
An Assessment Report of the Indonesian situation of public-private partnerships and the informal economy

Description and background

- *Historical overview of the changes in the informal economy (last 5 years)*

The informal economy accounts for a large share of the total working population (approximately 65%) since long period in Indonesia. It is predicted that, the number has increased since 1997 compared to before the economic crisis because of the increased number of unemployment (many were being laid-off). It is also founded that agriculture and informal economy is absorbing work force during the crisis. It shows its flexible character and at the same time it also shows its nature as a kind of safety net for people (including workers). Although some says, it is more a kind of shared poverty. The informal economy grows more in urban areas compared to the rural areas because of higher number of urban unemployment and migration from rural to urban areas. The extensive government's investment in transportation infrastructure during the 1970s and 1980s, which facilitated urban-rural migration and eased rural travel, already enabled many rural households to supplement their income with informal employment in more prosperous urban areas.

A newspaper article in 1997 (Kompas) wrote that research revealed that in many large cities in Indonesia, for instance Jakarta has the largest informal sector around 50% of its labor force. Meanwhile Surabaya has 45%, Semarang 40%, Yogyakarta 35%, Cirebon 40%, and Tasikmalaya 30%. According to a research conducted in 1978 by Bappeda Jabar (West Java Local Development Planning Agency) around 50% of labor force in Bandung absorbed in informal economy which include PKL (street hawker) as one of the activity. The number shows the high absorption of labor force in informal economy in many cities in Indonesia; therefore, its role in providing income for population is very important and it needs to be recognized and treated properly.

An article in SMERU newsletter No. 07/August 1999 mentioned that after the economic crisis in 1997, there has been a shift in employment from the formal to the informal sector. Table - 1 shows the employment share of the informal sector in 1997 and 1998, revealing that informal sector employment share increased from 62.8% in 1997 to 65.4% in 1998. When gender is taken into account, the increase was larger for male workers, but in both years the proportion of female workers operating in the informal sector has been significantly higher than male workers. Comparing urban and rural areas, the increase in the employment share of the informal sector was larger in urban areas, although throughout the whole period the proportion of workers in rural areas in the informal sector has been much higher than in urban areas.

It is also mentioned in the article that, there has been a shift in sectoral employment back to agriculture. Table - 2 shows the employment share of the agriculture and manufacturing sectors in 1997 and 1998. It reveals that the proportion of those working in the agriculture sector increased substantially, from 40.8% in 1997 to 45% in 1998. On the other hand, the share of manufacturing sector employment shrank from 12.9% to 11.3% during the same period. This shifting pattern of sectoral employment is true for both male and female workers as well as in urban and rural areas.

Table - 1
Employment Share of the Informal Sector (%)

	1997	1998
Total	62.8	65.4
<i>Gender</i>		
Male	58.3	61.6
Female	70.2	71.5
<i>Areas</i>		
Urban	42.8	45.7
Rural	73.3	75.8

Source: Sakernas 1998

Table - 2
Employment Share of the Agriculture and Manufacturing Sectors (%)

	Agriculture		Manufacturing	
	1997	1998	1997	1998
Total	40.8	45.0	12.9	11.3
<i>Gender</i>				
Male	40.3	44.3	11.5	10.2
Female	41.8	46.0	15.2	13.2
<i>Areas</i>				
Urban	7.9	11.1	17.3	15.7
Rural	57.9	62.9	10.6	9.0

Source: Sakernas 1998

Note: Informal sector is defined as consisting of those who are self-employed without any employees, self-employed with family or part-time workers and family worker.

Tritjahjo Danny S. wrote in her article in Kompas (dated April 21, 1997) that based on 1971 through 1990 Population Census, services sector captured the biggest female informal worker compared to other sectors (agriculture and manufacturing). This supported by many available opportunities for female to work in trade and service. In 1980 and 1990, the number of female informal worker in services sector (particularly trade and service) was higher than those who worked in agriculture and manufacturing (see Table – 3). Many of female workers coming from rural areas move to cities and working as food/snack vendor, domestic servant etc and this has created high growth of informal economy in urban areas. The decline of employment opportunities in agriculture has made female workers shifting to services sector as it revealed on the high number of female informal worker in the sector. Looking to this trend, it seems trade and services can become employment opportunities for female informal workers in the future.

