum intervention and incentive from the government. As entrepreneurs, developers must prefer developing shopping centres and luxurious housing. A few of these will bring larger profit than can be gained by developing middle level and simple housing. Here the government needs to intervene and offer incentives so that the property sector has an interest in providing housing for the poor.

<sup>17</sup> Data tahun 2005 masih berupa perkiraan, bukan situasi yang nyata.

## 1.5 Housing for the poor

In the past, government policy was much more on the side of the poor. Through the 1-3-6 policy, a real estate company that developed one luxurious house was obliged to develop three middle houses and six simple houses. However, this policy was actually never enforced, and then the Ministry of People's Housing was dismissed and established as a division in the Ministry of Settlement and Regional Infrastructure.

The government's initiative to provide housing for the poor also included the establishment of Bank Tabungan Negara (BTN), the State Saving Bank. This bank is the only one focusing on the provision of housing for the lower middle class. The large role of BTN can be seen from the credit the Bank has channelled. In 1997, from the total of housing credit, 85 per cent was provided by BTN<sup>18</sup>. Indeed, apart from BTN whose shares are owned by the government, there was Papan Sejahtera Bank (BPS) which also focused on housing finance. However, unlike BTN, BPS provided credit for housing finance for the upper middle class. When the economic crisis hit Indonesia, BPS was one of the liquidated banks.

Another role played by the government was the establishment of the company of National Housing Development (*Perusahaan Pembangunan Perumahan Nasional*, Perumnas). Perumnas is a government-owned company working in housing construction, particularly simple housing. One of the achievements of Perumnas to note as the pioneer of development companies is its success in introducing housing complexes in big cities.

Among other examples is the development of housing in Depok in southern Jakarta. Initially, Depok was just a subdistrict under the administration of Bogor District. In 1974, Perumnas developed 4,876 units on an area of land of just over 90 hectares in Depok I. After this were North Depok with 1,311 unit on an area of 33 hectares, Central Depok II with 5,663 units on 110 hectares, East Depok II with 8,620 units on 168 hectares, and on the remaining land 382 units were developed.

Slowly Depok started to develop. The presence of Perumnas, providing simple houses in Depok, was followed by other developers. The development became even faster when University of Indonesia developed its new campus in Depok in 1987 and when Jakarta-Bogor double-track railway was built in 1992, crossing Depok.

The population of Depok was about 100,000 in 1974; it grew to 233,799 in 1982 when Depok was granted the status of an administrative city. In 1999 Depok received a City status with a population of 1,143,403 people. The fast development of Depok City is inseparable with the role of Perumnas as the pioneer of simple housing development.

## 1.6 Housing finance policy

One of the important aspects in housing finance is the government subsidy. There are at least two forms of government support: firstly by establishing a company to provide houses, i.e. Perumnas. Secondly, the government provided support in the form of a funding institution, by establishing Bank Tabungan Negara (BTN), which focuses its business on house ownership credit for the people.

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<sup>18</sup> Watanabe, 1998: 9

**Table 5. Types of provision of housing assistance for low income society**

Target group	Type of provision	Housing assistance policy	
		Related to credit scheme	Not related to credit scheme
Less than 350,000	Owned house <ul style="list-style-type: none"> <li>• Self-initiated/informal</li> <li>• Rental house</li> <li>• Economic empowerment</li> </ul>	<ul style="list-style-type: none"> <li>• Micro credit for business</li> <li>• Micro credit for housing</li> <li>• Insurance/credit guarantor</li> </ul>	<ul style="list-style-type: none"> <li>• Construction materials</li> <li>• Environmental quality enhancement</li> <li>• Subsidy</li> <li>• Fiscal Incentive</li> <li>• Land certification and Building Construction Permit</li> </ul>
350,000 – 500,000	Owned house <ul style="list-style-type: none"> <li>• Formal</li> <li>• Self-initiated</li> <li>• <i>Rusunawa</i></li> </ul>	<ul style="list-style-type: none"> <li>• Down payment subsidy</li> <li>• Interest margin subsidy</li> <li>• Micro credit housing</li> <li>• Insurance/credit guarantor</li> <li>• Interest rate subsidy of construction credit</li> </ul>	<ul style="list-style-type: none"> <li>• Construction materials</li> <li>• Environmental quality enhancement</li> <li>• Subsidized O&amp;M</li> <li>• Fiscal Incentive</li> <li>• Land certification and Building Construction Permit</li> </ul>
500,000 – 900,000	Owned house <ul style="list-style-type: none"> <li>• Formal</li> <li>• Self-initiated</li> <li>• <i>Rusunawa</i></li> </ul>	<ul style="list-style-type: none"> <li>• Down payment subsidy</li> <li>• Interest margin subsidy</li> <li>• Insurance/credit guarantor</li> <li>• Interest rate subsidy of construction credit</li> </ul>	<ul style="list-style-type: none"> <li>• Limited subsidy</li> <li>• Construction cost</li> <li>• Subsidized O&amp;M</li> <li>• Land certification and Building Construction Permit</li> </ul>
900,000 – 1,500,000	Owned house <ul style="list-style-type: none"> <li>• Formal</li> <li>• Self-initiated</li> <li>• <i>Rusunami</i></li> </ul>	<ul style="list-style-type: none"> <li>• Down payment subsidy</li> <li>• Interest margin subsidy</li> <li>• Insurance/credit guarantor</li> <li>• Interest rate subsidy of construction credit</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal Incentive</li> <li>• Limited PSU</li> <li>• Land certification and Building Construction Permit</li> </ul>

Source: Modified from Inforum, December 2005.

So that the government programme can work and subsidy can be channelled appropriately, there are several factors to be considered in the provision of housing for poor society groups.

*Firstly*, there needs to be a reduction in the cost of acquiring land for housing through efficient access and reduction of transaction cost, reducing land speculators, using small parcels, cross subsidy and direct subsidy. Land, particularly in urban areas, is increasingly expensive. As a result, reasonable housing can only be constructed in the suburbs and the buyers have to provide transportation means or cost to reach their place of work in the town.

For poor people working in the informal sector, transport costs can reduce their income significantly. Poor people will therefore stay in city centre and close to their work-place even if that means they have to live in slum areas.

*Secondly*, provision of reasonable housing can only give small profit margin to developers. Consequently, to minimize production cost, the developers will use simple materials. Without proper oversight or a consumer complaint centre, developers will use sub-standard materials and it does not take very long before the buyers are forced to renovate their houses. Therefore, the government has to enforce a set of minimum standards for healthy simple houses.

*Thirdly*, reasonable housing with small margin is not attractive to the electricity company, telecommunication service and drinking water providers. As a result, reasonable housing is not equipped with adequate infrastructure; even road infrastructure, which is the responsibility of the government, cannot be easily provided.

*Fourthly*, reasonable housing with small profit margins can only bring maximum profit when developed on a large scale. Although demand is high, the people's low purchasing power requires government subsidy, not only in the form of bank interest but also down payment. The next problem is that there are not many banks which channel funds large enough for affordable housing. It is more profitable for banks to provide credit for luxurious house ownership or expensive apartments thanks to the large profit margin.

*Finally*, one of the unsettled issues is the fact that most members of society are not eligible to apply for credit. One of the main requirements to be granted credit is regular income, ownership of a Tax Payer's Number, and other documents and administrative requirements. The information is required by the bank as a guarantee that the credit will be repaid. There is thus a problem with residents working in the informal sector and not meeting the administrative requirements of the banks. Similarly, it is also an issue for people with no fixed job and income. Therefore, some thinking has to be done regarding extension of access to banking credit, particularly in the streamlining of administrative requirements.

## **1.7 Corruption and its impacts in the housing sector**

The whole world's awareness of corruption has been increasing, particularly since the economic crisis that struck a number of countries in Asia. Corruption is no longer regarded as the grease of development, whose existence is needed to a certain extent. Corruption is not merely a crime and violation of law. Corruption is a distortion in public policy. Because of corruption, many policies addressing the interests of the general population are enjoyed by the elite.

Indonesia itself has experienced the bad impacts of corruption. The systemic corruption in Indonesia was the main factor behind the failure of its economy during the crisis of 1997-1998. The economic miracle and model of development achievement as labelled in the official reports turned out to have been based on shallow foundation. When the crisis struck, the whole story of development success in Indonesia fell apart.

Now, seven years after the economic crisis and the fall of the New Orde Administration, corruption is still an important issue in Indonesia. The ruling government is unable to eradicate corruption, which seems to have been part of the bureaucracy, economic and political systems in Indonesia. The fact that corruption is rampant in Indonesia can be seen in the corruption perception index survey. Table 6 shows the rank and score of Indonesia in the survey conducted by Transparency International.

**Table 6. Corruption Perception Index Survey 1998 - 2005**

Year	Rank	Sample Size	Score
1998	6	85	2.0
1999	3	98	1.7
2000	5	90	1.7
2001	4	91	1.9
2002	6	102	1.9
2003	6	133	1.9
2004	5	146	2.0
2005	6	168	2.2

*Source: Modified from Transparency International (www.transparency.org)*

Vito Tanzi, a World Bank researcher, concludes that corruption is a distortion to market and resource allocation because of its impacts<sup>19</sup>. *Firstly*, corruption decreases the capacity of the government to control projects and oversight to address market failure. Because of corruption, intervention from government that is expected to shape ideal market will direct profits to a few capitalists who can achieve monopoly and concessions through corrupt practices.

*Secondly*, corruption distorts incentive initiatives. In many cases, in corrupt situations, economic actors will devote their energy to rent seeking and corrupt practices such as bribery to gain profit, instead of focusing on productive efforts.

*Thirdly*, corruption is basically an additional tax beyond the official one. Particularly in a decentralized corruption situation as in Indonesia, all interested parties practise corruption. Eventually, the costs of bribery, grease money and others become an additional tax burdening the people.

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<sup>19</sup> Tanzi, 2000

*Fourthly*, corruption undermines the fundamental role of the government, particularly in rule of law. When somebody through corrupt practice can buy anything or change rules such as the city master plan for his/her interest, then there is no longer a rule of law. In the end, investment and business activities are no longer predictable.

*Fifthly*, corruption delegitimizes democracy. Democracy can only work when there is rule of law. That way, the loss of rule of law due to corrupt practices will contribute to the deficit of democracy.

*Finally*, corruption will increase poverty. Poverty is a question of access, so poor people are those who do not have enough access to food, education and information. In such a situation, poverty reduction projects will not reach their target and instead will enrich the project implementers.

Corruption and the housing sector are interrelated problems in Indonesia, particularly because the small contribution made by the state in the provision of housing creates a big role for the private sector. Where corruption is rampant, state intervention will not achieve its expected objectives. The economic crisis of 1997-1998 was primarily caused by bad loans in the property sector. The boom in the property sector turned out to have been financed by short-term credit of the developers, while the property sector is actually a long-term investment.

When rupiah was weakening in comparison to US dollar, a number of property credits turned bad. Bad loans led to the decrease of public confidence in the banks. As a result, there were massive savings withdrawals over a few days. As they did not have cash, banks turned to the Central Bank, Bank Indonesia, as the lender of last resort in the country's banking system. Unfortunately, the liquidity assistance was not paid until now and has to be covered by the government through foreign debt and paid back by state budget.

Bank Tabungan Negara, which had originally been established to channel credit in housing sector, did not escape the crisis. Before the crisis, BTN had shifted into channelling credit to corporates and the government had to restructure it. One of banks focusing on the property sector, Papan Sejahtera Bank, was even liquidated and the owner was a suspect in corruption case.

Corrupt practices can also be seen in Perumnas. Instead of providing housing for middle to lower class people, Perumnas sold land to private developers to be turned into luxury housing. This corrupt practice not only made a loss for the state as the share holder, but poor people also felt the impact. Housing land that should be designated to the poor fell into the hands of the wealthy because of corruption.

## **1.8 Case study of Jabotabek**

Research into a big city, especially megapolis like Jakarta, does not make an interesting case study. Because of the very large scale, there are many factors to be considered and these make it not commonly chosen as a case study. This happens not only at the level of study. Development programmes and pilot projects often avoid Jakarta because of the complexity of its problems which make it likely that they will fail.

However, the central position Jakarta possesses in the country is distinctive from other regions. When problems in Jakarta are settled, some of the problems faced by Indonesia are also successfully settled. Every policy launched by the Jakarta city and Jabotabek

area governments will be the model for other Indonesian local governments to follow. In the field of transportation, for instance, the initiative of Jakarta city government to address congestion problems by providing priority bus or busway will be a model for other big cities to overcome congestion problems.

On the issue of housing, the Jabotabek area is also very interesting. Jabotabek is the main target of urbanization in Jawa Island and Indonesia in general. People from different parts of the country come to Jabotabek to find jobs. Because of that, the demand for housing in Jabotabek is the highest in comparison to other city governments. In the same time, the problems that need to be overcome are more difficult than those faced by other local governments.

The big problems faced by the city government eventually led them to some interesting breakthroughs, and so housing policy made by Jabotabek's government, such as development of flats, will be a model for replication by other local governments in the future. In contrast, the achievements in other regions cannot necessarily be implemented in Jakarta. Because of the complexity of the problems, Jakarta will not take success stories from other cities in Indonesia but instead other big cities in other countries as models and comparisons.

## **1.9 Research methodology**

The research used qualitative and descriptive methods. The research starts by describing government policy on housing and various corruption practices in the housing sector. The research also considered the experience of Solok District which managed to reduce corruption in licensing. The case of Solok is reviewed to assess its replicability in Jakarta.

Data were obtained through secondary sources. The researcher collected documents related to the housing sector in the form of research reports, media coverage, books and internet sites. Data will be supplemented with in-depth interviews with resource people competent in their respective fields. In addition, focus group discussions were organized to sharpen the focus and report of the research.

## 2. Corruption in housing sector raises costs

Two sectors playing important roles in the provision of housing for the poor are the government and private sector. The government, in this case, acts not only as the provider of infrastructure but also as the regulator. Through a number of state-owned companies, such as Perum Perumnas and Bank Tabungan Negara, the government provides a source of funds and fixed assets (land) for housing construction. Meanwhile the Ministry of People's Housing has been established to design housing policy comprising issues of settlement, a city plan, sanitation, a housing funding scheme, and quality standards for healthy and decent homes.

In the private sector (developers and financial institutions), the drive to be engaged and participate to help develop housing sector for the poor is stimulated by different facilities and subsidized credits aimed to maintain the margin of profit – despite this being at the minimum level. If the profit rate in the business of providing housing for the poor is not maintained, the private sector will automatically be unable to contribute to the development of housing for the poor. Instead, they will focus only on the development of shopping malls, real estate, luxury apartments and different types of properties that bring maximum profit.

In Jakarta, for example, the symptom can be seen in the development of apartments. As a general comparison, the development of luxury apartments in Jakarta in the nine years to 2004 reached a figure of 45 thousand units. The rate of flat development for the previous 20 years was just 800 units per year or 16 thousand units in total. In the same time, the private developers managed to develop an average of 1,500 apartments per year. The demand for lower to middle class apartments is 10 thousand units per year at minimum, much larger than the demand for luxury apartments for upper middle class, which is estimated to be no more than 2 thousand units per year.<sup>20</sup>

Although the scenario of housing sector development, particularly for the poor, has been designed in such a way, the rate of success in meeting the demand of the poor for homes is relatively very low. The problem is mainly the poor management of assets and financial resources in the state-owned company, Perum Perumnas, in particular, as corrupt practices are rampant and licensing bureaucracy creates a high cost economy for the developers. The expensive licensing cost has been highlighted by developers, as raised by Real Estate Indonesia (REI) in different occasions.<sup>21</sup>

### 2.1 High-cost licensing practice

In general, the World Bank defines corruption as the abuse of authority by public officials to get personal gains such as – but not limited to – state money embezzlement, nepotism, bribery and blackmail. Corruption in itself is difficult to measure and observe as

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<sup>20</sup> Panangian Simanungkalit, 2004, *Fenomena Gaya Hidup, Investasi dan Booming Apartemen* (Lifestyle Phenomenon, Investment and Booming of Apartment) in *'Bisnis Properti Menuju Crash Lagi? (Property Business Leading to Crash Again?)'*, Pusat Studi Properti Indonesia (Indonesian Property Study Centre), pp. 103-104.

<sup>21</sup> Sinar Harapan, 2003, *'Mengurus Ijin Bangunan Melelahkan (Getting Construction License is Tiring)'*, Interview with Willy Prananto, Deputy Chairman on Law and Regulations Bidang Hukum, Jakarta Chapter of REI', and Kompas, August 9, 2005, *'Ekonomi Biaya Tinggi Hambat RSS Bersubsidi (High Cost Economy inhibits Subsidized Cheap Housing)'*.

it is always done discreetly. Nevertheless, many institutions or parties try to develop methodology and instruments to formulate corruption indicators, such as those conducted by Transparency International (TI) by using the public perception survey.

The definition of corruption from more sociological perspective is proposed by Syed Hussein Alatas (1990: 3-4) as quoted by Azyumardi Azra<sup>22</sup>. According to Alatas, 'corruption is the abuse of trust in the interest of private gain'. In this notion, Alatas develops several typology of corruption.

*First*, 'the transactive corruption' takes place as an agreement between a donor and a recipient for mutual benefit.

*Second*, 'extortive corruption' involves pressure and force to avoid danger to those implicated or people close to the perpetrators.

*Third*, 'investive corruption' is started by offering/temptation that serves as an 'investment' anticipating future benefit.

*Fourth*, 'nepotistic corruption' takes place in the form of special treatment both in appointment to public office and granting projects to families members.

*Fifth*, 'autogenic corruption' takes place when an individual official gains advantage when s/he has insider's information on different public policies s/he has to keep confidential.

