

Creating World-Class, Competitive and Liveable Cities

Key Messages

Trends suggest Indonesia's already rapid urbanization will accelerate. The cities that emerge from this process will determine Indonesia's economic competitiveness. It is critical to create cities that drive investment, innovation and productivity by increasing critical investments in infrastructure, the provision of basic services, and enhancing institutional capacity. A realistic approach to creating such cities begins by strengthening the role of major metropolitan areas as drivers of economic growth and global competitiveness by doing what it takes to turn Jakarta and Surabaya into world-class cities.

Key Action

1. Increase investment in large-scale infrastructure.
 - ◆ Regional and metropolitan transportation. Improve intra- and inter-city transportation to reduce transport costs. Improve the efficiency of freight handling at sea- and airports.
 - ◆ Flood mitigation. Expand efforts to control and mitigate the effects of flooding by building on existing initiatives within local governments in Jakarta and Surabaya.
2. Improve the quality of and access to basic services.
 - ◆ Low-cost housing. Increase the supply of and access to affordable low-cost housing for the urban poor.
 - ◆ Slum upgrading. Develop a National Slum Upgrading Strategy to address the proliferation of slums.
 - ◆ Solid Waste Management (SWM) and Water Supply & Sanitation. Develop comprehensive SWM systems including sanitary landfills, recycling programs, public trash collection and hazardous materials handling. (Sustainable water supply and investment programs for municipal sewerage systems are addressed in a separate Policy Note.
3. Encourage institutional development.
 - ◆ Local government capabilities. Strengthen local government institutions to enhance urban management and planning, and improve expenditure management. The central government should promote policies that encourage agglomeration economies and boost urban productivity.

Where Indonesia Stands Now

Indonesia's urbanization rate increased rapidly from 17 percent to 48 percent between 1971 and 2005. It is estimated that the number of people living in urban areas will have grown to roughly 127 million by 2010, compared to 20 million in 1971. Besides natural population growth, urban-rural migration and the reclassification of urban areas are also factors in this growth. Indonesia is roughly 50 percent urbanized, a figure that is expected to increase to 68 percent by 2025 (Figure 1).

Population densities vary greatly across the country. Roughly 90 percent of the population lives on the islands of Java and Sumatra: most of the former is already classified as urban. Figure 2 resizes Indonesia's map based on population. It shows that population is highly concentrated in Java and Sumatra islands, which together dominate the country's economic activity.

Economic activities and population are concentrated in major urban areas and in non-oil-producing provinces. Figure 3 illustrates how GDP is highly concentrated in Java. When juxtaposed with Figure 2, it illustrates the positive correlation between population density and economic activity.

Major urban areas with high per capita GRDP (Gross Regional Development Product) and large populations, such as Greater Jakarta and Greater Surabaya have experienced high growth. The urban population of West Java, Daerah Khusus Ibukota or DKI Jakarta, and Banten is currently about 60 percent, and is expected to exceed 80 percent by 2025¹. Although it represents just seven percent of the total land area, Java is home to 59 percent of the population, contributes 61 percent of the country's GDP and 67 percent of total household spending².

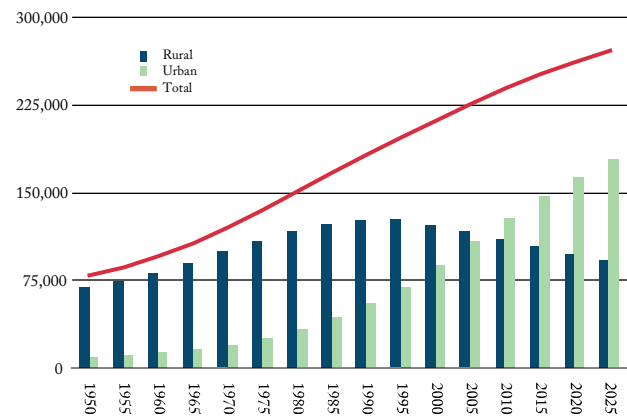
When managed properly, urbanization presents opportunities for economic growth, agglomeration, and competitiveness. One of the key challenges is strengthening local government institutions to enhance urban management and planning and improve expenditure management. Conversely inconsistencies among governments in budgeting, spatial planning create missed problems and missed opportunities especially around City Spatial Plans (Rencana Tata Ruang Wilayah or RTRW) and Detailed Spatial Plans (Rencana Detail Tata Ruang Kota or RDTRK). The central government lacks clear and comprehensive urban development policies and there is no single umbrella regulation or lead agency to integrate and manage urban development. Ambiguity, overlaps and a lack of coordination in the roles and responsibilities of various sectoral institutions add to the challenges.