Table - 3
Growth of Female Informal Worker by Sector in Urban, 1980 - 1990

Sector	Number of Female Informal Workers*)		Growth (% p.a)
	1980	1990	
Agriculture	118,7	170,6	8,2
Manufacturing	124,1	178,2	3,6
Services:	1186,0	2143,4	5,9
a. Trade	884,3	1794,6	7,1
b. Finance	1,4	2,8	6,9
c. Service	100,3	346,0	1,4

Note: *) in thousands (1000)

Source: BPS, Population Census 1980, series of S number 2; Population Census 1990 series of S number 2.

- *The situation of the informal economy in Indonesia today? Which types of activities are most common within the informal economy?*

Asiatradehub's website pictured informal economy in Indonesia as the dominance of petty traders making up the majority of the informal sector (small establishments outside the agricultural sector that employed only unpaid family labor) especially in the cities. Many are employed in the informal sector in activities that usually required little skill or capital. Most informal activities provided household consumption services, like the popular 'kaki lima' (five-leg) food stalls found throughout cities in Jawa. The informal sector also accounted for an important share of industrial employment (MSEs) such as cottage industries.

The government has an ambivalent attitude toward the informal sector. On one hand, the sector is recognized as an important source of employment that should be supported as part of the overall effort to promote 'pribumi' (Indonesian) economic development. On the other hand, many policies, often at local level (city or 'kota'), thwarted informal sector activities. For example, repeated efforts were made to centralize petty traders and food stalls into government-provided facilities in less-desirable locations with high rents. Specific programs designed to assist the informal sector may have been less important than general, unrestricted economic growth.

In Indonesia, the relationship of formal-informal sector is still lack of attention, even though they have proven playing big role in the urban economic development. If we take the City of Yogyakarta for example, it has about Gross Regional Domestic Product (GRDP) per capita 5.8 million rupiahs which is higher than Indonesian GRDP per capita (5 million rupiahs). It is also true that the economic growth of this city is strongly influenced by informal sector activities supporting tourism sector. These including hotel and restaurant services industries, transportation and telecommunication, finance, leasing services, company services, handicrafts, and trades that contribute 79.5% of the whole economic activities conducted in this city.

The informal economic activities in Yogyakarta, as a matter of fact, are considered as a main role to attract visitors visiting this city, such as peddlers performed along wellknown Malioboro street and handmade pottery makers in Kasongan Village (located in Yogyakarta's fringe). The more tourists coming to visit this city the more income the city of Yogyakarta obtains. The government of this city has long time ago understood and recognized their characteristics and aware of their role in supporting the local economic development as well. The local authority, therefore, has already established programs as efforts to treat them

properly. They provide particular place for street vendors (mostly souvenirs and art work sellers) along the street of Malioboro, and empower the small enterprises and informal workers through free financial charge training. The formal-informal relationship also became a main concern to be early addressed by the local government. They obligate local public enterprises to foster one or some small-scale industries. These long experiences have already proven the advantages of informal sector up to present.

The following cases in several cities show the ambivalent attitude toward informal economy although top officials of the cities have reportedly concurred with the importance of informal economy.

Box 1 - Monas to be fenced, but it could be useless

JAKARTA - The Jakarta Administration has planned to erect a fence around the National Monument (Monas) park soon as a last-ditch effort to clear it of illegal traders, who have long been using the area day and night for selling various kinds of goods, despite regulations that forbid the activity. Despite the planned measures, however, the traders said that their businesses were not under threat because they could still bribe some city officials to continue their businesses in the area.

The city park agency announced last week that the fencing project, which would cost about 9 billion rupiahs (around US\$900,000) would begin in July. The funds will be taken from the 2002 city budget. The city has so far spent billions of rupiah to beautify the national park, which still appears to be in a state of disrepair. Last year, the city administration budgeted 9 billion rupiahs to install 61,000 square meters of paving blocks at the northern and western ends of the park. But problems are still lingering in the area as traders continue their businesses using unsightly plastic tarps and wheeled kiosks in the area. The goods they sell include various kinds of food, beverages, clothes, souvenirs and toys. The tarps and kiosks do not only mar the appearance of the park, but also by litter scattered about by many visitors and vendors.