*Sixth*, 'supportive corruption' is protection or strengthening of existing corruption through intrigue of power or even coercion.

Meanwhile Farida Rahmawati also categorizes corruption into a number of types.<sup>23</sup> The first type is known as administrative corruption, which is a practice of abuse of authority, law, rules and public regulations for private interest conducted by government officials. The second type is called corruption of procurement of public goods and services, which is the misuse of public resources or funding commonly done by public officials or economic agents. The third type is state capture: referring more to the acts of economic agents or corporates both in public or private sectors to influence the legal system or government regulations for personal gains.

She further adds that the forms of low-level administrative corruption (bureaucratic corruption) can be the following:

- Bribery to government officials to 'bend' the rules;
- Deliberate abuse of organizations and rules;
- Abuse of authority in licensing and inspection for blackmailing.

From the conceptual explanation mentioned above, the practice of making extra charges in the housing development licensing process, which leads to high cost economy, can be categorized as part of administrative corruption. Meanwhile, sociologically the phenomenon can be classified as extortive corruption as the private sector (developers)

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<sup>22</sup> Azyumardi Azra, 'Pemberantasan Korupsi Menuju Good Governance (Corruption Eradication towards Good Governance)', paper, undated.

<sup>23</sup> Farida Rahmawati, 'Kategorisasi Korupsi (draft) (Categorization of Corruption)', The Secretariat for the Development of Good Public Governance, National Development Planning Agency, undated.

must provide a certain amount of fund (either legally or illegally) to obtain the licence. Without following the mechanism, business activities will not run smoothly.

The connection between corrupt practices in business licensing and economic growth can be seen in a number of assumptions as follows:

- Corruption cripples foreign and domestic investment because rent-seeking increases costs and creates unnecessary expenditures, lowering incentives for both foreign and domestic investors.
- Corruption burdens business cost as businesspeople need licences to run their businesses. To obtain permits and licences, they have to bribe and therefore reduce the business's rate of profit.
- Corruption decreases the quality of public infrastructure as public resources are shifted for the use of private interest, for which standard of quality no longer exists and budget allocated for operational and maintenance costs become a rent seeking arena.
- Corruption decreases tax revenue as the companies and their activities are pushed to the grey area by being provided tax reduction through back-door mechanism.<sup>24</sup>

From the results of a number of World Bank surveys on corruption the connection between corruption and economic growth can be described, i.e.:

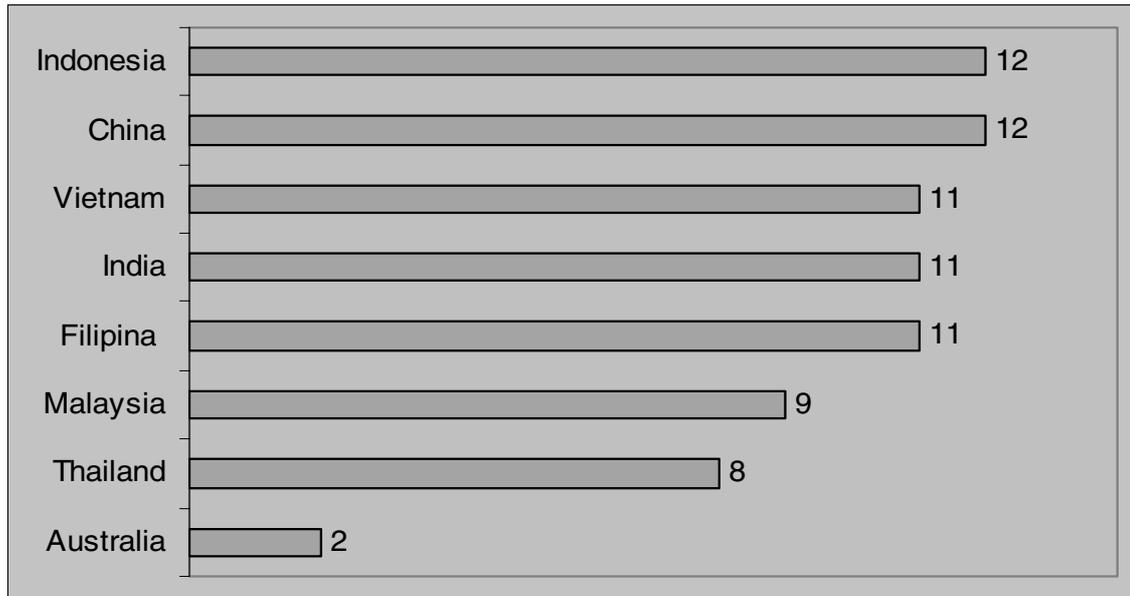
- Corruption has decreased the domestic investment rate. For instance, in Bulgaria, one in four business activities taken as a survey sample has planned to expand their business but failed to do so, and corruption is one of the important factors. A study in Latvia also shows that because of corruption investors cancelled their investment plans. This is attributed to the high costs related to business licences and uncertainty, including illegal charges which when calculated could reach a figure of 28 per cent of total investment.
- Corruption has threatened businesspeople, especially the small business community. A number of studies report that the small business sector tends to pay the most for bribery (particularly in Bosnia, Ghana and Slovakia).
- Corruption has decreased the tax revenue. In Bangladesh, more than 30 per cent of urban population reported that they paid less for their electricity and water bills by bribing the officials. In a number of studies, the respondents are more willing to pay tax if corrupt practices can be controlled.<sup>25</sup>

For Indonesia in particular, the poor business environment can be observed from the World Bank survey entitled 'Doing Business in 2005, East Asian Profile' conducted in 124 countries. In a comparison of the number of procedures taken to start a business, Indonesia and China are placed first with 12 procedures.

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<sup>24</sup> Eric Chetwynd et al., 2003 'Corruption and Poverty: A Review of Recent Literature', Management System International, Washington.

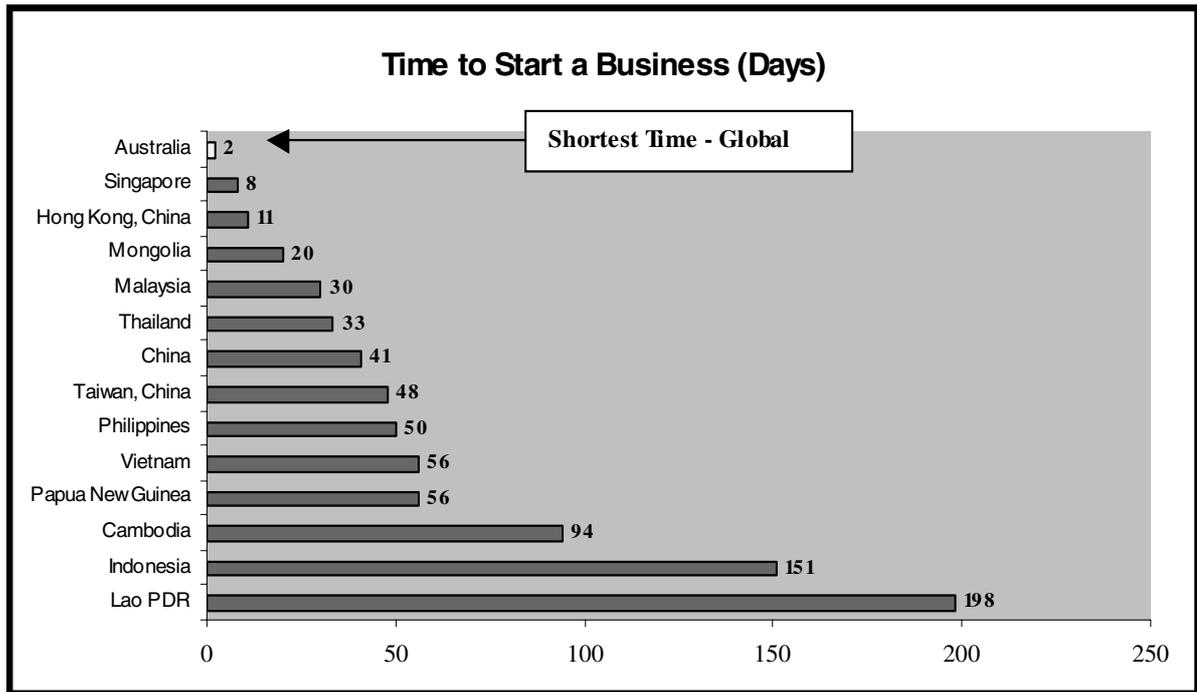
<sup>25</sup> Ibid.



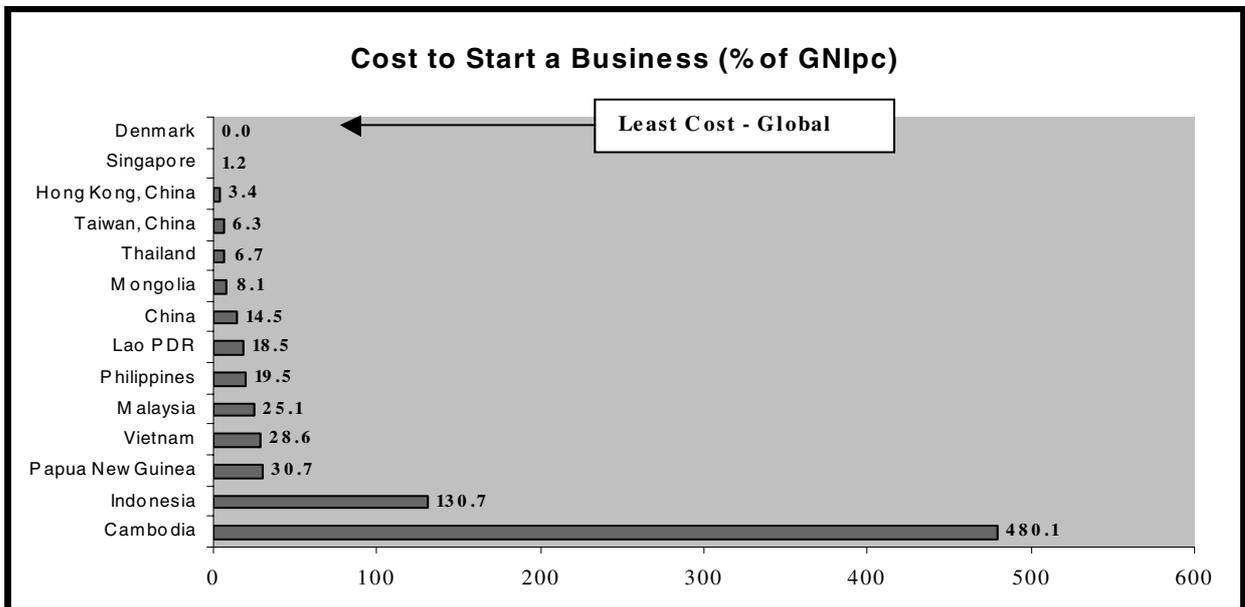
**Figure 1. Number of procedures to start a business**

Apart from the number and length of procedures, the time to start a business in Indonesia is also quite long, i.e. 151 days, whereas in Cambodia the process takes only 95 days. The figure revealed by the survey is the official time to take official procedures. In practice, obtaining business or construction licence may take years, as complained about by developers who are about to develop housing.

The cost of starting a business is also an issue in itself. Indonesia is placed second from the bottom, as the licensing bureaucracy brings consequences in terms of increased cost. Again, the survey covered what was formally stipulated in different regulations. This means the cost excludes the expenditure of bribing or paying public officials/employees to make the business activity start smoothly.



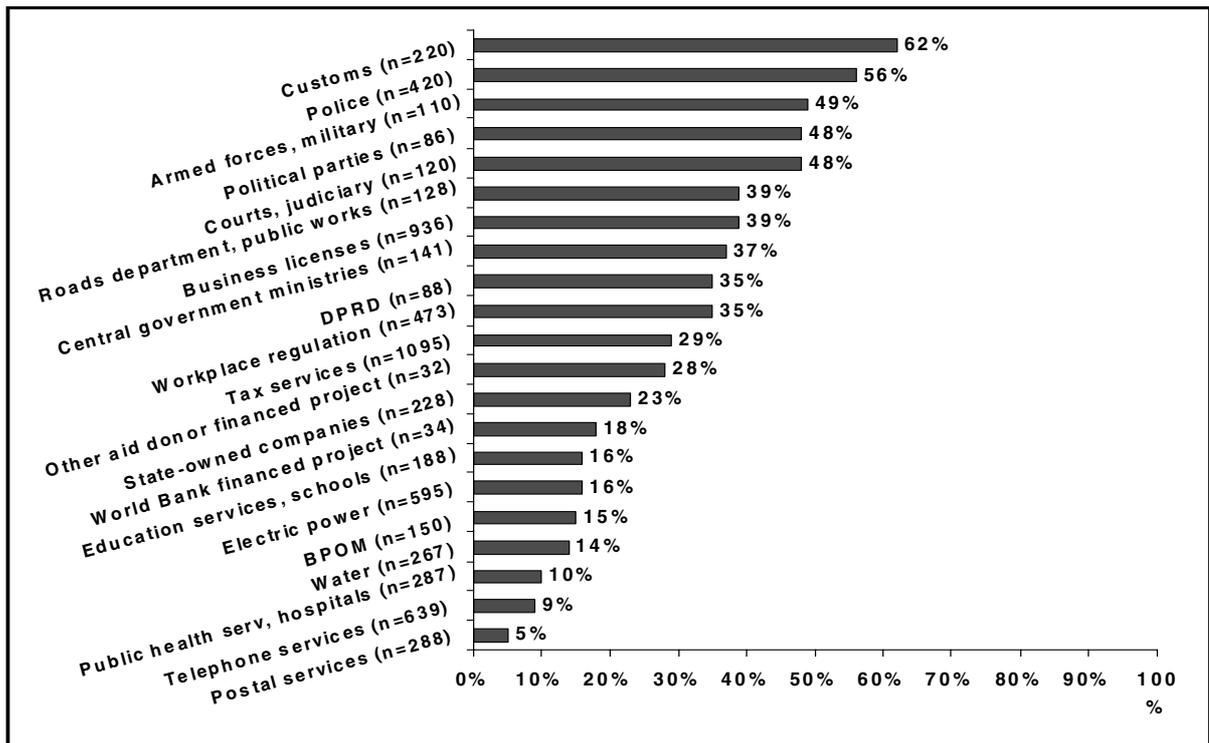
**Figure 2. Time taken to start a business**



**Figure 3. Cost of starting a business (GNIpc is national income per capita)**

The issue of illegal charges and maladministration in the public service sector can actually be observed from the results of a Transparency International Indonesia (TII) survey in 2005. In the report of Corruption Perception Index (IPK) and Bribe Payer Index (OPS) as surveyed in 21 regions in Indonesia with businesspeople as respondents, conclusions drawn are as follows:

- Based on direct interaction, the institution they do most interaction with are Tax Service (1095 resp.) and Business Licensing (936). Only a few have projects with the World Bank or other Grants. Meanwhile most corrupt interactions take place in Customs.
- In Jakarta particularly, 502 interactions of bribery were found to have been conducted in the licensing sector by 84 agents.
- Corruption interaction is identified if a respondent admits to have been asked for bribes for the requested service, or to have offered bribes. The amount of money per transaction was revealed to be in the range of IDR 375 thousand and IDR 150 million.



**Figure 4. Incidence of corruption in the public service sector**

*Source: Transparency International Indonesia, 2005*

Apparently the issue related to bribery practices in the licensing sector is a never-ending problem that continued from year to year. Referring to the data of TII of the previous year (2004), public institutions serving Registration and Licensing were also revealed as very corrupt, scoring 3.7 or D plus, similar to the business world. Bribery is rampant as there is a 'supply' and 'demand' mechanism.

**Table 7. Indonesian Corruption Barometer 2004**

No.	Sector and Institution	Public Opinion Score
1	Political Party	4.4
2	DPR (National House of Representatives)	4.4
3	Customs	4.3
4	Court and judiciary	4.2
5	Police	4.2
6	Tax	4
7	Business/Private Sector	3.7
8	Registration and Licensing Service	3.7
9	Military	3.3
10	Education	3.2
11	Public Works	3.1
12	Health	3
13	Media	2.6
14	NGO	2.4
15	Religious Institutions	1.8

In 2003, the Indonesian Corruption Barometer released by TII also described the condition of bribery in the licensing sector, which was placed the seventh worst of 13 sectors surveyed with a score of 5.8. The highest position was dominated by the judiciary sector, scoring 32.8.

**Table 8. Indonesian Corruption Barometer 2003**

No.	Sector and Institution	Public Opinion Score
1	Court and judiciary	32.8
2	Political party	16.3
3	Public works	11.1
4	Police	10.2
5	Education	8.7
6	Tax office	6.4
7	Business Licence	5.8
8	Customs	3.2
9	Business	2.8
10	Health	1.8
11	Others	0.7
12	Immigration	0.4

The corrupt practices in the management of state companies and the licensing policy that creates difficulties for developers have at least caused some impacts that make the cheap home policy difficult to implement.

*Firstly*, inefficiency and the high level of leakage that eventually lead to an unhealthy company makes it difficult for Perum Perumnas (*Perusahaan Umum Pembangunan Perumahan Nasional*, the Public Company of National Housing Development) to achieve its objectives. According to the Government Regulation No. 15 Year 2004 concerning Perum Perumnas, Article 6 provides that the purposes of the establishment of the Company are:

- To carry out the management of housing and settlements for the community;
- In certain matters, to carry out tasks given by the Government in order to fulfil the demand for housing for the low income group of the community.