Major metropolitan areas are unable to meet the demand for basic services because of the lack of infrastructure investment. Administration costs are local government's largest expenditure, crowding out spending on basic services including infrastructure³. Urban areas face a housing backlog despite providing 800,000 new housing units annually. Traffic congestion has increased with 43 percent of the road network in Java congested with this expected to increase to 55 percent in 2010. Water utilities only serve 14 percent of the population and less than two-thirds of the urban population has access to sanitation including a high proportion connected to septic tanks.

Policy Priorities for a Rising Indonesia

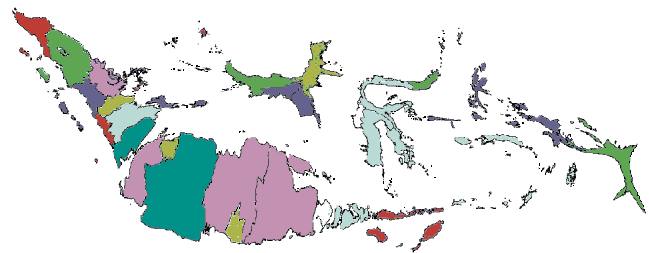
Jakarta and Surabaya would become world class cities by boosting economic growth and improving financing, increasing the investment in infrastructure, providing access to basic services such as low-cost housing and slum

Figure 1. Urban, Rural and Total Population Projections, 1950-2025



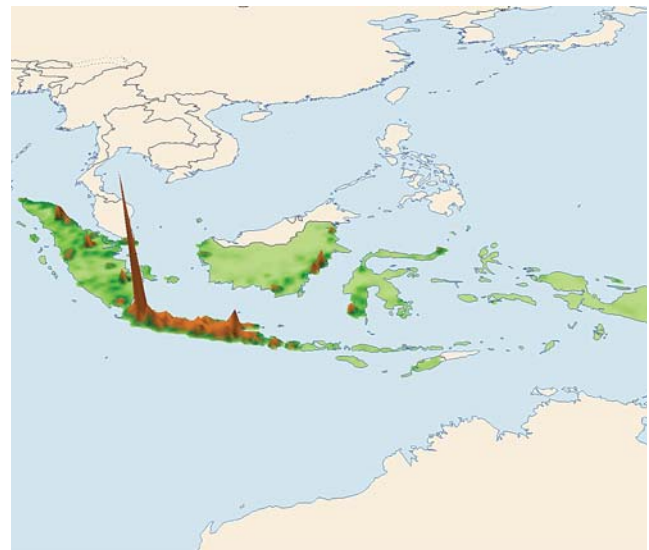
Source: United Nation's World Population Projections, 2007

Figure 2. High Population Density in Java Island



Source: World Bank, World Development Report 2009

Figure 3. High Economic Density in Java Island



Source: World Bank, World Development Report 2009

1 Indonesia Development Policy Review, World Bank, 2009

2 World Development Report, World Bank, 2009

3 Public Expenditure Review, World Bank, 2007

upgrading, and encouraging institutional development⁴. This Policy Note identifies three of these as critical policy priorities for Indonesia.

Invest in Large-Scale Infrastructure

- ◆ **Improve efficiency and expand urban transportation systems.** The growing urban population is straining the ability of local governments to manage economic development and to adequately deliver urban transport services. Total paved roads increased by 28 percent between 1998 and 2005, while the number of motor vehicles (per 1,000 population) increased by 80 percent, resulting to increased congestion. Freight transport in particular needs to be improved to ensure that suburban factories and industrial estates are easily accessible. Urban public transport systems like additional bus lanes and monorail mass rapid transit also need to be built or expanded to help alleviate traffic congestion.
- ◆ **Strengthen flood mitigation measures.** The impact of the high intensity rainfall Indonesia experiences is felt most in metropolitan areas with large populations. Many rapidly growing urban centers have not developed appropriate flood control systems, are unable to ensure the water supply during the dry seasons, and lack suitable environmental sanitation conditions. Jakarta is the prime example of urbanization in lowland areas and within river basins that has resulted in major resource management challenges, including perennial flooding of vast areas of the city. Severe flooding has becoming more frequent as evidenced by the occurrences in 1996, 2002, and February 2007. The 2007 flood inundated 60 percent of the city (up to seven meters deep in some areas), displaced 340,000 people and affected the lives of more than 2.6 million people resulting in economic costs of upwards of US\$900 million. Given its enormity, this recurrent issue requires government attention.