"I am not worried about the fence plan because we can still give money to officials in the city administration," said Aminah, a food trader, who has been doing business there for about six years. Aminah said that she was allowed to work in the area because she paid 100,000 rupiahs for "security" to a person who she believed had a relationship with officials at City Hall. She also has to pay 2000 rupiahs per day for a garbage service. She said it was evident that whomever she paid the money to was connected to the city officials because she had always been informed beforehand if public order officers were planning a crack-down in the area. Aminah also added that all illegal traders at Monas had to halt business temporarily whenever state guests were visiting the capital, or face punishment. We are definitely not allowed to do business there if foreign heads of state come here. Otherwise, they will seize our belongings," Aminah said.

Another vendor, who was speaking on condition of anonymity had a different story. This vendor runs a small business at a permanent open-air hall originally constructed for sheltering park visitors. "I was allowed do my business there after meeting with an official in the City Hall and we made a deal," the vendor admitted. But the vendor denied a relative's claim that the family was obligated to pay a large amount of money to government officials. The relative, who was listening to the conversation, said the vendor's family paid a large amount of money to bribe the officials before starting the business two years ago. "No, we only give a small amount of money as an "expression of gratitude" for the official's help to allow us to do business here," said the vendor, adding that the business was off limits to local hoodlums who frequently demand "protection money" from other traders at Monas. "Although there are many hoodlums here, no one dares to disrupt our business here as one of our relatives is a member of the presidential guard," the vendor added.

Previously, the head of the Central Jakarta park office said that after the erection of the fence, the park would still be visible from the outside because the fence would be made of two-meter high iron rods with plenty of space between each. "From outside, people will still be able to see the park," said a secretary to the head of city park agency. Deputy Governor for administrative affairs expressed his optimism that the project would be able to return the function of the park to a national monument, not a place of petty vendors and litters. "We have expelled traders from the parks, but they always return," he said. However, a cigarette trader who has a kiosk on the border area between the park and Gambir train station, expressed skepticism over the plan, saying that in this day and age in Jakarta, greed ruled everything. "What cannot be solved with money nowadays?," she asked.

Source: The Jakarta Post – April 15, 2002

Box 2 - PKL (street hawkers) in Ciledug – Tangerang seek help to the National Committee of Human Rights

TANGERANG – Small traders in Ciledug Market report to the National Committee of Human Rights on Monday (April 15). They ask for support of the Committee and ask for permission to keep their business activities on the site because their goods were ransacked by group of people (thugs). Kiosks were removed by force. The incident happened two days earlier and the suspected group was reported equipped with weapons. Traders want to receive support and protection from similar vandalistic actions in the future, they (the traders) are members of *Paguyuban Bina Usaha PKL (street hawkers/vendors) Ciledug*.

The Mayor of Tangerang HM Thamrin reportedly called officials in-charge such as Head of *Tramtib (City Public Order Agency)* asking them to handle around 2000 PKL (street vendors and hawkers) in Ciledug Market because the city administration has issued warrant for maintaining order/cleanliness in the area. Head of *Tramtib* Unit denies accusation from the traders (PKL) that the city administration has used thugs to remove their kiosks. He also rejects a report that PT Putra Citra Nusa (PCN) as the developer of Ciledug Plaza has requested the action.

However, the traders said that officials of Kelurahan Sudimara Barat support the action. They ask the Committee for assisting them in filing for compensation and asking for guarantee to keep running their businesses in the area of Ciledug Plaza. If they are to be removed, they insist to locate nearby the former site because of its strategic location.

Source: Warta Kota – 16 April 2002.

Recently, reports said that public spaces are illegally "sold" to PKL by those who have "connection" to local administration. This phenomenon occurs in many cities such as Jakarta, Bandung and Semarang among others. Although city officials deny the report street hawkers confirm about the price that they have to pay in order to occupy a space. Reports also mentioned that city's unit and/or city's high official are involved in this illegal kiosks/space selling that they are behind the scheme and "backing" of this illegal selling. PKL are vulnerable to illegal retribution said taken as "protection" money which is not flowing into government's revenue. In DKI Jakarta, local administration has planned to collect retribution from PKL referred to Perda (city's bylaw) 3/1999 regarding retribution (Korantempo, 21 November 2001). But its implementation is questioned although some PKL are willing to pay for retribution unless they are given guarantee to keep their business activities.