Further it is provided that the objective of the Company is to make available housing and settlements that are decent and affordable, based on the master plan that supports sustainable regional development. From this it is clear that the existence of Perum Perumnas is purely intended to facilitate development of housing, particularly for the middle to lower class.

*Secondly*, it is difficult to encourage the participation of the private sector housing development facility for the poor because of the high licensing cost.

*Thirdly*, the loss of opportunity for the poor to enjoy and get an adequate and healthy housing. As those constraints are structural, an effort to make a reform is important, especially on matters related to bureaucratic facility, increasing transparency and more substantial accountability mechanism.

## **2.2 Corrupt practice allegations in Perum Perumnas**

Perum Perumnas, as the state-owned company assigned by the Government to develop people's housing and its surrounding facility in the urban area, was established on July 18, 1974 through Government Regulation Number 29/1974 as amended by Government Regulation Number 12 Year 1988. The Government Regulation is now renewed into Government Regulation Number 15 Year 2004.

As stated by its mission, Perum Perumnas has to be able to mobilize the development of housing and settlement in order to promote guided and controlled regional development and to realize the improvement of the quality of life of the community at large.

Other missions are to carry out the development of housing and settlements in new areas or in regional rejuvenation, producing homes that are decent and affordable for middle to low income community (public service obligation) as well as to create business opportunities and employment. In addition, Perum Perumnas has to be able to gain profit based on the principle of sound corporate management so as to be able to grow and develop.<sup>26</sup>

Therefore, there are three important aspects that become the focus of Perum Perumnas's missions, i.e. the aspect of urban and environmental master plan control, the consumer aspect, and *Good Corporate Governance (GCG)* that promotes efficiency,

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<sup>26</sup> *Corporate Profile Perum Perumnas*

profit and business sustainability. Considering those missions, the main goal of Perum Perumnas is the provision of decent housing for middle to lower group of the community. In other words, Perum Perumnas is the servant to the fulfilment of community's basic rights to get decent housing.

To support the agenda, the Government has invested capital separated from the State Budget to Perum Perumnas in different forms, ranging from liquid funds, fixed assets (buildings, houses) and land. On December 31, 2001, the asset of Perum Perumnas was IDR 431,673,246,588 (four hundred thirty one billion six hundred seventy three million two hundred forty six thousand five hundred eighty eight rupiah); the asset owned by Perum Perumnas comprises:<sup>27</sup>

- a) The capital for company establishment obtained in 1974 of IDR1,000,000,000 (one billion rupiah).
- b) Additional placement of state capital coming from the State Budget of 1975/1976 until 1990/1991 of IDR 212,090,765,190 (two hundred twelve billion ninety million seven hundred sixty five thousand one hundred ninety rupiah).
- c) Conversion of lending as former cost of World Bank consultant/s into additional placement of state capital obtained in 1982 of IDR3,658,072,126 (three billion six hundred fifty eight million seventy two thousand one hundred twenty six rupiah).
- d) The fund for the development of rental flats (Rusunawa) obtained in 1994 until 2001 of IDR194,330,769,594 (one hundred ninety four billion three hundred thirty million seven hundred sixty nine thousand five hundred ninety four rupiah).
- e) The fund from the selling of ex NV. Volkshuisvesting houses obtained in 1991 until 2001 of IDR 8,080,565,400 (eight billion eighty million five hundred sixty five thousand four hundred rupiah).
- f) State Wealth in the form of Wood Production Unit of Suriakencana in Cibadak, Sukabumi and Wood Processing Unit in Semarang that was stated as additional placement of state capital through the Government Regulation Number 7 Year 1988 of IDR 4,800,000,000 (forty billion eight million rupiah).

Lands in:

- a) Klender, of 150 Ha, and Cengkareng, of 144 Ha, obtained in 1975 of IDR 2,476,681,086 (two billion four hundred seventy six million six hundred eighty one thousand eighty six rupiah).
- b) Depok, of 112.977 Ha, obtained in 1975 with the value of IDR 671,739,192 (six hundred seventy one million seven hundred thirty nine thousand one hundred ninety two rupiah).
- c) Bekasi, of 62.56 Ha, that was determined as additional placement of state capital through the Government Regulation Number 29 Year 1994 with the value of IDR 4,564,654,000 (four billion five hundred sixty four million six hundred fifty four thousand rupiah).

From the data, the assets of Perum Perumnas seem very small. But this is mainly because of the method of asset calculation using as a reference the basic price when they were obtained. If the asset is converted to the real value in the present, the asset of

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<sup>27</sup> Government Regulation Number 15 Tahun 2004 tentang Perum Perumnas

Perum Perumnas will surely be multiplied from the figure mentioned in Government Regulation number 15 Year 2004.

Apparently Perum Perumnas meets many obstacles to achieving its mission. In the note of Suwito Santoso, in Jakarta the rate of development of housing for upper middle class outnumbers the rate of development of simple housing for middle to lower class.

In his calculation, in 2005-2006, when the construction of apartments is completed, there will be an addition of about 25 thousand apartments. Similarly with the shopping centre, in 2006 there will be 10 other buildings in the shopping centre with a capacity of more than 100 thousand units of stores. Meanwhile, as seen in the composition and statistics of the Jakarta population, the number of inhabitants classified as middle to lower class is much larger than the upper middle class.

At the same time, the development of simple houses as well as simple flats can be said to show no meaningful growth. Property for the middle to lower class is barely made available by developers. The blow of economic crisis made the costs of construction materials soar and this exacerbates the condition of the needy with regards to the need for homes.<sup>28</sup>

Although the development of housing for the poor was done before the crisis, it was not supported with adequate infrastructure so that the areas of housing complex developed cannot be expected to grow into new urban areas. This makes big cities cramped by millions of people. If the development of the simple housing was supported by the development of adequate infrastructure such as water installation, electricity and transportation, it would ensure that the middle to lower class community who provide a living for their family in the central areas of the city would be consolidated.<sup>29</sup>

The absence of infrastructure support causing the low occupancy rate of housing for middle to lower class of community leads to the low productivity of Perum Perumnas as the provider of land as well as housing. This problem triggered the problem of the lands owned of Perum Perumnas left vacant in the past several years.

A situation like this makes inevitable the use of Perum Perumnas land by the lower class of community who do not own land and homes. The increasingly high cost of land in the urban areas and the low productivity of land asset of Perum Perumnas become the triggers of violation conducted by the management of Perum Perumnas by practising land trading and renting to businesspeople.

Because of this, it is not surprising that the practice of eviction by the apparatus of Jakarta administration conducted at the request of Perum Perumnas are common in several places. The biggest eviction happened in 2003 in Kampung Baru, Cengkareng where 1,500 Heads of Family in the area were forced to leave land owned by Perum Perumnas.<sup>30</sup>

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<sup>28</sup> Suwito Santoso, 2004. *'Harapan Bisnis Properti Masa SBY-Kalla (Prospect for Property Business under SBY-Kalla)'*, Kompas, 14 October.

<sup>29</sup> Kompas, 2004. *'Memimpikan Rumah Rakyat Miskin di Perkotaan (Dreaming About Poor People's Homes in the Urban Area)'*, October 11.

<sup>30</sup> Kompas, September 9, 2003

This is surely an ironic condition as one of the missions of Perum Perumnas is to become the provider of homes for the middle to lower class, rather than to evict in its own name. What is concerning is that Perum Perumnas had to spend a budget of IDR 12 billion to finance the eviction process.<sup>31</sup>

Financially, the condition of Perum Perumnas is actually not bad. Before the fall of Perum Perumnas in the period of 1993 through 1998, the spending for salary of its employees was taken from the interest of its bank deposits. This indicates that Perum Perumnas has a surplus. But the allegation of corrupt practices undermined this state-owned company and made the financial performance of the company unsound. As a result, the short-term loan of about IDR 859 billion rupiah in the period of 1993-1998 had to be borne.

In 1998, the Attorney General of Indonesia through Jampidsus (Deputy Attorney on Special Crimes) conducted an inquiry to investigate the allegation of corruption against the Directors of Perum Perumnas in the period of 1993-1998 related to a number of cases. Among others were the use of commercial lending that was not in line with its appropriation, development of housing with a business partner that brought a loss to Perum Perumnas, choice of land location with economic value, mark-up of land purchase price, mark-down of the volume of land filling, and distortion of project tenders in a number of locations. These cases have also been reported by *Sekar Perumnas*, in union with Perum Perumnas and Indonesia Corruption Watch, to the Attorney General of RI. However, similar with other corruption cases, the inquiry and investigation conducted by the Attorney General was terminated with the issuance to stop the investigation (*Surat Perintah Penghentian Penyidikan*).

The bankruptcy suffered by Perum Perumnas with the loan burden in 1998 reaching IDR 859 billion forced the sale of a part of the asset of Perumnas, based on the decision of Board of Directors. One among others that later created problem was the selling of Perumnas land in Cengkareng, in which corruption allegedly took place and could bring loss to Perum Perumnas by as much as billions of rupiah.

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<sup>31</sup> Letter Number 1163/1.711.5 dated June 24, 2003 from the Mayor of West Jakarta, Sarimun Hadisaputra to the President Director of Perum Perumnas concerning the Budget of Operational Cost of measures against squatter settlement in the location of Perum Perumnas of Bumi Cengkareng Indah, Cengkareng, West Jakarta.

### 3. Housing in Jabotabek

Apart from being the capital city and centre of government, Jakarta is also the centre of economy of the country as well as the engine of economic growth. Therefore, Jakarta becomes the city with the fastest development. The economy makes Jakarta the main target of job seekers from across the country. Annually it is estimated that around 200,000 people from different regions, especially in Java, come and increase the number of workforce in Jakarta.

The population of Jakarta in 2005 reached 8.3 million people, while those of the whole area of Jakarta, Bogor, Depok, Tangerang, Bekasi and Cianjur reached 23.03 million people. Table 9 shows the detail of population in the area of Jabodetabek Metropolitan and Cianjur.

**Table 9. Detail of population in the area of Jabodetabek**

Region	Area (km <sup>2</sup> )	Population
DKI Jakarta	661.52	8,356,489
City of Bogor	118.50	743,086
District of Bogor	2,388.93	3,489,096
City of Depok	200.29	1,146,047
City of Tangerang	184	1,311,585
District of Tangerang	1,110.38	2,775,325
City of Bekasi	210.49	1,639,042
District of Bekasi	1,065.35	1,642,875
District of Cianjur	3,467.12	1,931,006

*Source: Demographic Census 2000 (Kompas, 19/12/2005).*

While Jakarta is the centre of government and economy, the other regions act as supporting zone. As the supporting zone, Tangerang, Bekasi and Bogor provide land and facility for farming, industry, trade and housing.

The big population and workforce in Jakarta lead to increasing need for housing. Land prices are getting more and more expensive and housing in Jakarta becomes unaffordable for the majority of those who work in the capital. This situation encourages the emergence of housing areas in the outskirts of Jakarta, such as in Tangerang, Bekasi and Bogor, which grow into a dense settlement area with affordable prices.

Some areas on the outskirts of Jakarta, originally rural areas like Depok, Ciputat and Pondok Gede, eventually changed into settlement areas. The outflowing population of Jakarta also makes other areas around Jakarta, such as Serpong, Karawaci, Cikarang, and Cimanggis, become areas of settlement, trade and service. Areas like Serpong, Karawaci and Cikarang have even developed into separate cities with their own facilities. Iskandar Saleh in his dissertation describes the hierarchy of the area of Jabodetabek Metropolitan in Table 10.

**Table 10. Urban Hierarchy of Jabotabek Metropolitan**

City hierarchy	Jabotabek			
	Jakarta	Bogor	Tangerang	Bekasi
Centre	Jakarta			
Centre Level I		Bogor	Tangerang	Bekasi
Centre Level II		Depok	Ciputat	Pondok Gede
Centre Level III		Cimanggis Cibinong Citeureup Ciampea Cinere	Pondok Aren Cikupa Serpong Balaraja Sepatan Teluk Naga Legok/Curug	Tambun Cikarang Lemah Abang Babelan

Source: Saleh, 1999.

### 3.1 Transportation

The fast development of settlement areas in the outskirts of Jakarta, however, creates a new problem that cannot be easily overcome, i.e. transportation. Millions of people who live in the outskirts and suburbs of Jakarta travel to the city in the morning and back in the evening. Traffic congestion is a regular sight in Jakarta, especially in the morning and evening. The traffic is exacerbated by the absence of good public transport provision by Jakarta city administration. As a result, whenever possible, people choose to use private cars and motorcycles, which lead to worse traffic in Jakarta.

The Governor of Jakarta, Sutiyoso, has launched Macro Transportation Pattern (MTP) in 2001. This will integrate four transportation infrastructures, i.e. priority bus or busway, light rail transit (monorail), mass rapid transportation (subway system) and river transportation. MTP will be completed in 2007 or 2010 at the latest. Based on World Bank guidelines, busway investment is as much as USD 2 - 5 million per kilometre, monorail USD 20-25 million per kilometre and subway system USD 45 - 105 million<sup>32</sup>.

The MTP planned by Jakarta Governor will add to various existing modes of transport, i.e. train, city buses, medium-size buses (metro mini) and many kinds of other public transports. Apart from those owned by the government, like *Perum PPD*, most public transport is managed by the private sector. The problems are that they are far from decent. Rampant crimes on public transports, overcrowded with passengers, including those sitting on the roof of electric trains, and frustrating traffic congestion are reasons why the government created MTP.

However, no matter how large the mass transportation infrastructure is constructed, it will not be able to overcome the problem as long as the various basic problems are not addressed. *Firstly*, mass transportation only connects areas within Jakarta city whereas what contribute to the congestion are the private vehicles of the population entering the Jakarta city every day. This means that mass transportation will only make a difference when it can connect the city centre with settlement areas in the outskirts of Jakarta.

<sup>32</sup> Kompas Daily, 19/12/05

*Secondly*, most people cannot afford housing in the city, so they live in the suburbs and become the cause of congestion through their daily journeys of coming in and out of the city. Until the government provides incentive and subsidy to reduce the cost of housing in the city, people will still be concentrated in the suburban of Jakarta.

*Thirdly*, various plans of city management will not be effective if the Jakarta Governor can only have limited authority. It is timely that Jakarta management is changed into Megapolitan because Jakarta and its surrounding cities have practically merged. The areas of Bogor, Tangerang, Bekasi and Cianjur have merged with the outskirts of Jakarta. When managed separately and not coordinated well, many problems will not be settled.

*Finally*, Jakarta will always be the target of urbanization if the long-term economic development policy does not succeed in fostering new economic centres outside Jakarta. Poor people will leave their villages and towns and move to Jakarta if infrastructure and other incentives for economic growth are not provided by the government, be it national or local. So far, economic development has been concentrated in Jakarta and has made it an area in the country that has high economic growth.

Economic growth will encourage the emergence of both service and manufacturing industries. The existence of industry creates a demand for workers. Unfortunately, not all workers coming to Jakarta have adequate skills to be accommodated by the formal sector. Some of the population moving to Jakarta enter the informal sector. Then, the next problem arises, i.e. the emergence of street peddlers that cannot be easily regulated, and slum settlement in Jakarta.

### **3.2 Flooding**

Flooding in parts of the city when rainy season comes is another problem Jakarta has. Geographically, Jakarta is a lowland with an average of 0-2 per cent of slope elevation; therefore, topographically, Jakarta is categorized as lowland shore and 60 per cent valley and hilly land. There are 13 rivers both natural and non-natural passing Jakarta; 10 of them flow to the Jakarta gulf. The rivers passing the city are Mookervaart, Anke, Grogol, Pesanggrahan, Krukut, Kalibaru Barat, Ciliwung, Klaibaru Timur, Cipingan, Sunter, Buaran, Jatikramat, and Cakung.

Besides rivers there are also bodies of water which were naturally formed, i.e. lake or pool, though some have now been filled in, or artificial in the form of reservoir. The pools existing in South Jakarta were Babakan Pool, Mangga Bolong Pool and Ulujami Swamp. In East Jakarta there were Rorotan, Kelapa Dua Wetan and Dongkal swamps, while North Jakarta had Rawa Kendal pool. The total area of the bodies of water was 152 ha. Meanwhile, the big reservoirs in Jakarta are Pluit, East Sunter III, East Sunter I, North Sunter (North Jakarta), West Tomang, Wijayakusuma, Grogol (West Jakarta) and Setiabudi (Central Jakarta).

In the Dutch colonial era, the city of Jakarta was actually designed like Amsterdam with a lot of canals. Besides imitating the Dutch city, the canal development was meant to prevent flooding. However, after the Indonesia got its independence and Jakarta developed rapidly into a metropolitan city, a lot of canals were closed. Now, some of the canals have been turned into settlement areas. As a result, North Jakarta has regularly suffered from flooding.

Moreover, Jakarta experienced big floods in 1996 and 2002. In the 2002 flood, 365,435 people were forced to flee. In the city of Jakarta, the flood took 46 lives, while 22,860 were sick and 13,000 suffered from diarrhoea. Bekasi was also hit by the flood and there were six casualties. Almost 25 per cent of Jakarta was inundated. North Jakarta was the area hit the hardest, where an area of 76.881 ha was inundated followed by West Jakarta with around 5420 ha. The flood also cut 17,000 telephone connections, inundated and damaged 1,570 electrical stations, causing a financial loss over 40 million. Apart from covering the main streets of the city, the flood also damaged 100 km of streets in the city and 218 school buildings<sup>33</sup>.