Improve access to and the quality of basic services

- ◆ **Scale-up slum upgrading programs.** Despite the relative success of slum upgrading projects in many of Indonesia's urban areas, these initiatives are limited and have not kept pace with the growth of informal slum settlements. Consequently, environmental conditions in the country's urban slums have deteriorated and the increased demand for infrastructure services for the urban poor continues to be a challenge. A National Slum Upgrading Strategy needs to be developed detailing an approach to address the proliferation of

slum areas. Comprehensive reviews need to be carried out to clarify the role and authority of each national ministry in such a program and define how national and local government levels can coordinate.

- ◆ **Provide low-cost housing for the urban poor.** Housing construction falls well short of the government's already-conservative official policy objective of bringing on-stream 800,000 new dwelling units each year. This has led to the continual proliferation of informal housing areas: two-thirds of housing production is now informal. It is estimated that between 13 million and 14 million housing units are presently substandard. As Indonesia continues its vibrant urban growth, the share of formal housing construction needs to expand substantially. Much of this expansion should take place through formal, market-driven housing production.
- ◆ **Improve solid waste management (SWM) and water supply & sanitation services.** Using Jakarta and Surabaya as pilot projects develop comprehensive SWM systems, including the siting and provision of sanitary landfills, recycling programs, public trash collection and hazardous materials handling. As outlined in a companion World Bank Briefing Note regarding Water & Sanitation, there is a need to develop sustainable water sources for metropolitan areas, expand wastewater treatment collection and treatment facilities, and strengthen the institutional capacity of water and wastewater service providers.

Encourage institutional development

Foster the competitiveness of cities by strengthening institutional capacity. In large metropolitan areas, local governments need to better coordinate their actions to promote agglomeration economies and higher productivity. Individual sectoral actors require strengthening and cities need to better manage urban development. Finally, Indonesia needs at least one and probably two world-class cities – Jakarta and Surabaya – to serve as centers for advanced business and investment services.

How The World Bank Can Help

Investment in Large-Scale Infrastructure

- ◆ **Urban transportation systems.** The World Bank supports improvements to the capacity and quality of strategic national roads on the islands of Java and Sumatra by improving and expanding intra- and inter-city road systems. The project also improves road safety and increases the efficiency, quality and transparency of works procurement and implementation by the Ministry of Public Works.

⁴ Transforming Mumbai into a World Class City, McKinsey & Co., 2003

- ◆ **Flood mitigation.** The World Bank is working with the government on the Urgent Mitigation for Jakarta Flood Control Project that incorporates actions aimed at sustained flood mitigation to improve the livability of Jakarta.

Improved Access to and Quality of Basic Services

- ◆ **Slum upgrading.** The World Bank is helping the Ministry of Housing and BAPPENAS to develop an overall policy for slum upgrading in consultation with stakeholders, and is exploring ways to scale-up slum upgrading programs within local governments by integrating slum rehabilitation and self-help housing into the local planning process.
- ◆ **Low-cost housing.** The World Bank is supporting the framing of a new housing strategy that reforms the existing housing policy, strengthens institutions and delivers low-cost housing for the poor. The strategy will also improve the land supply, low-income housing subsidies and development of mortgage markets.

- ◆ **Water supply.** As outlined in the Water and Sanitation Briefing Note, the World Bank is supporting the government's efforts to develop sustainable water sources for metropolitan areas including exploring the use of output-based disbursement (OBD) modalities. Trust funded and global partnership programs like the Water and Sanitation Program (WASAP) will continue to help local governments plan and implement sanitation, water investment and water resource management programs.

Institutional Development

Local government capacity and coordination. The World Bank is currently working with the government to analyze the impact of urbanization and assess the major constraints to managing growth. The analysis includes institutional coordination issues between government agencies at the national and sub-national levels.

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