In many cases, PKL has been identified as causing trouble to local administration and create nuisance to public/communities because they often occupy public spaces to run their business activities. Their existence creates eyesores to public because they do not pay attention to aesthetic and cleanliness when setting up their kiosks. Their location also generally creates traffic jams when they spill over into the street and taken up most of the road space.

In several cities, there are cases where local communities take action to remove PKL sites from the area because of the problems that they have created. Some local administrations also claim that community themselves demands actions to be taken against PKL (removal of their kiosks). Such the case in Bandung, where community has initiated to remove illegal kiosks by joint action ignited first by a clash between pedicab driver and PKL (Suara Pembaruan, 10 October 1999). The action then followed by government's operation to remove kiosks in several location based on Perda (city's bylaw) 6/1995 regarding orderly, cleanliness and beauty which prohibit business activities conducted on pedestrian, park, green spaces, intersection and others. In addition, many illegal traders or PKL in Bandung are not locally originated and this also has caused antipathy by locals because they have created problem such as congestion and disorderliness. Those who are not locally originated are accused for not having sense of belonging toward the city; therefore, they are not trying to keep the city clean and beautiful. In other case, PKL were reported have done some destruction to Bandung's City Hall by throwing rocks (Pikiran Rakyat, 21 March 2002). The incident occurred because during a government's operation in kiosk removal, some order officers beaten one of PKL. On their (PKL) way to Police's Department to report the beating incident, the vandalism took place. However, during a workshop conducted on July 1999, Mayor of Bandung Aa Tarmana reportedly admitted that PKL is not to be prohibited nor to be expelled or become victim of extortion. He further added that PKL are potential assets to the city if they are properly managed, planned and legalized because PKL could improve Local Source Revenue. However, he emphasized on efforts to establish Bandung as a clean, beautiful and comfortable city (Suara Pembaruan, 7 July 1999). The Mayor of Bandung has issued decrees regarding PKL, Mayor's decree number 624/1999 on PKL management in Bandung and Mayor's decree number 625/1999 on empowering PKL to improve their status into formal entity and to possess representative business place. However, their effect has yet to be implemented even facts contradict the policies.

An example of informal activity in urban transport services is *becak*. *Becak* (pedicab) was restricted to small side streets in many urban areas to reduce traffic congestion, in Jakarta for example. In spite of its symbolic "backwardness," the *becak*, like many informal activities, offered a vital service to low-middle income urban dwellers at a low cost. In Jakarta, the *becak* was to be phased out entirely by denying new licenses after 1985 but today *becak* (pedicab) are trying to get back to the streets of Jakarta. *Becak* drivers supported by NGOs such as Urban Poor Consortium (UPC) and others assisted by pro bono lawyers took the case to the court against the governor of DKI Jakarta. The court has ruled in preferring to the *becak* drivers but the case is being taken up to the higher court. This is a milestone in the history of informal economy in Jakarta and in the country.

Recently, there has been a phenomenon of bringing a case to the court through class action against governor and even the president for neglecting community's interest. Three class actions have been filed against the governor of Jakarta, the first was filed by PKL that victimized by eviction in Karang Anyer. The plaintiff won the case at lower court but it was later turned down at higher court. Later, *becak* driver and PKL (street hawkers) file second lawsuit, the lower

court ruled in favor of the plaintiff and the case is taken up to the higher court. The third one, is the lawsuit on recent floods filed by representatives of flood victims.

The typical activities demonstrates the diversity and the many distinctions that exist *within* the informal sector are shortlisted as follow:

Food/Snack Vendors

In Jakarta, for instance, the food/snack vendors are easily be found as they usually sited in some strategic locations. This kind of informal economic activity provide services for the low - middle income employees working in the formal sector, such as workers in formal offices and enterprises, and including people operating in the informal sector itself. In some cases, a number of high-income people also consume the product these vendors provided. The food/snack vendors therefore have various types regarding the kinds of food they sell, locations, scale and area of service.

There are three types of informal trade regarding the location they take to sell their goods or offer services, i.e.: permanent, temporary, and mobile. There are two types of snack/food vendors regarding food material, the wet and dry cooking. The vendors who sell wet cooking usually bound in a certain place (permanent and temporary), whereas the ones who sell the dry tend to move flexible (mobile).