Why has flooding become a regular disaster in Jakarta, with two big floods in 1996 and 2002 inundating a quarter of the city area? There are several factors explaining this matter. Firstly, the early warning system does not work well. The meteorological office, BMG, had already warned the Jakarta government, both in 1996 and 2002, that the rainfall was very high. But the city government ignored it and only allocated small amount of fund. In the Provincial Budget of 2002, the provincial government allocated IDR 294 billion, which was only 4 billion higher than the previous year's budget in spite of the warning from BMG on the danger of flood. Consequently, when the flood hit the city, only 54 rubber boats were available. Out of the 144 water pumps, only 106 were working<sup>34</sup>.

The second factor is the changing function of land. Formerly, the sea shores of Jakarta were an area of mangrove but there is dense settlement. Hence, the swamps that functioned as water reservoir no longer exist and the water runs into the settlement. Jakarta's water was also retained in the pools. But just like the mangrove, the lakes have turned into settlement. Table 11 shows the pools that have shrunk or changed function.

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<sup>33</sup> ISJ, 2003: 153-154

<sup>34</sup> ISJ, 2003:145

**Table 11. Bodies of water in Jakarta that have changed function**

Region	Name	Area	Condition
North Jakarta	Rorotan Swamp	50 ha	No longer exists, filled in and turned into settlement
	Kendal Swamp	20 ha	No longer exists. The provincial government will rebuild in 2010.
	Pluit Dam		On a part of its area was developed a building, i.e. Pluit Mega Mall.
	Canal Food		On a part of its area were developed buildings, among others in Muara Karang Condominium.
East Jakarta	Penggilingan Swamp	5 ha	The remaining area is 1 as it has changed function into settlement and industrial areas (Jakarta Industrial Estate of Pulo Gadung)
South Jakarta	Ulujami Swamp	10 ha	No longer exists, filled in and turned into settlement. In 2010 a water reservoir of 8 ha will be developed.
	Babakan Pool	32 ha	Area shrank into 17 ha, other changed into settlement.
	Mangga Bolong Pool	16 ha	The remaining area is 12 ha.

Source: ISJ, 2003: 157

The floods in Jakarta were also attributed to the changing function of water catching areas. In the areas appropriated as green belt to catch water, there have been constructed luxurious building or settlement areas. The changing function of mangroves into Indah Kapuk Beach luxurious area in North Jakarta, among others, contributed to the phenomenon of flood as a periodic disaster. Not only striking the settlement outside the real estate, flood often also inundates the toll road that is the only access to the Soekarto-Hatta International Airport.

**Table 12. Catching areas in Jakarta that have changed function**

Region	Catching area
North Jakarta	Indah Kapuk Beach Housing Kelapa Gading Housing Sunter Industrial Area
South Jakarta	Mulia Hotel Pondok Indah Hospital
West Jakarta	Taman Anggrek Condominium Puri Indah Housing and Business Centre

Source: ISJ, 2003: 157.

The changing function of catching areas into settlements also took place on the outskirts of Jakarta, i.e. Bogor District. In the mountainous area that is supposed to be the catching, many villas and tourism centres were developed. As a result, water from Bogor directly flows into the rivers and finally increases the water volume in Jakarta and causes

flood. The alteration of buffer area of Jakarta as in Bogor was attributed to the absence of coordination between Jakarta and Bogor District Governments. Therefore, the idea to establish the Jakarta Megapolitan area by bringing the buffer area of Jakarta into one management or coordination is a must.

Water catching areas, which are supposed to be a public and social facility, were not commonly made available by the real estate and property developers. Out of the 162 Letters of Permit of Land Use Appropriation (*Surat Ijin Peruntukan Penggunaan Tanah, SIPPT*) issued to the real estate developers, only 41 SIPPT's have submitted social and public facilities. The rest, 121 SIPPTs have not developed water catching areas as social and public facilities. While from the property sector, only 6 out of 179 SIPPTs issued have developed water catching area. Total deficiency of social and public facilities in the property sector reaches 38 ha<sup>35</sup>.

One of the causes of the changing function of land and city planning is actually the practice of corruption. The city plan became disorganized as long-term planning was disregarded by corrupt policies. The areas that are supposed to function as catching areas had to function as trade areas because they are located in strategic places. Behind the alteration and inconsistency of city plan, there is no other reason that gives better explanation but corrupt practices.

Among other cases that attracted media attention in 2005 was corruption allegation of State Secretariat's assets. One of the Secretariat's assets is Senayan area, which according to the city plan of Jakarta was supposed to be a green, water catching area, and the lung of the city. Several hotels have now been built in Senayan, including the Hilton Hotel. It was revealed later that there was a corruption allegation and some people have been named the suspects in early 2006, from among hotel owners as well as officials at the State Secretariat.

One of the solutions is to develop the East Canal Flood (*Banjir Kanal Timur, BKT*), adding to the existing West Canal Flood (*Banjir Kanal Barat, BKB*). BKT will accommodate water from rivers and alter the flow so that it will not enter the city of Jakarta. BKB accommodates and alters the water flows from Ciliwung, Krukut, Kalibaru Barat rivers while BKT will retain water from Cipinang, Sunter, Buaran, Jati Kramat and Cakung rivers. The water channels of BKT will be developed along 23.6 km of 100 m width with 36 m new inspection roads on the left and right sides, and passing through 13 subdistricts in North and East Jakarta.

To Kompas Daily<sup>36</sup> the Project Manager of BKT from the Department of Public Works, Pitoyo Subandrio, said that BKT was not everything. The development of BKT will not automatically prevent the flood that has become the annual ritual of Jakarta. When the development of BKT is completed in 2008 or in 2010 at the latest, what can be handled will only be flooding in East Jakarta area and some part of North Jakarta. Other problems contributing to flooding, according to Pitoyo, is the habit of the community who often throw away garbage into the rivers, which blocks them and causes a flood.

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<sup>35</sup> ISJ, 2003:158

<sup>36</sup> Kompas Daily (19/12/2005)

The other solution taken by the city government is forced eviction of the settlement on the river banks. There is a large poor community who, as they cannot afford a house near their workplace, are forced to settle on river banks. Consequently, the rivers get narrower and this becomes one of the causes of flooding. The Jakarta Government has tackled this by forced eviction. Regrettably, the city government is regarded as being inconsistent and unfair as the forced eviction was directed towards the poor only. On the other hand, the changing function of open green space into real estates and trade centres were not subject to sanction, let alone eviction.

### **3.3 Housing in Jakarta**

Eviction is one among other social problems taking place often in, both eviction of squatter settlement and eviction of street peddlers. The eviction is conducted by the provincial government in order to impose city order.

Specifically, the last eviction of residents was related to flooding. One of the causes of flood, according to the city government, is the fact that there is dense population living on the river banks. As the consequence, the river clogs up and the water overflows when heavy rains pour water to Jakarta rivers. The slum settlement was also often considered as a centre of crime and poverty. Because of that, the Jakarta City Government enforces Regional Regulation Number 11 Year 1998 concerning Public Order.

However, according to Jakarta Social Institute's study, out of 16 evictions in 2001 only two cases of eviction were judged as having some relevance with violation of the aforementioned Regional Regulation on public order. For the rest, although the Regional Regulation number 11/1998 was used the action was taken because of land dispute between the community and a corporation.

Apart from the various motives behind eviction, the measures were connected to the capacity and obligation of Jakarta city government to provide homes for its residents. The residents are forced to settle in slum settlements, on river banks or below an overpass as they do not have access to housing. If they could choose, surely they would live in a healthy house. Circumstances have forced them to do otherwise. According to the Minister of People's Housing, M. Yusuf Asy'ari, Jakarta has changed into the biggest slums, followed by big cities in Java Island<sup>37</sup>.

Such a situation forces the provincial government to provide housing for its residents. It is estimated that in 2015 Jakarta will be home to around 10.4 million people. In the past ten years there has been a demand of 700,000 homes or 70,000 homes every year. On the other hand, Jakarta has only 39,691 ha of land for housing so that flats are the alternative. In the present days, the ratio between landed house and flats is 60:40<sup>38</sup>.

With the ratio of 60:40, the need for 700,000 homes is fulfilled with 420,000 landed house and 280,000 flats. This way, annually the Jakarta Provincial Government should develop or give incentive for the development of 28,000 flats. Out of 28,000 flats built annually during 2005-2015, upper-class flats or luxury apartment make 20 per cent of them and annually 5,600 should be developed . Middle class flats make 40 per cent of the supply

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<sup>37</sup> Kompas Daily, 9/12/05

<sup>38</sup> Julianery, 2005

and 11,200 units need to be provided. The same amount of low-class flats are needed<sup>39</sup>. However, this calculation seems to be difficult for the Jakarta Government to fulfil.

Based on the Letter of Decision of the Governor Number 540, in every purchase of land over 5000 m<sup>2</sup>, 20 per cent of it has to be allocated for flat development. Just like other policies, however, there is no monitoring and law enforcement upon that regulation. As a result, since 1998 there have been 163 developers that do not carry out their obligation to build flats<sup>40</sup>.

One of the problems making the development of flats difficult is that there is no incentive provided by the Local Government for developers. The real estate businesspeople are therefore more interested in constructing condominiums and apartments for middle and upper class people. The property market in Jakarta has a strange characteristic in that the more expensive and unique a property product, the more people want to buy it. This way, with the expensive price, the developers also earn larger profit.

The licensing cost needed to build a flat or simple housing is 20 per cent of the price. Even more, according to Willy Prananto, Deputy Chairman on Law and Regulation of the Regional Board of Indonesian Real Estate (REI), the licensing cost to build flat is as much as the cost spent to request an apartment licence<sup>41</sup>. A similar statement is made by Lukman Purnomosidi: given the expensive licensing cost to build flats, it is more profitable for developers to build apartments.<sup>42</sup>

With no incentive at all the developers prefer developing apartments or real estate. By developing real estate they get a bigger profit in a shorter term. There is a licensing cost, but as the amount is the same as that to build flat, luxury apartment development becomes the preference. The more expensive the product is offered, the less is the percentage of licence cost spent.

Apart from obliging developers to build flats, the Jakarta Government also allocates a Provincial Budget for flat building. However, in 2005 the Jakarta Government could build only 3,360 units. The obstacle was primarily the lack of funds. The Jakarta Provincial Budget allocated only 2 per cent or IDR 150 million for the development of flats. In practice, the Jakarta Government so far can only realize the construction of 600-700 flats every year.

Besides the availability of flats, another important issue to raise is for whom flats are built? At the beginning, flats were provided to those who lived in dirty settlements along the railway track and the urban poor in Jakarta. But in later development, because of their strategic location and the increasingly expensive monthly cost of gas, water, and maintenance, lots of flats changed hands. In many flats, branded cars occupy the parking lots, meaning that the flats are inhabited or owned by the middle class. By staying in flats located in the central city, middle class people can avoid being trapped in traffic jams every day.

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<sup>39</sup> Julianery, Kompas 9/12/05

<sup>40</sup> Kompas Daily, 8/12/05

<sup>41</sup> Sinar Harapan Daily, 2003

<sup>42</sup> Interview with Lukman Purnomosidi, Chairman of the National Board of REI

There is actually a niche in the housing market that has not been addressed by developers, i.e. middle-class apartments with a price range of IDR 100 - 200 million, which is similar with the price of housing in the outskirts of Jakarta. These apartments would be affordable for those who now occupy flats intended for the urban poor in Jakarta.

### 3.4 Analysis of Jakarta regional budget

Is it true that the Jakarta Government does not have enough funds to build cheap housing or flats? To answer the question, let us look at the Jakarta Provincial Budget.

In fact, the Province of DKI Jakarta is one of wealthy provinces in Indonesia. One of the indicators is the large Original Regional Revenue (PAD) that constitutes half of the total regional revenue. Table 13, indicating the composition of Jakarta revenue during 2000-2005, shows the increase of PAD in the last few years. PAD is obtained from advertisement tax, property tax, parking and other income for activities or services. This suggests that, as the capital city, Jakarta relies on the service and trading sectors.

With the large amount of PAD, Jakarta has the freedom to direct the city development. The small amount of balance transfer fund, i.e. assistance fund from the national government, leads Jakarta to having bigger independence economically in comparison to other regions to organize its territory.

**Table 13. Composition of Regional Revenue of Jakarta Province during 2000-2005 (in IDR billion)**

Year	Source of Revenue						Total	
	Region-based Revenue		Balance Fund		Other legal sources of revenue <sup>43</sup>			
	Value	%	Value	%	Value	%	Value	%
2000	1,359.44	40.11	1,405.25	41.46	624.69	18.43	3,389.42	100
2001	3,050.39	40.69	3,292.63	43.93	1,152.51	15.38	7,495.54	100
2002	3,546.42	39.85	3,731.07	41.93	1,620.91	18.22	8,898.40	100
2003	4,661.73	52.24	4,261.64	47.76	0	0	8,923.36	100
2004	6,134.56	55.70	4,701.01	42.68	176.74	1.60	11,012.31	100
2005	6,639.20	56.37	4,994.80	42.41	192.30	1.63	11,776.30	100

Source: *Regional Budgets 2000 - 2004 and Financial Note 2005 of Jakarta Province (FITRA, 2005)*.

Then how does the Jakarta Government disburse their money? For what purposes is the Provincial Budget allocated? In general, Table 14 categorizes regional expenditures into two types: i.e. regional officials and public service.

**Table 14. Composition of Regional Expenditure of Jakarta Province based on Types of Expenditures during 2000-2004 and Draft Regional Budget 2005 (in IDR trillion)**

Year	Value of Regional Expenditures	Type of Expenditure			
		Regional Officials		Public Service	
		Value	%	Value	%
2000	3.39	2.36	69.62	1.09	30.38
2001	7.09	4.99	70.38	2.51	29.62
2002	9.35	5.72	61.18	3.63	38.82
2003	11.56	4.23	36.6	7.33	63.4
2004	12.16	3.98	31.9	8.18	68.1
2005	13.839	5.76	41.62	8.07	58.31

Source: Jakarta Province Regional Budget Year 2000-2004, Draft Regional Budget 2005/Financial Note in 2005 (modified)

In 2000, when the regional autonomy policy was launched by the national government, which devolves more authority to regional governments, more than half of the budget was used to finance regional officials. Going into detail, the regional official expenditures comprise salary of civil servants and operational costs of government offices. However, along with the increase of PAD, public expenditures also increase. Public expenditures are budget allocated for development of public facilities, e.g. infrastructure, cleaning and others. Started at 2003, the public expenditures have constituted more than half of the institutional cost of the government. Although this expenditures declined in 2005, it still had a larger portion than the expenditure for officials.

How then are public expenditures used? For what sectors are they allocated? Table 15 can give an illustration on allocation of public expenditures in the last three years.

**Table 15. Regional Expenditure of Jakarta Province based on Fields of Development during 2003-2004, Draft Regional Budget 2005 (in IDR billion)**

No	Field of Development	Year						% Average
		2003		2004		2005		
		Value	%	Value	%	Value	%	
1.	Law, security, public order and national unity	485.74	4.20	778.83	6.16	641.13	4.63	4.99
2.	Government	3,724.44	32.21	3,062.11	24.24	3,507.78	25.34	27.25
3.	Economy	458.21	3.96	460.174	3.64	474.99	3.43	3.67
4.	Education and health	2,878.38	24.89	3,784.45	29.96	3,562.82	25.74	26.85
5.	Population and employment	168.05	1.45	167.44	1.32	186.59	1.34	1.37

6.	Social and cultural affairs	816.36	7.06	985.54	7.8	949.34	6.85	7.23
7.	Natural resources and environment	657.40	5.69	658.90	5.21	848.02	6.12	5.67
8.	Urban facility and infrastructure	2,374.34	20.53	2,733.58	21.64	3,668.55	26.50	22.89
<b>Total</b>		<b>11,562.93</b>	<b>100</b>	<b>12,631.05</b>	<b>100</b>	<b>13,839.24</b>	<b>100</b>	<b>100</b>

Source: Financial Note of 2003, 2004 and 2005 of Jakarta Province

On average, the cost for employment and population, which in general means the cost for housing and provision of job opportunities, gets only 1.37 per cent of the total budget, while the cost allocation for public law and order and the unity of the nation, which can be generally interpreted as the cost to carry out eviction of squatter settlements and street peddlers was as much as 4.99 per cent.

From the budget allocation, the cost for housing construction was smaller than the eviction cost. The cost of creating or encouraging the provision of job opportunities was less than the cost to organise evictions of street peddlers and squatter settlements and maintenance of order in the city's other facilities. It is to be noted that the target of maintenance of order is always the poor. There is no such act against occupancy of public land by public interests. Instead of enforcing order or running eviction, the City Plan would be twisted to adjust with illegal occupancy that has taken place<sup>44</sup>.

### 3.5 Illustration of licensing bureaucracy in Jakarta Province

In 2005, the attempt to fulfil the demand for housing experienced a crisis of about 6.5 million units. This figure results from the difference between the public demand for housing and the housing construction that was completed. The slow effort to meet the demand for housing was attributed to the reluctance of private developers to be involved in housing construction, especially the subsidized simple housing.

Among other causes of the developers' reluctance was the factor of high cost economy. What is meant by high cost economy is the existence of many different charges, both official and illegal, in the process of housing construction. Among other charges were the cost of certificate issuance, the licence to build property, and the cost of gaining rights over the land and property.

Although initially all licensing responsibilities were borne by the developer, all the licensing cost will be charged to the consumers, so that the price of house becomes more expensive. As an illustration, the cost to gain rights on land and building of subsidized Healthy Simple Houses (RSS) is 5 per cent of the price of the house itself. This does not include other licences that must also be paid.

In Jakarta Province, for instance, in order to be able to build a house or office building, mall or other property, the developer has to obtain a principle licence; among others are

<sup>44</sup> Kompas Daily, 31/7/1999

SP3L (The Principle Agreement Letter of the Site/Land Purchase), SIPPT (The Licence of Land Appropriation) and IMB (The Licence of Building Construction) issued by the Government.

The problem later is not only related to the high costs, but also the fact that licensing bureaucracy is long-winded and very lengthy. Even to get only one licence, sometimes three years are needed. Therefore, some developers take the short cut of doing marketing before the licence is obtained, an approach that may cause problems in the future.

As explained in the general clarification produced by the Jakarta Provincial Government, SP3L is a letter issued by the Governor of DKI Jakarta concerning an agreement of the purchase of a tract of land located on a main lane and/or if the size is the same as or larger than 5000 m<sup>2</sup>, the exploitation of which must be adjusted to the city plan. The unit serving SP3L is the Advisory Body of Land Affairs (BPUT) where the Governor of Jakarta acts as Chairman and the Head of City Plan Office as Secretary.

The benefits and uses of SP3L are as follows:

1. Licence to purchase site/land in Jakarta from the Governor of Jakarta in accordance with the Letter of Decision of the Governor of DKI Jakarta Number 540 of 1990.
2. The letter constitutes one of the requirements in order to request for SIPPT in Jakarta for physical construction and right certification over the land.
3. Sanction can be imposed if purchase of site/land in Jakarta is done without SP3L in accordance with the Letter of Decision of the Governor of Jakarta Number 640 of 1992<sup>45</sup>.

As admitted by Willy Prananto, The Deputy Chairman on Law and Regulation of the Jakarta Regional Board of Indonesian Real Estate to *Sinar Harapan Daily* (2003), it takes at least 10 months to obtain an SP3L, with a condition that the related officials are available. In reality, the licence can only be obtained after waiting for three years. That is also the case with the licence of SIPPT which, based on the experience of Regional Board of REI of DKI of Jakarta, takes at least 1 year.

Willy also regrets that the licensing for flat construction is treated as the same as that for apartment construction. This surely brings in the consequence that flats cannot be offered at an affordable price as the licensing cost is very expensive.

The complaint is shared by Lukman Purnomosidi, the General Chairman of National Board of Real Estate Indonesia. According to him, the price rise of RSS (Healthy Simple Houses) of 16 per cent, from IDR 36 million to 42 million for 36/90 type is unavoidable as an impact of the rise in fuel prices. However, REI hopes that the government can address the issue of high cost economy that is related to the licensing process, certification, and infrastructure development<sup>46</sup>.

According to Lukman Purnomosidi, the high cost economy in the simple housing sector involves three things: i.e. licensing, certification and supply of infrastructure such as electricity. As for electricity, developers have to pay construction costs and grant financing. What is meant by grant financing is that for the provision of electricity poles,

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<sup>45</sup> [www.pemdadki.go.id](http://www.pemdadki.go.id)

<sup>46</sup> [www.kapanlagi.com](http://www.kapanlagi.com), May 12, 2005

wires, and so on. The grant for one house may reach IDR 1 million, whereas the price of an RSS house is IDR 47 million. This does not include the IMB (building construction licence) issuance cost of IDR 1 million, certification cost of 1 million, and others, so that when the costs for licensing, certification and infrastructure development are summed up they can constitute IDR 4 to 6 million. In total, the licensing, certification and infrastructure construction costs may end up as much as 10 per cent of the end price of an RSS.

According to Iskandar Saleh, The Deputy Minister of Housing for Financing Affairs, the high licensing and other costs related to house construction, which sometimes are as large as those needed to construct a luxurious house, as well as difficulty in obtaining a licence in a short time, can be seen as the unwillingness of the Government to take sides, especially of the Regional Government to the poor.

Why the Regional Government? This is because the licensing practices, ranging from IMB, land certification, certification of Property Right of Usage to issuance for individuals, are in the hands of Regional Government. Therefore, in order to deal with the barriers of licensing bureaucracy in the housing development for the poor, Iskandar Saleh proposes that licensing simplification of bureaucracy and removal of tariffs on licensing so that they do not burden consumers from the low class community.

Apart from the one-size-fit-all policy on licensing cost that leads to the expensive price of a simple house, the absence of certainty in the period needed to obtain a licence is a separate problem. On the one hand there are many applicants who obtain a licence in short period of time but on the other hand many developers represented by Real Estate Indonesia (REI) complain about the years taken to obtain a licence.

The fact there is no certainty with regard to period of time needed indicates that there is *mal-administration*, a practice of bad administration in the public institutions by officials or employees, which in the view of British Local Government means: (1) taking too much time in doing something that is one's responsibility; (2) not following existing rules or law; (3) breaking promises; (4) treating members of community unfairly; (5) providing false information; (6) not making decision in the right way<sup>47</sup>.

In general, a measure or decision that can be classified as a part of mal-administration is as follows<sup>48</sup>:

- Involving oddity;
- Breaking the norms;
- Unfair;
- Violating the rules;
- Abusing power;
- Against propriety;
- Causing unnecessary delay.

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<sup>47</sup> Bachriadi et. al., 2005: 28

<sup>48</sup> Bachriadi et al., 2005: 30

#### 4. Best practice *Good Governance*: an experience of Solok District

Solok District has become well-known in Indonesia, especially on the issue of good governance, starting when the Head of Solok District, Gamawan Fauzi, initiated a progressive idea to eradicate corruption, mainly in the scope of administration bureaucracy. It cannot be denied that there are many factors contributing to successful eradication of corruption. One of them was the existence of political will from the leadership in pioneering the start of a change. In Solok District, Gamawan Fauzi was a figure that became distinctive compared to former heads of region as he created the foundation of a good governance system for the administration he managed.

The evidence was shown when in 2004 Gamawan Fauzi received Bung Hatta Anticorruption Award (BHACA) that was granted by BHACA Association, which ICW participated to establish. The BHACA Association itself, since it was founded in 2003, had started the selection and interview of individual candidates who had various backgrounds, including the administration, private sector and civil society, as an effort to confirm seriously who really deserved the award.

The vision of BHACA Association itself is no other than to encourage and promote individuals who have shown effort, strong will, perseverance, and real action to eliminate corruption in their own milieu. Pioneering becomes a strategic issue highlighted by BHACA Association considering that corrupt practices are rampant, and some communities have even considered it as entrenched divergence.<sup>49</sup>

In the situation where corruption has become a systemic deviating behaviour, the corruptors have frequently obtained inappropriate appreciation, as the society may define success from a material perspective, namely in terms of position held and one's wealth. Moreover, the corruptors often are regular donors in their social environment, a fact that turns them into generous Santa Claus offering help for the needy, whereas, the money used for the donation is obtained from corrupt practices.

On the other hand, people who refuse to go along with corruption are considered weird, odd, and often isolated from social relationships. One's rejection of corruption is considered even more unreasonable when the individual is in a position that allows and provides big opportunities for him/her to be corrupt, yet one resists the desire. It is people like this who become little candles in the darkness of widespread corrupt practices in Indonesia. With the presence of the BHACA reward, it is expected that there will be more and candles in terms of number and power so they can increasingly provide more good examples on the way to clean governance.

In addition to obtaining the BHACA Award in commemorating Anticorruption Day on December 9, 2005, Gamawan Fauzi and Jacob Oetama, the owner of the Kompas Daily, were awarded the *Tiga Pilar Award* by *Tiga Pilar Kemitraan* (Three Pillar Partnership). Gamawan Fauzi was appraised as having applied a pact of honesty in running the administration wheel and the agreement not to do corruption that was written in the integrity pact. The recipients of *Tiga Pilar Award* passed a selection based on a number of criteria: that they had never been sentenced for corruption, they had never made news with regards to being implicated in a corruption case, having applied free corruption

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<sup>49</sup> The background of the establishment of BHACA Association as communicated in the forms of brochures and leaflets.

management and having taken deep and brave innovative steps to eliminate corruption in their working environment.

Other evidence of his efforts to eliminate corruption in Solok District, which had been started since 1997, was when Gamawan Fauzi won by majority votes the direct governor of West Sumatera province in 2005 just in one circle. The pair of Gamawan Fauzi/Marlis Rahman got 756,657 votes (41.54 per cent) out of 1,821,446 valid votes. The number of voters who did not use their voting right was 1.045 million or increased by 40,000 compared to those not turning out to vote in the presidential election in 2004<sup>50</sup>.

The trust given by the people of West Sumatera made his way to Governor position easier. In 2005, Gamawan Fauzi was officially inaugurated as the Governor of West Sumatera for the period of 2005-2010. His serious efforts to create an administration system that was free from corruption, collusion, and nepotism during his terms as the Head of Solok District was politically very powerful in establishing his positive image. Without having to practice money politics during the political process, the steps of Gamawan Fauzi to seize the Sumatera Barat Governor position were unstoppable.<sup>51</sup>

Chronologically, the breakthrough made by Gamawan Fauzi in starting the change in Solok District can be elaborated into several phases of idea introduction, as follows:

Firstly, the establishment of administration system of Solok District in implementing *Good Governance* and *Clean Governance* by reforming the public service practice that is free from corruption, collusion and nepotism. In 1997 *Pos Pelayanan Umum Satu Pintu Plus Kantor Bupati Solok* was established, the one-door plus public service station of Head of Solok District Office, which served 30 kinds of licensing, an early breakthrough.

In his opinion, the global challenge in the present era required the existence of competitiveness in business activity and a competitive and high-quality service system. One of the barriers in the creation of competitiveness was the long twisted red tape practice in various public services provided by government apparatus. The uncertainty over requirements resulted from rules that kept changing and were burdensome. Among the complaints of the community this was taken as a serious problem. Uncertainty was also associated with the length of time needed to get a service, the lack of transparency in the cost components that had to be paid by the service seekers, and the existence of service system and procedure that were not transparent and did not have a standard.

Therefore, an effective and efficient, quick and punctual service system and mechanism was needed, to:

- Create a simplification in the procedure of first-class public for the community;
- Provide ease and satisfaction for the community in getting services;
- Give clarity and certainty with regard to procedures, requirements, cost and time needed in obtaining service;
- Create a comfortable and pleasing environment for the community while requesting the service;
- Provide information on public services for the community;

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<sup>50</sup> Kompas Daily, July 8, 2005

<sup>51</sup> Indopos Daily, July 3, 2005.

- Provide open information concerning rights and obligations as well as the requirements, both for the service provider and recipient;
- Avoid the possibility of abuse the authority and charges that were not in line with the existing stipulations;
- Create a clean authority that is free from corruption, collusion and nepotism;
- Improve the region's competitiveness in many respects, mainly in attracting investments;
- Establish a system that could be accessed and controlled by the community.

Based on the Presidential Directive Number 5 of 1994 concerning Guidelines for Simplification and Control of Licensing; Letter of Decision of Minister for The Efficient Use of State Apparatus Number 81 of 1993 on Guidelines for the Management of Public Service; Presidential Directive Number 1 of 1995 on the Improvement and Promotion of Public Service Quality by Government Apparatus for the Community; Circular Letter of West Sumatra Governor Number 14/ED/GSB/1995 on Guidelines for the Management of Public Service, the Head of Solok District published a series of regulations that stipulated the one-door plus service station, i.e.:

1. Letter of Decision of Head of Solok District Number 112/BUP-1996 on Mechanism for the Implementation of Public Service in Solok District Administration.
2. Letter of Decision of Head of Solok District Number 254/BUP-1997 on the Establishment of One Door Public Service Station in Solok District Administration.
3. Letter of Decision of Head of Solok District Number 09 of 1998 on the Establishment of One-Door Plus Public Service Station and Decision on Types of Licences and Public Services served through One-Door Plus Public Service Station.
4. Letter of Decision of Head of Solok District Number 591/BUP-2001 on the Guidelines of Licensing and Public Services in Solok District.

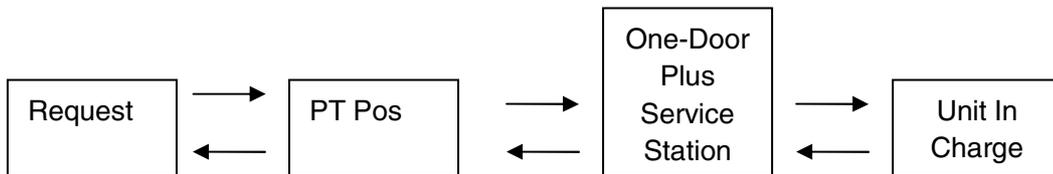
As the policy of One-Door Plus Public Service Station reached the level of subdistrict and villages, it was necessary to have an adequate infrastructure to improve the service effectiveness. Therefore, on October 1, 2000, a Cooperation Agreement Number 181/10/Huk-2000 about Service to the Community was made between Solok District Government and Pos Indonesia Ltd, Solok Post Office.

It was considered that Solok District was a relatively big region in West Sumatera, stretching from north to south along  $\pm 150$  km. The distance between subdistrict capital and District capital is around 5 km at the shortest and 65 km at the farthest, meaning that the community who wanted to obtain the service of this One-Door Public Service Station in the Head of Solok District Office might take a long time and spend a lot on transport.

By working together with Pos Indonesia Ltd, Solok community living remotely in the villages does not need to come to Head of Solok District Office to get the service. Instead, they only need to come to *Kantor Pos dan Giro* (Post Office) at sub-district level. The procedure and mechanism provided by Pos Indonesia Ltd was similar to what was given by One-Door Plus Public Service Station, although the process might take a little bit longer, but it will not exceed the determined time limit. In addition, it is not necessary for the community to spend high transportation cost as they simply need to buy postal stamps to obtain services.



**Figure 5. Direct Service Flowchart**



**Figure 6. Service Flowchart Via PT Pos Indonesia**

Some of the thirty types of service provided through the One-Door Plus Public Service Station are shown in Table 16.

**Table 16. The kinds of service available through One-Door Public Service Station**

No.	Type	No.	Type
1.	Building construction licence (IMB)	16.	Establishment of drug store
2.	Disturbances licence	17.	Licence for doctor practice
3.	Business site licence	18.	Licence for midwife practice
4.	Land use appropriation licence	19.	Licence for establishment of private training institute
5.	Advertisement licence	20.	Publication of cooperative legal entity
6.	Research licence	21.	Registration of the trading business
7.	Licence for motor transportation business	22.	Registration of company
8.	The licence for new/extended route of public transportation	23.	Licence of trading business
9.	Control card of the trade licence	24.	Licence of industrial business
10.	Incidental licence	25.	Registration of warehouse
11.	Control card for designated route of public transportation	26-30	Others
12.	The rental of district property/wealth		
13.	Birth certificate (the population statistics)		
14.	Licence for donation collection		
15.	Establishment of pharmacy		

To emphasize the aspect of transparency and certainty of requirements, time length and cost for service, Solok District government has published a brochure that explains all items concerning aspects of service. The brochure has been widely distributed throughout the community free of charge. The provision of knowledge on different things necessary for the public to know, especially in the District of Solok, was intended to make sure that the community feel easiness, convenience, satisfaction and certainty in requesting licences and the public service needed.

As an illustration, Table 17 shows a scheme to describe in detail the information in the brochure of One-Door Plus Public Service Station of the Head of Solok District Office.

**Table 17. Information contained in the Public Service Station brochure**

Type of licence	Requirements	Cost	Length of process	Period of validity
Building Construction Licence	<ul style="list-style-type: none"> <li>Letter of request</li> <li>Technical drawing</li> <li>Letter clarifying land status</li> <li>Letter of statement of development</li> </ul>	<ul style="list-style-type: none"> <li>Temporary IDE 50 thousand.</li> <li>Semi-permanent IDR 150 thousand.</li> <li>Permanent IDR 200 thousand.</li> <li>Steel frame IDR 250 thousand.</li> </ul>	9 days	As long as the building exists
Disturbance licence	<ul style="list-style-type: none"> <li>Letter of request</li> <li>Letter clarifying land and border</li> <li>Letter stating fulfilment of K3</li> <li>Site map</li> <li>Photocopy of ID</li> <li>Photograph of 3x4 size</li> <li>Recommendation from related technical institution</li> </ul>	Administration IDR 150 thousand. Licence issuance IDR 250 thousand. <b>Note:</b> Cost is classified into three categories and the annual renewal cost based on the classification is added.	5 days	5 years
Licence of Land Use Appropriation	<ul style="list-style-type: none"> <li>Letter of request.</li> <li>Act of establishment of the legal entity</li> <li>Evidence of registration of legal entity</li> <li>Site licence</li> <li>Tax identification number</li> <li>Photocopy of ID Proposal</li> <li>Agreement of investment</li> <li>Recommendation from government office related to the appropriation</li> </ul>	For housing business/BTN parcel land and the like: <ul style="list-style-type: none"> <li>Administration: IDR 25 thousand.</li> </ul> Licence issuance process: <ul style="list-style-type: none"> <li>RSS Site IDR 25/m<sup>2</sup></li> <li>RS Site IDR 50/m<sup>2</sup></li> <li>Real estate and others IDR 100/m<sup>2</sup></li> </ul>	12 days	-
Licence of Warehouse Listing	Photocopy of HO Copy of ID card Copy of Notary Act Photograph 3x4.	IDR 500/m <sup>2</sup>	5 days	-
Others				

Source: One-Door Plus Service Station brochure

To ensure the certainty of a systematic administration, order and service provision in the process of public service, One-Door Plus Public Service Station issues three copies of service note. The official keeps the first copy; the second copy is kept by the requester and the third is for archive. Figure 7 is the service note in detail.

The One-Door Service Station Solok District Government	
Registration No.	: .....
Name of consumer	: .....
Address	: .....
Type of Service	: .....
Date application received	: .....
Date field supervised	: .....
Date of completion	: .....
Management Unit	: .....
Cost	: IDR .....
Aro Suka, .....	
The official,	
(.....)	