Due to their limited income, most of the informal operators are forced to live in poor settlements lacking of urban facilities and infrastructures (not supported by clean water supply, inadequate sanitation, drainage, and sewerage system, etc). Here the food is processed or produced. Although there is no certain number records incident of food poisoning, there have been a number of such cases traced to such vendors. The economic crisis has brought the role of this sector more important in servicing the city populations to get meals in at a competitive price.

Nevertheless, considering the poor locations, lack of control on standards of hygienic, food processing, packaging, and the poor way they cooking their cuisine, some regulations in term of sanitation and location are required to improve their performance.

Street Vendors and Hawkers

Street vendors and hawkers are also a common phenomenon in most cities in developing countries. As the food vendors do, they also operate in strategic sites, such as bus stops, street junctions (places with a high traffic of people), city nodes (and where a large number of people doing free activities, such as markets, plazas, city squares, sport centers, etc.), and others. There are various goods offered such as newspapers, kid toys, household equipment, snack, and other consumer goods. The street vendors often locate along the street, pedestrian paths or occupy public facilities since there is no particular sites for them according to city planning. In Indonesia they also operate in public transportation without any ability for the local authority to control. The rapid growth of the street vendors tends to be uncontrolled and often employ criminals. Therefore some are considered triggering traffic congestion that occurring hazardous traffic situation, and rising of crimes. Due to the lack of regulations for controlling their activities, some are found offering illegal goods, such as porn products (VCDs, Magazines, Pornography, etc), drugs, gamble, etc. These may lead to serious social problems, as indicated by the cases of sexual deviations and harassment done by teenagers, as well as drug overdose and addiction, which in advance result on the increasing number of crimes.

Pedicab Drivers

These are also very evident in some cities in Asia and represent a significant component of the urban transport system. In big cities such as Jakarta and Surabaya, it is reported that the informal transportation contributes approximately 90% to the need of city populations, while formal transports only able to service the rest. Due to inadequate urban management particularly in transportation sector, there are locations in cities that are out of reach of public transportation system (adequate pathways and public vehicles). In this situation the informal sector plays a dominant role, as they can fill the gap between the need of transportation and available routes. The informal sector is able to offer various mode choices to meet the need of urban populations as they can also adapt to present physical condition of the urban streets. Several vehicles perform by those operators are used both with and without machine operated with fixed and unfixed routes and prices as well. These mode choices cover buses, cars (illegal taxis), crossing boats, becaks (pedicabs), motorcycle taxis and bicycles, as well as pick-ups called bemo and bajaj.

In Tangerang (it considered representing the feature of informal transports), it is reported that more than half of operators in this area having low level of education background. Therefore, obviously difficult to ensure that they really understand traffic regulations enforced by local authority. Hence, although the informal transportation have given the community easy access of transportation services due to resilient nature and their flexibility, they are also considered threatening to traffic accident and creating congestion. The efforts to regulate this sector therefore are to ensure that they play their beneficial role in a responsible manner.

Small Artisan

These activities are obviously seen along particular streets in many cities of the South, doing repairs, producing furniture, crafts or food products. It is clear that they add to the local economy, since they're also able to create job opportunities for workers with limited skill (their employees will have chances to receive skills and knowledge from those employers). Hence, their existence often judged as significant producers of pollution and poor resources users due to the inefficient process they do in producing their goods.

Garbage Man/Waste Workers

In many cities, the existence of informal garbage man/waste workers is often seen as a nuisance in the waste management system established by the local government. Hence, in cities with poor waste management (i.e. lack of skilled human resources, no certain garbage collection and treatment systems) the role of garbage men are considered as a significant aspect on efforts in recycling waste materials and making them economically valuable. They bring significant amounts of resources out of the waste system and back into the economy, further considered as their contribution to the local economic development. This sector also employs lots of people and may assist them in earning money for living.

People operating in this field mostly working and living in poor place as they prefer to live nearby their job locations, such as along the garbage distribution lane, nearby or on land-fill sites. Therefore proper regulations ensuring the coordination and integration of their working system to city waste management system should be bear in mind, besides the concern of their working and living conditions.

Construction Workers

In most big cities in Indonesia, the workers employed in this field mostly come from rural area and temporarily live in the city they are working just during the term of constructions. Therefore, they mostly do not have a certain place to live in, moreover sometimes they camp in construction buildings complex they are working in, or move from site to site. The nature of

their work subjects them to frequent injury but they are unregistered and have no access to social or medical services.