**Figure 7. Service note**

As a form of control mechanism over the public service quality, One-Door Plus Public Service Station periodically distributes questionnaire to service seekers for evaluation purposes. In principle, there are five lists of questions covering these following aspects:

1. The official's attitude in providing service
2. The procedure
3. The charged tariff
4. The length of time to get a licence
5. Licence requirements

To maintain privacy and deal with possibility of unfair treatments for service seekers who give negative responses, the questionnaires are filled out anonymously. The information necessary to be provided is the type of licence being requested by the service seeker.

This way, those who provide inputs and criticism or even protests can freely express their complaints objectively, without fearing retaliation from the service provider.

Each semester, the questionnaires collected are analysed quantitatively by the service officer and become a reference for the improvement of policy regarding the public service system. As an example, Table 18 shows the results of an evaluation collected in the six-month period of January until July 2004.

**Table 18. Results of service questionnaires**

N o.	Month	No. of questionnaires	No. of answers		
			Positive	Negative	
1.	January	34	156	5	91.76 %
2.	February	32	153	4	95.63 %
3.	March	21	98	1	93.33 %
4.	April	27	123	2	91.11 %
5.	May	25	116	1	92.80 %
6.	June	42	198	2	94.29 %

Secondly, the District enacted a regional regulation concerning Transparency in Governance and Public Participation as materialized in Regional Regulation Number 5 of 2004. Although at national level the legislation regarding freedom of information had not been passed, the positive precedence promoted by the city/district or provincial governments issuing regional regulation on transparency of governance can be a general reference and important new principles to adopt.

In Solok District itself, there are several things providing a foundation for the issuance of the Regional Regulation on Transparency in Governance, i.e.:

*Firstly*, the formulation, implementation and evaluation of various public policies by the Local Government and Provincial Legislature that had been considered not very transparent.

*Secondly*, it is hard for the public to access and find out about the products of public policy such as getting documents and information. This kind of circumstances makes government practice untransparent and very bureaucratic as there is no clear mechanism regulating the right and obligation of the community in getting service and information.

*Thirdly*, as consequences of the first and second problems, the community engagement in many kinds of activities in formulation, implementation, and evaluation of public policy becomes very low. This is triggered by the lack of transparency from the government, unclear mechanism for the engagement of the community in public policy making, and the lack of access to public information by the community.

*Fourthly*, along this time, the public right to get information is only considered as formality. It means that after many kinds of policy products are put in the state or region gazette, the community is automatically assumed to have known them as the development of the policy involved an open meeting for the public.

So as to not having the Regional Regulation on Governance and Public Participation left as empty papers but instead referred to in the activities of government, the development of this Regulation on Transparency in Solok District accommodate many things to ensure that the system stipulated well the implementation of transparent governance and the engagement of the community in the formulation and oversight of regional policies. There are nine main subjects regulated in Regional Regulation Number 5 of 2004, i.e.:

1. The existence of community's right and obligation to seek and obtain services and information.
2. Types of information the community has to know.
3. The clear procedure of public participation.
4. The procedures in the local government's environment and legislatures are among information the community has to know and which has to be informed to them.
5. The process and mechanism of policymaking in the local government and legislature.
6. The submission of objection and complaint.
7. The settlement of dispute.
8. There are sanctions for the lawbreaker.
9. There is protection for whistle-blower.

Although this Regional Regulation is not unique for Solok District, the serious attempts to make new values, the rule for the implementation of governance can be seen from the articles covering aspects explained above<sup>52</sup>.

Another policy introduced by Gamawan Fauzi was the initiation of the Integrity Pact in early 2004, which targeted all officials in Solok District Government. In principle, the Integrity Pact was made to increase the dignity and image of government officials in Solok District. The Integrity Pact constitutes a pledge not to accept and give any illegal forms of gifts during provision of services covering procurement of goods and services, public services, public policy making and implementation of regional budget. The Integrity Pact was implemented in the Head of Solok District's Regulation Number 48 of 2004 on the Guidelines of the Implementation of the Integrity Pact of Solok District.

This Integrity Pact covers a few prohibited acts, i.e.:

- Corruption, Collusion and Nepotism.
- Requesting or accepting a gift, both directly or indirectly in the form of bribe, present, donation or other forms.
- Giving or promising to give bribe, present, donation that is connected with the position or occupation.

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<sup>52</sup> As a comparison, the West Kalimantan Province has also enacted Regional Regulation on Transparency. However, various community organization such as the Alliance of Independent Journalists (AJI) of West Kalimantan, Kontak Borneo and Gamawan complained about the lack of sanction mechanism for officials who declined to provide information or public documents to the community requesting them.

- Not following the process related to payment, stamped date and format as written in the standard format.
- Breaking the transparency commitment in implementing the activities.
- Covering up or complicating access to information when requested by individuals, institution, or organization.
- Not providing service or complicating the provision of information.
- Not providing help, support for the disclosure of corruption, collusion, and nepotism practices.
- Not enforcing sanctions to the violators of the government officials' disciplinary codes and the Integrity Pact.

In order to maintain the commitment and several of anti-corruption policy in Solok District governance, Head of Solok District Regent formulates a policy that is connected to the improvement of welfare of government officials and functionaries. The mechanism established for this purpose is by shifting the honorarium for projects, committee works and the like, which had been a common practice in the regional budget. This type of expenditure was shifted into the so-called regional allowance that is provided annually in proportion with workload and responsibility of each employee. A functionary or officer caught imposing charges or engaging in corrupt practice will receive a heavy sanction, i.e. termination of employment.

## 5. Conclusion

Among other strategies that can be taken to enhance the government's capacity in the provision of housing is by combating corruption. In the field of licensing, for example, the government's success in cutting 'the invisible costs' and various charges would be significant in reducing prices of homes for the poor. A World Bank survey illustrates how the rampant practice of corruption in Indonesia makes the country unattractive for foreign investment. Various researches also indicate how corruption creates negative impacts on the provision of facilities and access to the poor.

As businesspeople are driven by economic profit, the government needs to provide incentives to encourage them to develop simple housing. Although the profit margin offered is low, larger scale development will lead to simple housing construction project providing an attractive profit for developers. Therefore cutting the bureaucracy procedure and eradicating corruption will bring significant incentives for developers working in the provision of simple housing.

In eradicating corruption in licensing and bureaucratic reform, the government of DKI Jakarta can learn from the success of the Solok District. The strategy and policy implemented in combating corruption carried out by Regent Gamawan Fauzi are replicable. It has become a trend in several district/city governments to provide one-door services in licensing. It would not then be difficult for the Jakarta administration to eradicate corruption through simplification of bureaucracy. What is needed is political will. As the Jakarta Governor dares to conduct forcible eviction in poor community settlements despite the protests, the Governor should dare to carry out bureaucratic reform and corruption eradication. Moreover, there would be much support if the Governor takes the measures.

With regard to budget, the concern of the Jakarta Government that leads to the increase of budget allocation for the provision of housing is much awaited. However, what is needed is a shift of paradigm in the budgeting process. So far there is a large amount of funds allocated for maintenance and enforcement of order. From here it is suggested that the existing problems in Jakarta are caused by people who are not orderly so that large fund needs to be made available. Take the squatter settlement as an example, which emerges and grows as the government fails to provide decent housing for the people; in this case it is the problem within the city administration that needs to be addressed.

Still related to budget, the Jakarta city administration is currently planning a number of mass transportation means, such as monorail and subway. The investment in such mass transportation infrastructure is not cheap at all, but necessitated by the problem of traffic congestion in Jakarta. The congestion, however, not only results from the number of private vehicles whose growth is uncontrolled or the minimum means of public transportation. In fact, the congestion is primarily attributed to those who work in Jakarta but live in the outskirts of the metropolitan area. Therefore, if the congestion problem is addressed by developing public transportation means like monorail and subway, this will not overcome the whole congestion problem. Many people are forced to live in the suburbs as the homes are affordable. Given that, the development of public transportation needs to be carried out side by side with the provision of affordable housing in the city. Following this line of thought, when the Jakarta government allocates large fund to develop monorail and subway, why does it not allocate the similar amount for the provision of cheap housing in the city centre?

In the provision of housing, corruption eradication can be carried out by reforming Perum Perumnas into a sound company. As a state-owned developer, Perumnas has scored some achievements in the provision of healthy and simple housings. However, due to various corrupt practices, Perumnas suffers from financial loss. Because of corrupt practices, too, Perumnas loses orientation, leaves the business of developing for the poor and entering the business of developing luxurious homes.

By promoting the reform of Perumnas, it will not be necessary for the government to provide additional subsidy for the poor. Therefore, the corruption eradication and implementation of good corporate governance must be done. The loss of Perumnas eventually affects not only the government but also the poor whose opportunity narrowed down for obtaining cheap housing from Perumnas.

Another measure the government can take is providing a finance facility, primarily finance for healthy, simple housing where the majority of buyers are not bankable and do not meet the administrative requirements in getting the bank credits, among others are fixed income and employment as well as availability of collateral. That way, the establishment of the Secondary Mortgage Facility institution that works in a market system is not sufficient. The government has to create a finance institution that will reach the poor.

## APPENDIX

### Description of Cases

#### Corruption Allegation in Region III of Perumnas, Cengkareng

In 2000, to ease the burden of tax payment, the board of directors of Region III of Perum Perumnas issued a request letter to the local land and building tax office demanding to lower the Selling Value of Tax Object (NJOP). The request letter was accompanied by the issuance of letter number Reg. III/1250/07/2000 addressed to the Corporate Director of Perum Perumnas, requesting operational funds for an attempt to decrease the NJOP by as much as IDR 60 million paid to the survey team of the local tax office. The letter was a follow-up of a request by the Unit Manager of *Kasiba* Cengkareng in accordance with the letter number Reg. III/UPKC/261/2000. The request to lower NJOP was then granted by the local tax office; with the initial value NJOP of IDR 614 thousand/m<sup>2</sup> reduced to IDR 335 thousand/m<sup>2</sup> as indicated by SPPT PBB issued by Tax Office of West Jakarta.

In 2001, based on the Equity Calculation Evaluation of KSPB Bumi Cengkareng Indah by Ancol Pusaka Ltd, which was about to establish a house –and store buildings on the land of Perum Perumnas in Cengkareng, land trading of 49,566 m<sup>2</sup> with the value of IDR 741 thousand/m<sup>2</sup> net without filling in was agreed between President Director of Ancol Pusaka Ltd with President Director of Perum Perumnas. As a sign of commitment over the purchase of the land, Ancol Pusaka Ltd made the down payment of IDR 3 billion.

On May 31, 2001, the President Director of Perum Perumnas issued a letter of assignment number Dirut/295/10/V/2001 addressed to the Director of Administration and Finance of Perum Perumnas to handle the daily business of the President Director without authority to take strategic decisions and policies. This was taken considering that the President Director of Perum Perumnas was going to attend Special Session on Habitat II Implementation Agenda in New York, USA.

In between the memorandum of understanding between President Director of Perum Perumnas with Ancol Pusaka Ltd, on June 7, 2001, Director of Administration and Finance of Perum Perumnas on behalf of the President Director of Perum Perumnas issued a letter of proxy number Dirut/321/10/Vi/2001 to the General Manager of Region III to carry out the hand-over of the use of land to Bangun Cipta Karya Perkasa Ltd located in Bloc A3, D1, D2 in the location of Perumnas Bumi Cengkareng Indah of 258,766 m<sup>2</sup>. In other words, 258,766 m<sup>2</sup> of land owned by Perumnas Bumi Cengkareng Indah was sold to PT Bangun Cipta Karya Perkasa Ltd. The prices are indicated in Table 19.

**Table 19. Land prices in Perumnas Bumi Cengkareng Indah, 2001**

Location	Area (m <sup>2</sup> )	Price/m <sup>2</sup>
Bloc A3 BCI	46,713.50	IDR 500 thousand
Bloc D1 BCI	96,373.50	IDR 350 thousand
Bloc D3 BCI	115,679	IDR 360 thousand

Note: VAT is not included in the price

On August 1, 2001, an act binding the land trading was agreed as explained above between the GM of Region III with Bangun Cipta Karya Perkasa Ltd with the value of IDR 106,421,968,800 including VAT through the Notary of RA, SH in Ciputat. The agreement of land purchase created suspicion and did not make economic sense considering that Ancol Pusaka Ltd had offered a much higher price. The transaction binding was also very odd as it did not engage the President Director of Perum Perumnas and was done when there was still a binding trade with Ancol Pusaka Ltd.

As the land bought on those three blocs was very cheap, on September 6, 2001, Bangun Cipta Karya Perkasa Ltd intended to buy more land owned by Perum Perumnas Cengkareng in Bloc A3 of 41,912.42 m<sup>2</sup> with the price of IDR 550 thousand/m<sup>2</sup> and Bloc A6 of 44,765.53 m<sup>2</sup> with the price of IDR 550 thousand/m<sup>2</sup>.

However, on October 11, 2001, the President Director of Perum Perumnas cancelled the act of transaction with Bangun Cipta Karya Perkasa Ltd as written in the Act of Trade Binding Number 1 with Notary RA. The cancellation was then renewed with Cooperation Agreement Number 4 between President Director of Perum Perumnas with Bangun Cipta Karya Perkasa Ltd to provide land, development, and management of housing and commercial buildings in the location of Bumi Cengkareng Indah of 270,166 m<sup>2</sup>.<sup>53</sup>

On September 20, 2002, based on the approval of the General Manager of Region III, Official Report of Cancellation of KSPP Agreement with Ancol Pusaka Ltd was signed. As the follow-up of the cancellation, at the discussion of a fine for the cancellation, Perum Perumnas agreed to return the down payment with an interest rate of 13.75 per cent per year.<sup>54</sup>

Five days after the approval of the Act of Cooperation Agreement Number 4, the Act of Cooperation Agreement Number 03 between the President Director of Perum Perumnas and Bangun Cipta Karya Perkasa Ltd, to continue the cooperation over provision of land, construction, marketing and building management was issued. This was a follow-up to letter Number 045BCKP/IX/01 regarding land purchase plan in the location of Bumi Cengkareng Indah area by BCKP Ltd of about 86,177 m<sup>2</sup> located in Bloc A3 and Bloc A6. The area of land where there is cooperation between President Director of Perum Perumnas with Bangun Cipta Karya Perkasa Ltd was as shown in Table 20.

**Table 20. Total area of land in cooperation with BCKP Ltd**

Location	Area of land (m <sup>2</sup> )	Cost/m <sup>2</sup>
Bloc A3 BCI	46,713.50	IDR 500 thousand
Bloc D1 BCI	96,373.50	IDR 350 thousand
Bloc D3 BCI	115,679	IDR 360 thousand
Bloc A3 BCI	41,402.42	IDR 575 thousand
Bloc A6 BCI	44,755.53	IDR 575 thousand
Area of land	344,923.95	

*Modified from Act of Cooperation Agreement and letter of Offer of BCKP Ltd*

<sup>53</sup> See Cooperation Agreement Number 04

<sup>54</sup> Minutes of Meeting, September 23, 2002

On June 10, 2002, a Cooperation Agreement was made to conduct cooperation in development and marketing of a Ready-to-use Land Parcel (KTM) in the location of Bumi Cengkareng Indah (BCI) area between the new President Director of Perum Perumnas and the President Director of Bangun Cipta Karya Perkasa Ltd. In substance, this agreement constitutes an affirmation as well as revision of the previous agreement made by the old President Director of Perumnas.

On August 5, 2002, Letter of Licence of Land Appropriation (SIPPT) number 1557/-1.711.5 was issued by the Governor of Jakarta, Sutiyoso, on the use of land of about 375,051 m<sup>2</sup> located in East Cengkareng, Cengkareng Subdistrict, to build housing and facilities as requested by Perum Perumnas. The issuance of this SIPPT is an important part of the realization of cooperation between Perum Perumnas with Bangun Cipta Karya Perkasa Ltd.

In that cooperation, each party places equity. Perum Perumnas provided land of 375,051 m<sup>2</sup> with the value of IDR 97,513,260,000 as indicated in the equity calculation recapitulation document dated June 10, 2002 signed by President Director of Perum Perumnas, Operational Director II of Perumnas, Finance Director of Perumnas, and Director of Bangun Cipta Karya Perkasa Ltd. Similarly, Bangun Cipta Karya Perkasa Ltd provided a budget of IDR 43,248,145,150.<sup>55</sup> In percentage, equity of Perum Perumnas is 70.28 per cent while that of Bangun Cipta Karya Perkasa Ltd is 29.72 per cent.

From the provided land of 357,051 m<sup>2</sup>, 1,817 land parcels (KTM) would be developed at the price of IDR 228,056,210,000. This amount will be divided up based on the share of the cooperating parties. Referring to the Cooperation Agreement document between Perum Perumnas with Bangun Cipta Karya Perkasa Ltd, the first party in this case Perum Perumnas gained total revenue from sale as much as IDR 160,267,792,000 in accordance with the percentage of equity placement of 70.28 per cent. On the other hand, the second party (Bangun Cipta Karya Perkasa Ltd) earned revenue of IDR 67,788,418,000.

Under the management of the new President Director of Perum Perumnas, Perum Perumnas again made a deal on construction, marketing and housing management, which is often termed as Cooperation of Construction and Marketing (*Kerja Sama Pembangunan dan Pemasaran*, KSPP) with Karya Megah Permai Ltd. On November 10, 2003, through the Act of Notary Martin Roestamy, SH number 603, an Act of Cooperation Agreement was made between Perum Perumnas, through its proxy the General Manager of Region III of Perumnas, and the President Director of Karya Megah Permai Ltd.

Similar to its previous cooperation agreements, Perum Perumnas provided land in the area of Bumi Cengkareng Indah (BCI) of 274,682 m<sup>2</sup> along with business finance, interest and marketing with equity value of IDR 109,598,118,000 (74.904 per cent); land and building tax (PBB) is included in this value. Meanwhile, Karya Megah Permai Ltd provided an amount of capital of IDR 36,719,702,314 (25.096 per cent).

In the equity share, Perum Perumnas would earn revenue of IDR 151,091,383,115, while Karya Megah Permai Ltd received IDR 47,964,116,885. The amount of revenue was appropriated based on the equity submitted in the KSPP cooperation. As mentioned in

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<sup>55</sup> Official report of Evaluation and Negotiation of the Plan of Cooperation in Construction and Marketing of Ready-to-Use Land Parcels (KTM) in the location of Bumi Cengkareng Indah area (later changed into Bumi Citra Idaman), Cengkareng, West Jakarta, June 10, 2002

the document of payment schedule of KSPP cooperation, Perum Perumnas will receive early payment of IDR 30,000,000,000. The remainder would be paid in 17 instalments, starting from January 12, 2004 through to May 31, 2005.

Although the business activity of Perum Perumnas of Cengkareng with Bangun Cipta Karya Perkasa Ltd as well as Karya Megah Permai Ltd was defined as Construction and Marketing Cooperation (KSPP), in practice this business of Perum Perumnas was nothing more than land selling. This is the case as the equity submitted by Perum Perumnas to the second party, i.e. Bangun Cipta Karya Perkasa Ltd and Karya Megah Permai Ltd is land. The other matter in the cooperation contract was that it was mentioned that the right of Perum Perumnas in the form of revenue from the cooperation would be paid in advance. Upon the completion of the payment, Perum Perumnas has no more right on anything, be it the land, revenue on housing management or others.

### **Allegation of state loss caused by KSPP**

When we see the cooperation contract of KSPP Number 3 as well as Number 4 between Perum Perumnas and Bangun Cipta Karya Perkasa Ltd made between October 16, 2001 and June 10, 2002, it seems Perum has gained large amount of revenue.

**Table 21. Revenue of Perum Perumnas on KSPP Cooperation Agreements**

No.	Amount of Equity of Perumnas	Year of Contract	Equity Value (IDR)
1.	375,051 m <sup>2</sup>	2002	160,267,792,000
2.	274,682 m <sup>2</sup>	2003	151,091,383,115

#### *Explanation:*

- KSPP in 2002 was a contract between Perum Perumnas represented by its President Director with Bangun Cipta Karya Perkasa Ltd represented by its Director. The equity value of IDR 160,267,792,000 of the land of 375,051 m<sup>2</sup> came from the average land price per m<sup>2</sup> of IDR 427,350.
- KSPP in 2003 was a contract between Perum Perumnas represented by its President Director with Karya Megah Permai Ltd represented by its President Director. The equity value of IDR 151,091,383,115 of the tanah of 274,682 m<sup>2</sup> owned by Perum Perumnas came from the average land price per m<sup>2</sup> of IDR 550,000.

Summing up the revenue from the contracts in 2002 and 2003, Perum Perumnas earned revenue from the equity share of IDR 311,359,175,115 from the total land submitted in the KSPP of 649.733 m<sup>2</sup>.

However, when we examine carefully, particularly in determining the selling price of land per m<sup>2</sup> on those years, actually Perum Perumnas suffered a very large loss considering two things: *first*, the land price owned by Perum Perumnas sold to Bangun Cipta Karya Perkasa Ltd in 2002 was below the Selling Value of Tax Object (NJOP) per m<sup>2</sup>. In 2000 alone, NJOP in the area of Bumi Cengkareng Indah (BCI) reached IDR 614,000/m<sup>2</sup>. Similarly, in the KSPP between Perum Perumnas with Karya Megah Permai Ltd in 2003 the land was only valued at IDR 550,000/m<sup>2</sup>, whereas referring to the NJOP in that year the land price was already at IDR 916,000/m<sup>2</sup>.

The very low selling price of land owned by Perum Perumnas was attributed to the fact that long before, in 2000, Perum Perumnas lowered the NJOP of land in Cengkareng from IDR 614,000/m<sup>2</sup> to IDR 335,000/m<sup>2</sup>. The lowering of NJOP was approved by the tax office of West Jakarta. To lower the NJOP, Perum Perumnas issued a fund of IDR 60 million to the finance survey team of the Tax Office of West Jakarta. Similarly in 2003, the NJOP of land owned by Perum Perumnas, which was later sold to Karya Megah Permai Ltd, was only IDR 3940/m<sup>2</sup>, whereas in that year NJOB in the area of BCI was already at the level of IDR 916,000/m<sup>2</sup>.

*Secondly*, in 2000, Perum Perumnas agreed a cooperation of land selling in Cengkareng with Ancol Pusaka Ltd. In that year, it was agreed between President Director of Ancol Pusaka Ltd and President Director of Perum Perumnas, that Ancol Pusaka Ltd would buy the land of 49,566m<sup>2</sup> with the value of IDR 741,000/m<sup>2</sup> net without filling in. But later, in September 2002, the agreement was cancelled unilaterally by Perum Perumnas. Perum Perumnas later made a transaction with another developer, Bangun Cipta Karya Perkasa Ltd, with a much lower price. This agreement was also cancelled as it had not engaged the President Director of Perumnas.

*Thirdly*, the selling price of Perum Perumnas land to the two companies was much lower per m<sup>2</sup> than the price of land marker in Cengkareng. In 2000, the land price by m<sup>2</sup> in accordance with the market was IDR 1,000,000/m<sup>2</sup>, while in 2003 the market price of land in the area of Cengkareng skyrocketed to IDR 3,000,000/m<sup>2</sup>.

Based on the facts compared above, it can be calculated how much loss was suffered by Perum Perumnas, as indicated in Table 22.

**Table 22. Estimation of Loss of Perum Perumnas**

Selling Price BCKP Ltd & KMP Ltd IDR 479,211/m <sup>2</sup>	Price offered by Ancol Pusaka Ltd IDR 741,000/m <sup>2</sup>	Price based on NJOP of 2000 IDR 614,000/m <sup>2</sup>	Market price of 2000 IDR 1,000,000/m <sup>2</sup>
311,359,175,115	481,452,153,000	398,936,062,000	649,733,000,000
State Loss	170,092,977,885	87,576,886,885	338,373,824,885

*Note: total area of land sold was 649,733 m<sup>2</sup>*

Table 22 compares prices of land in 2000. The total loss suffered by the state on the sale of the land would go up if the price comparison were conducted on the basis of the year of transaction. The sale of Perum Perumnas land happened in two different time periods. The selling to BCKP Ltd was started in 2002 and that to KMP Ltd was conducted in 2003. The case is, from year to year, the trend of land price is not decreasing, it is even increasing. Therefore, the selling of land to BCKP Ltd and KMP Ltd has no economic value and caused great loss to the state. The state became the party suffering from a great loss as all assets of Perum Perumnas are state wealth that had been separated from the State Budget.

### **The lowering of NJOP in 2000 violated tax rules**

The regulation on land building tax (PBB) was Law Number 12 Year 1994 concerning the amendment of Law Number 12 Year 1985 regarding PBB. In the Law, there was no single article stipulating the issue of lowering of NJOP. Article 3 of Law Number 12/1994

only mentions about the matter of tax objects exempted from PBB which include land and buildings:

- Used solely for public interest in the area of religious practice, social affairs, health, education and national culture which are not aimed to gain profit.
- Used for cemetery, archeological heritage, or the like.
- Protected forest, wildlife reserve, tourism forest, national park, herding land managed by village administration, state land not yet taxed.
- Used for diplomatic mission, consulate based on reciprocal treatment principle.
- Used for representative of international organizations as determined by Ministry of Finance.

Apart from stipulating the matters of tax objects exempted from tax, the other aspects stipulated are reduction of indebted tax. But even these provisions do not mention any clause on the mechanism to lower NJOP. As for reduction of indebted tax, the Ministry of Finance can grant it upon examining the following conditions:

- Farming land with limited revenue owned/managed or exploited by individual tax payer.
- Tax object whose sale value increases due to the development project or environmental development, owned/managed or exploited by individual tax payer with low income.
- Tax object owned/managed or exploited by individual tax payer with income solely from pension, so that the obligation of paying PBB is difficult to fulfil.
- Tax object owned/managed or exploited by institutional tax payer who suffer from loss and has a serious problem of liquidity along the year making it unable to fulfil the routine obligations of the company.
- Tax object owned/managed or exploited by other groups of low income community so that it is difficult for them to fulfil their obligation of paying PBB.

Other conditions where reduction of indebted tax can be granted are natural disaster and other extraordinary causes and the reductions are determined to be 25 per cent, 50 per cent, 75 per cent or 100 per cent by the Head of PBB Payment Service based on appropriate and objective consideration in accordance with the level/percentage of tax object damaged by disaster or other extraordinary causes.<sup>56</sup>

Other things stipulated in the Law are objection and appeal responding the issuance of SPPT. There are times when a tax payer has an objection with the reason that the payment is not in accordance with his/her obligation; the tax payer is granted a right to file an objection to the Director General of Tax in a period of three months from the arrival of letter of notification or letter of decision.<sup>57</sup>

In the context of lowering NJOP as requested by the Board of Directors of Perumnas to the Tax Office of West Jakarta, there were no elements that could have been used as normative-procedural grounds related to a tax object exempted from tax, reduction of

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<sup>56</sup> Achmad Tjahjono dan Muhammad F. Husain, *'Perpajakan'*, UPP AMP YKPN:1997, hal. 448-449

<sup>57</sup> *Ibid*, p. 447

indebted tax or objection filing mechanism on tax levied. Given that, the request for lower NJOP which was later granted by the Tax Office of West Jakarta on the Perum Perumnas land in Bumi Cengkareng Indah, from the value of IDR 614,000/m<sup>2</sup> to IDR 335,000/m<sup>2</sup>, did not have a clear legal foundation.

Even when we examine the case chronologically, it can be said that the attempt to lower NJOP on the BCI land had a connection with the plan of selling the land to a third party. As explained in several sections above, after the request for lower NJOP on the BCI land submitted by Perum Perumnas to the Tax Office of West Jakarta was approved in 2000 – a year later, on August 1, 2001 to be precise – the Board of Directors sold the land the NJOP of which has been lowered to Bangun Cipta Karya Perkasa Ltd with various price rates as bound by Act of Transaction number 01 between the Director of Administration/Finance of Perum Perumnas with the Director of Bangun Cipta Karya Perkasa Ltd. For Bloc A3 of BCI area of 46,713.50 m<sup>2</sup>, the price agreed was IDR 500,000/m<sup>2</sup>. For the land of Bloc D1 in BCI area of 96,373.50 m<sup>2</sup> the price of IDR 350,000/m<sup>2</sup> was agreed and the land in Bloc D3 in BCI area of 115,679 m<sup>2</sup> was valued at IDR 360,000/m<sup>2</sup>.

Although the Act of Transaction was later annulled by the President Director of Perum Perumnas, as mentioned in the Act of Annulment Number 03 dated October 11, 2001, this did not mean that the Board of Directors did not intend to sell the land. A new agreement in the Act of Cooperation Agreement Number 04 dated October 16, 2001 was issued, and later Act of Cooperation Agreement Number 03 dated November 21, 2001 by the same President Director. The new President Director of Perum Perumnas replaced the Act of Cooperation Agreement Number 03 and 04 with a new one dated June 10, 2002 through Letter of President Director of Perum Perumnas Number 327/62/VI/2002 as First Party and Letter of Director Number 056/BCKP/DIR/VI/2002 as Second Party. Even in 2003, another Cooperation Agreement was enacted between the new President Director of Perum Perumnas and Karya Megah Permai Ltd.

In brief, the attempt to lower NJOP over the land owned by Perum Perumnas in the area of Bumi Cengkareng Indah in 2000 had nothing to do with reasons or procedures that were acceptable as Law Number 12 of 1994 concerning PBB had stipulated them. However, the attempt was closely related to the sell-and-purchase activities taking place in later years that led to the loss suffered by Perum Perumnas of up to hundreds of billion rupiah and the loss affecting the middle to lower class community who cannot enjoy decent and affordable housing. This is the case considering that BCKP Ltd and KMP Ltd have developed luxurious real estate on the land bought from Perum Perumnas at a very cheap rate.

### **The development of real estate by BCKP Ltd and KMP Ltd violated SIPPT licence**

On August 5, 2002, the Governor of DKI Jakarta, Sutiyoso issued the Letter of Licence of Land Appropriation (SIPPT) Number 1557/-1.711.5 addressed to the President Director of Perum Perumnas at that time, with regard to a tract of land of approximately 367,732 m<sup>2</sup>. The SIPPT itself was issued after the President Director sent letter Number 006116 on March 28, 2002 concerning a request to use a land area of about 375,051 m<sup>2</sup> to develop housing and facilities.

The stipulations as mentioned in the SIPPT issued by Sutiyoso were appropriated to:

- a) Very small houses.
- b) Small houses.
- c) Flats.
- d) Office/Trade.
- e) Public Service.
- f) Education.
- g) Religious facility.
- h) Social and cultural facility.
- i) Improvement of Recreation Facility.
- j) Improvement of Green Park.
- k) Improvement of Channel.
- l) Roads.

Precisely that land of 375,051 m<sup>2</sup> was developed in partnership with Bangun Cipta Karya Perkasa Ltd as agreed in the Act of Cooperation Agreement between President Director of Perum Perumnas, and Director of BCKP Ltd.

In the course of its implementation, however, the SIPPT was not fulfilled by Perum Perumnas as the licence holder. The development on the land turned out to be appropriated for luxurious real estate which was later known as Mutiara Taman Palem, instead of those types of house and different facilities as mandated in the SIPPT.

The area of Mutiara Taman Palem itself was then sold at a very expensive unit price. For example, Table 23 contains a range of prices of house units in Mutiara Taman Palem.

**Table 23. Prices of houses in Mutiara Taman Palem**

<b>Bloc</b>	<b>No. of Storeys</b>	<b>Land</b>	<b>Price (IDR)</b>
A2	4½	4.5 x15	1,120,000,000
A3	4½	4.5 x15	1,071,000,000
A5	4½	4.5 x 15	1,071,000,000
A15	3½	4.5 x15	578,000,000

*Source: Mutiara Taman Palem Brochure*

The case is similar with the cooperation between Perum Perumnas with Karya Megah Permai Ltd in 2003. On the land of 274,682 m<sup>2</sup> has been developed a luxurious real estate area called The City Resort.

**Table 24. Price of Land Parcel in The City Resort**

Bloc	Size of parcel	Price per parcel (IDR)
B08	165	214,500,000
B09	125	168,750,000
B08	225	303,750,000

### **Corruption Allegation in Region III of Perumnas, Lebak – West Java**

The essence of this case is corruption in land purchase implicated the Taperum fund, the fund of Perumnas itself and perpetrated by the cronies of several Perumnas officials and the Office of the Minister of People's Housing. The case caused a loss to Perumnas of IDR 36 billion, coming from the mark up of land purchase.

The case of the Maja land purchase was estimated to have a strategic value and have a national scale, as Maja New City would be established on this land of 3,000 hectares. It was planned that a relatively complex infrastructure would be developed, involving many different ministries with the value of hundreds of billion rupiah.

In this case, Perum Perumnas was implicated in the purchase and the development of environmental infrastructure. The Maja New City was planned by the Office of the Minister of People's Housing (at the time of Minister Ir Akbar Tanjung) in cooperation with private developers and state-owned companies. In the course of the project, the developers started to purchase land. However, the developers later faced difficulties in developing infrastructure.

It was decided that the best solution was to involve the government. The Government then instructed Perumnas to develop the infrastructure on the land of 600 ha, which eventually shrank into 360 ha. Perumnas was willing to develop the infrastructure as the Ministry would help the finance by using Taperum fund.

According to Presidential Decree Number 14 Year 1993 dated February 15, 1993 Presidential Decree Number 46 Year 1994, the appropriation of Taperum fund can only be used for housing development, and not for land purchase/investment.

In the first phase, IDR 8 billion was transferred directly to the account of Branch III, however the fund transfer should not have been made directly to Branch. When the Perumnas Headquarter protested, the fund was transferred through the Perumnas Headquarter first.

The land purchase in the location of Maja was done through a third party (land broker). A number of Perumnas officials carried out the land purchase discreetly. This is not in line with the regulations provided in the Principle Licence.

Until now the land purchase still takes place and has reached an area of approximately 300 ha in an irregular shape, sporadic and scattered. The official market land price around the location is IDR 1,500 to IDR 2,000 per m<sup>2</sup> but Perumnas bought from Ir Sibarani with the price of IDR 8,000 to IDR 12,000 per m<sup>2</sup>.

When the monetary crisis struck in the process of land purchase, the plan of Maja New City became unclear. Consequently, there has been no development on the land bought by Perumnas until now. This is also associated with the selection of location that had not involved a clear feasibility study.

Without the development on the land of Perum Perumnas in Maja the capital invested was left idle for a considerably long time, while the capital borrowed from Taperum fund has to be returned.

### **Allegation of violation**

From this case it can be concluded that there were violations as follows:

- Land purchase using third party (land broker). This is against the letter of principle licence given by the National Bureau of Land Affairs (BPN).
- Due to cooperation with a third party and the mark-up of price in the land purchase, it was alleged that the state suffered a loss of IDR 36 billion:

Area of land	360 ha (3,600,000 m <sup>2</sup> )
Official land price	= IDR 2,000/m <sup>2</sup>
Price of land bought by Perum Perumnas	= IDR 12,000/m <sup>2</sup>
State suffers loss of 3,600,000 x IDR10,000	= IDR 36 billion

### **Corruption Allegation in Region III of Perumnas, Cisoka – Tangerang**

The essence of this case is corruption in *pembebasan tanah* (literally the 'freeing of the land') in Cisoka, Tangerang in 1996. From a material viewpoint, the case caused a loss to the state finance of IDR 1.5 billion. The case was investigated by SPI Perumnas, and put in the Report of SPI Number SPI/101/XI/96 dated November 19, 1996.

The process of land purchase in Cisoka was initiated with the plan of Perum Perumnas to buy land in the site of about 100 ha. The process of purchase itself was carried out by third party (land broker) to deal with the residents who own land. For the purpose, Perumnas issued a down payment of IDR 1.5 billion to the land broker to purchase 8 ha. Despite the down payment made, until now Perumnas has not occupied the land promised.

The land purchase procedure is supposed to be started by obtaining the Principle Licence from respective Local Government according to the Letter of Decision of Ministry of Home Affairs. However, until now the Local Government has not issued the Principle Licence. The site selection process did not meet the standards applied in Perum Perumnas, either, i.e. technical feasibility, market feasibility and price feasibility.

Although Perumnas has disbursed the down payment for the land purchase of IDR 1.5 billion, even until now the land does not exist (is fictitious). When the purchase had been taking place for three months with no progress, a Perumnas Official assigned a different broker to buy land on the same site. This attempt did not work, as some of the land certificates of the community in the site had been held by the first broker. There is a strong allegation that the inability of the first broker to deliver was due to the fact the down payment of IDR 1.5 billion had already been distributed to related officials, so that the broker had no more funds to continue the land purchase.

With the land certificate taken but payment never made, the land owners who know about this issue filed the case to the State Attorney of Tangerang and Attorney General. However, Perumnas later appointed a legal consultant to defend its implicated official, who is a retired attorney. The result is that the case got not further than the attorney

office. The agreement between Perumnas and YPHI was signed with a contract number Dirut/25/10/I/99.

### **Allegation of violation**

In this case there are several violations as follows:

- Land purchase using the service of a broker. This is clearly against the letter of principle licence issued by BPN office of Tangerang with the Letter of Decision of the Head of Land Affairs Office of Tangerang District Number 460.04-SK.393.
- Disbursement of down payment of IDR 1.5 billion for the land purchase that was never returned.

### **Corruption Allegation in Region III of Perumnas, Klender – East Jakarta**

In essence, the case was about KSPP (Contract of Cooperation in Construction and Marketing) between Perumnas and Nindya Karya Ltd in the site of Malaka Asri Klender, East Jakarta. In this case the state through Perumnas suffered a loss of IDR 4.2 billion.

The case began when Perumnas signed a cooperation contract with Nindya Karya Ltd, another state-owned company, to construct and market housing in Klender, East Jakarta. Under the cooperation as many as 267 units of homes were constructed and all were already marketed to the community.

According to the cooperation, the income from the sale of houses and land would be deposited to a joint account. The bank will then transfer the money to the accounts of both parties, the amount of which would be in accordance with the percentage of their respective equity.

There is an odd thing here as while all homes were sold Perum Perumnas has not received all of its right of IDR 4.2 billion. This is caused by the fact that Nindya Karya Ltd did not deposit that amount to the account of Perumnas.

### **Allegation of violation**

- The fact that the money resulted from the sale of houses and land of IDR 4.2 billion was not deposited in the joint account is a violation of agreement leading to a state loss of more than IDR 4.2 billion.

### **Corruption Case in Land Filling In in Region III of Perumnas, Cengkareng**

The essence of the case is corruption in land filling in of Perumnas in Cengkareng, West Jakarta. Because of the case, the site of housing has many times suffered from flood and protests were raised by the residents. Corruption in this land filling in has the value of more than IDR 20.6 billion.

The site in Cengkareng was obtained by Perumnas from Jakarta Government and about 215 ha of it was purchased by itself. The plan of housing development in Cengkareng was included in the programme of Perumnas. As the land condition was low, the site required filling in.

The game was played starting with the appointment of the filling in contractor in such a way that the bid was won by someone named Sei Yu. It turned out that the filling in was not carried out to the plan made by consultant Arkonin Ltd, as the average height was less than 60 cm.

In 1996 the issue emerged as flood happened often and a re-test was conducted. The case was then settled. The flood was caused by the reduction of filling in land by the contractor, so that the rain water could not flow to the drainage system and create a runoff.

To overcome the flood problem, measures were taken to cover up this matter, for example by changing the site of Cengkareng into *Kasiba* (Ready-to-Build Area), by appointing consultant to redesign the site plan using the concept of *Kasiba*. However, the Government of Jakarta has not approved this.

### **Allegation of violation**

In this case, it was alleged that there is a violation causing state loss, i.e.:

- Corruption in land filling in, conducted by reducing the height of filling in land with the average of 60 cm. As a result of this, the state suffered a loss of:

$$215 \text{ ha} \times 0.60 \times \text{IDR}.16,000 = \text{IDR } 20,640,000,000.$$

### **Corruption Allegation in Region III of Perumnas, Jonggol – West Java**

#### *Land Purchase of Official House of Satwalpres*

In brief, this is a corruption in the process of land purchase and the development of housing and its infrastructure. Because of this, the state through Perumnas suffered a loss of more than IDR 18.5 billion. The case was investigated by SPI Perumnas and put in a report of SPI Number SPI/101/XI/96 dated November 19, 1996.

The case started with a cooperation in development of official housing between Perumnas and Satwalpres in the site of Jonggol. In the early agreement it was assumed that Satwalpres owned land on the site. Therefore a cooperation agreement was made between Perumnas and Satwalpres regarding the development of official Satwalpres housing on the land owned by Satwalpres.

In reality, however, Satwalpres turned out not to own any land; therefore Perumnas was assigned to purchase land for the purpose. Perumnas then carried out the land purchase for the purpose of Satwalpres as well as for its own purpose. The land bought was as large as 85 ha out of the original plan of 175 ha.

In making the purchase Perumnas used the service of a land broker. There was a mark-up from the price according to NJOP of IDR 5,000 to 7,500 per m<sup>2</sup> with Perumnas buying at the price of IDR 17,000 to 19,000 per m<sup>2</sup> – there was even a piece bought by Perum Perumnas at the price of IDR 50,000 per m<sup>2</sup>.

A part of the land purchased was also outside the site licence, with an area of 75 ha at the price of IDR 17,000/m<sup>2</sup>. The site constituted a technical irrigation field and consequently the right could not be obtained and no development could take place.

To accelerate the process of cashing funds for the purchase, a manipulation was made, where land was claimed to be owned by the broker and rights were handed over to Perum Perumnas. Because of this, the name of owner did not match the number of land lot in the *letter C* document in the village office, the land history book with the name and number of land lot in the detailed map and the Letter of Statement of Land Right Handling gave the owner as Perum Perumnas. This causes difficulty in obtaining land certification in BPN until even now.

During the land purchase process, it turned out that several employees of Perumnas who were not authorized took part in the process. The land purchase process in Jonggol site took the life of a Perumnas employee named Tjetje Tadjudin. Tjetje died following torture during investigation in an attempt to uncover the case of the robbery of land-payment money, which had been held by the victim along with a land broker.

With the existence of cooperation between Perumnas and broker, the State through Perumnas suffered a loss of IDR 8.075 billion.

Later, during the development of housing and infrastructure, there was another mistake, which was the fact that house design was made without adjustment for local conditions or approval from the company's Headquarters. The design was in many parts twisted and therefore many repair works were needed and cost Perum Perumnas around IDR 3 billion.

### **Allegation of violation**

In this case there were a number of violations leading to loss by the state, i.e.:

- Land purchase using broker. This is against the letter of principle licence provided by BPN.
- There was a mark-up of land price.
- A part of the land bought was outside the site licence.
- The manipulation of right hand-over indirectly by land owner to accelerate payment. This might cause a dispute in the attempt to obtain land right certification.
- Design was used without a calculation to adjust with local condition and approval from the Perumnas Headquarter, which led to many damage. This forced Perumnas to make some repair which cost about IDR 3 billion.

The state loss can be calculated as follows:

- Price mark up harga from broker IDR 8.075 billion
  - Housing renovation due to the low quality of building IDR 3 billion
  - Land purchased outside the location (irrigation) whose administration issues cannot be settled
- 750,000 m<sup>2</sup> x (IDR 17,000 – IDR 7,000) IDR 7.5 billion
- leading to a total of more than 18.5 billion.

## Corruption Case in Region IV of Perumnas, Sarijadi, Bandung

### *The case of selling of KTM, Office House, and Mall Parcels of Sarijadi, Bandung*

The case is in essence a corruption through manipulation of determination of selling price of KTM, mall and office building parcels in Sarijadi, Bandung. In this case the loss is estimated to be more than IDR 23.7 billion.

The case began with a transaction to sell commercial KTM, office house and mall parcels in December 1999 in Sarijadi site, Bandung, on Surya Sumantri Street to be precise.

According to the job description, the selling of KTM was supposed to be carried out by working unit of Bandung Branch; however, in this case, that was conducted by the Office of Region IV c.q. Marketing Division. The sale comprised three phases as follows:

1. The sale of a Mall parcel of 7000 m<sup>2</sup> to Edy Sukanto with the letter of price approval from General Manajer of Region IV Number Reg.IV/1557/ KPTS/12/99 dated December 15, 1999 at the price of IDR 400,000 per m<sup>2</sup> including 10 per cent VAT and 15 per cent discount (IDR 386,400,000 – leading to a net price of IDR 312,800 per m<sup>2</sup> or a total of IDR 2,189,600,000).
2. The sale of 100 office house parcels of 200 m<sup>2</sup> each to the Provincial Legislature of West Java with the approval of the Board of Directors Number Dir.II/1119/19/XII/98 dated December 30, 1998 and followed by an agreement of Region IV Number Cab.IV/03/01/99 dated January 14, 1999 at the price of IDR 340,000 per m<sup>2</sup> including 10 per cent VAT. In the implementation in 1999 it turned out that West Java Provincial Legislature could only afford to buy 46 pieces of land while the remaining 54 units were sold on to Amalia Ltd at the price of IDR 340,000 per m<sup>2</sup>.
3. The sale of KTM 66 units of 600m<sup>2</sup> (13 parcels), 400 m<sup>2</sup> (17 parcels) and 200 m<sup>2</sup> (36 parcels), and 72 parcels of 300 m<sup>2</sup> (26 parcels), 200 m<sup>2</sup> (46 parcels), at a price between IDR 400,000 and 500,000 per m<sup>2</sup> with letter of price approval Number Reg.IV/502/10/99 dated October 5, 1999 to individuals and the price included 10 per cent VAT.

The basis for the determination of selling price was NJOP around Surya Sumantri Street, Bandung, of IDR 802,000/m<sup>2</sup> in 1999. Meanwhile the basic land price as determined by the Bandung City Government in 1997 in the location around Surya Sumantri Street was:

- Basic price IDR 600,000/m<sup>2</sup>
- Average price IDR 702,000/m<sup>2</sup>
- Market price IDR 1,250,000/m<sup>2</sup>

The Project Plan Manual did not yet gain approval from the Headquarter / Planning Division of Region IV. Based on that, it was alleged that there was a collusion with the buyers during the selling of KTM as the price was below the value of NJOP/ market price. Based on the NJOP of IDR 802,000/m<sup>2</sup>, Perum Perumnas suffered a loss as follows:

- From the selling of KTM/mall parcels of 7000 m<sup>2</sup>  
(IDR 802,000 – IDR 340,000) x 7,000 m<sup>2</sup> = IDR 2,814,000,000.
- From the selling of 100 of office-house parcels @ 200 m<sup>2</sup>  
(IDR 802,000 – IDR 340,000) x 20,000 m<sup>2</sup> = IDR 9,240,000,000.

Significant loss has been disclosed by BPKP of West Java representative, but upon a negotiation the disclosure was not mentioned among the audit findings of BPKP – Headquarter for the Financial Report of 1999.

Therefore, in the Sarijadi case of Bandung, Perumnas suffered loss:

- In the selling of KTM in Bandung City Perumnas suffered a loss of IDR 2.814 billion + IDR 9.240 billion = IDR 12.054 billion
- In the selling of 66 parcels and 72 KTM parcels of total area of 38,800m<sup>2</sup> Perumnas suffered a loss of  $(\text{IDR } 702,000 - \text{IDR } 400,000) \times 38,800\text{m}^2 = \text{IDR } 11.717 \text{ billion}$

This was the total loss of Perum Perumnas: IDR 23.717 billion.

### **Corruption Allegation in Region IV of Perumnas, Teluk Jambe, Karawang**

#### *Case of Land Purchase*

In essence the case was about mark-up practice in land purchase in the Teluk Jambe site, the Karawang Branch of Perum Perumnas. The work took place from 1994 to 1997, and so far a tract of land of 1,603,963 m<sup>2</sup> has been purchased with the value of IDR 26,047,025,000. Apart from that there was a cost of honorarium for the committee of IDR IDR 1,024,504,145 without accountability from the recipients.

During the purchase, Perumnas obtained the site licence from BPN Office of Karawang Number 460/Kep.21/P/BPN/94 dated February 26, 1994. The land purchase deviated from the site licence, as there were about 15 Ha of technical irrigation field purchase at the price of IDR 43,000/m<sup>2</sup> to 53,000/m<sup>2</sup> without price approval from the Board of Directors of Perum Perumnas, while the highest NJOP in the similar site was only IDR 20,000/m<sup>2</sup>. Perum Perumnas in this case suffered a loss of:

$$(\text{IDR } 53,000 - \text{IDR } 20,000) \times 150,000 \text{ m}^2 = \text{IDR } 4,950,000,000.$$

As a consequence of the purchase outside the site licence, the Right for Land Management (HPL) was not processed until the year 2000, as the land constituted a technical irrigation field. Because of that, Perumnas did not have enough funds to purchase land located within the site licence, leaving an enclave of about 304,720 m<sup>2</sup> not yet purchased. This way the implementation of the overall project was delayed.

In 1999 the NJOP in the site was IDR 7,500/m<sup>2</sup>, but Perumnas purchased the land at the price of IDR 12,000/m<sup>2</sup> to 15,000/m<sup>2</sup>. The purchase allegedly implicated a number of officials in the Ministry of Housing and Settlement with Taperum fund.

The incident continued until 1999 and followed was the purchase of the enclave land of ± 88,295 m<sup>2</sup> by engaging a third party at the price of IDR 40,000/m<sup>2</sup> (while the NJOP was IDR 20,000/m<sup>2</sup>) leading to a total value of IDR 3,520,000,000 while payment was made in three tranches based on the Act of Transaction Binding Agreement on December 21, 1999.

Until June 2000 Perum Perumnas had paid as much as IDR 2,100,000,000, but had not got the ownership documents of those tracts of land. This way Perumnas suffered a loss of:

$$(\text{IDR } 40,000 - \text{IDR } 20,000) \times 88,295 \text{ m}^2 = \text{IDR } 1,765,900,000.$$

### Allegation of violation

In this case there were several violations:

- Purchase using a broker, which was clearly against the letter of principle licence issued by BPN.
- The fact that there was price mark-up.
- The land purchased was partly outside the site licence.

The state loss caused by these violations was:

Honorarium for committee without accountability	IDR	1,024,504,145
Technical irrigation land it was unable to exploit	IDR	4,950,000,000
Land it was unable to exploit	<u>IDR</u>	<u>1,765,900,000</u>
<b>Total state loss</b>	<b>IDR</b>	<b>7,740,404,145</b>

From various corruption allegations within Perumnas, the corrupt practices can be listed as illustrated in Table 25.

**Table 25. Summary of Perumnas corruption allegations**

No.	Site	Modus Operandi	Loss (IDR billion)
1.	Region III of Perum Perumnas, Cengkareng	Selling of land owned by Perumnas by lowering the selling value of tax object (NJOP) or mark-down of land selling (reduction of land price)	311
2.	Region III of Perum Perumnas, Lebak	Mark-up in land purchase	36
3.	Region III of Perum Perumnas, Cisoka	Fictitious land purchase	1.5
4.	Perum Perumnas Region III, Klender	Revenue from KSPP cooperation not submitted to state treasury	4.2
5.	Region III of Perum Perumnas, Cengkareng	Reducing the height of land filling	20.6
6.	Region III of Perum Perumnas, Jonggol	Mark-up in land purchase	18.5
7.	Region IV of Perum Perumnas, Bandung	Mark-down in land and parcel selling (reducing land parcel price)	23.7
8.	Region IV of Perum Perumnas, Karawang	Mark-up in land purchase	7.7
<b>Total State Loss</b>			<b>IDR 423.2 billion</b>



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The sustainability of the livelihoods of the poor in low- and middle-income countries is compromised by corruption in the delivery of infrastructure services. Such services include water supply, sanitation, drainage, the provision of access roads and paving, transport, solid waste management, street lighting and community buildings. For this reason, The Water, Engineering Development Centre, (WEDC) at Loughborough University in the UK is conducting research into anti-corruption initiatives in this area of infrastructure services delivery.

This series of reports has been produced as part of a project entitled *Accountability Arrangements to Combat Corruption*, which was initially funded by the Department for International Development (DFID) of the British Government. The purpose of the work is to improve governance through the use of accountability arrangements to combat corruption in the delivery of infrastructure services. These findings, reviews, country case studies, case surveys and practical tools provide evidence of how anti-corruption initiatives in infrastructure delivery can contribute to the improvement of the lives of the urban poor.

The main objective of the research is the analysis of corruption in infrastructure delivery. This includes a review of accountability initiatives in infrastructure delivery and the nature of the impact of greater accountability.

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