“Put Out” Home Workers

Many women prefer to work at home where they can divide their time between child minding and earning a living. In fact in recent years this has increased considerably as many formal enterprises have found it pays them to “put out” parts of their work. Problems include poor pay, the effects of this type of work on homeworkers’ health and children also working instead of being sent to school.

Household Servant

The household servants are including permanent and freelance baby sitters, household maids (for cleaning, cooking and laundering), residence security guards, and gardeners.

The problems usually occur from the exploitation and harassment done by the employers, such as a very low salary (below minimum regional wage), delayed payments, as well as overload working obligation and unpaid overtime.

Most of wealthy households in Indonesia tend to employ servants. The changing structure of urban societies is also changing the patterns of household employment. In many cities there is little interest in registering household workers and consequently no structures to intervene when problems of violence or more systematic exploitation occur.

Repair Shops

The widespread introduction of the use of technology and its devices, such as machine, computers, and telecommunication instruments, have broaden opportunities for individuals finding work, both for software installation and other areas servicing those tools. The operators may take the work home or locate it in strategic sites in order to favor the need of customers. Some are on-call reparators.

The services offered by the repair shops are among those including for cars, bikes, motorcycles, computers, telecommunication and electricity equipment, etc. both for the soft and hardware. The nuisance sometimes occurred from large size equipment reparations such as for motorcycle, cars, and machines, while others remain less disturbing. However due to the lack of control enforcing by the local authority, the repair shops may contribute to city’s air, water, and land pollution. They also sometimes dysfunction urban land use.

The workers in this area actually are not necessarily poorly paid but it generates a significant unregistered industry.

Urban Agriculture and Fishery

Although thought of as rural industries, in practice fishing is usually urban-based and a significant part of the local economy of some towns. Urban farming has been a rapidly growing component of some cities in recent years, where in some cases idle land and residual spaces provide for self-production, and in other cases provide a significant income supplement for poor urban families.

Room/Home-Rental Business

Informal home rental business is a common phenomenon seen in big cities due to big amount of housing needs that cannot be supplied by formal sector. The consumers of rental houses range from low to high-income groups. Therefore, there are various kinds of rental houses regarding

the size, price, and term of rental payment to conform the market demand. In most cases, this kind of business can easily be found in the vicinity of the job sites, such nearby offices, factories, markets, business center etc, both in city centers and urban fringes.

Due to the financial affordability, rental houses delivered to middle to high income formal sector workers are relatively better both physically and environmentally (complete with adequate facilities and services) comparing those rented by the low income employees.

In many cities in welfare countries, such as Europe and the US, there are enterprises providing housing facilities for their workers, both for rent and owned. In Asia, efforts to provide those facilities have been started few years ago. Unfortunately the economic-slow down crashing Asian countries has resulted the formal sector reducing their overhead cost, including their expenditures for housing and other social facilities. Enterprises providing these facilities remain very limited. In order to save the transportation cost, the workers, in particular the low-paid, forced to live in slums or squatters in surrounding job sites areas, where locations are inadequate both environmentally and physically.

In some industrial area such as in urban fringes of Jakarta, Bandung, Tangerang, and Bekasi, there are evidences that a large number of small rental houses/rooms with approximately 9 m² per unit large (particularly those which are build surrounding the industrial areas), occupied by more than 6 workers. Although the inhabitants stay in shift, the conditions are still far from adequate. The house/rooms rented by the low-income workers are mostly not able to provide tenure security for the tenants, as some are built on illegal lands. There are cases where tenants are forced to move out from their houses as the settlements evicted by the local authority without initial warning, but they cannot claim for any compensation both from the owner of rental houses and the government. Therefore, this business needs to be regulated in terms of building/construction, location, as well as business registration. A number of incentives also can be given to them who are capable to provide adequate housing targeting the low-income group.

Informal Brokers

This phenomenon also can easily be found in developing countries. The informal brokers represent them who want to sell or buy land, houses, goods, and tickets, even to arrange certain licenses and papers. Many of them are very helpful for people who don't have enough time to look for goods or other necessities. Actors playing in this area obtain benefits from the levies charged from client who ask them for services. The charges subjected to their customers both in fixed and unfixed prices. They also often establish such an illegal cooperation with certain public servants/officials to block direct contact of people who want to arrange licenses or papers with the directed offices. Therefore, not like many who work formally in the secondary market, the activities of informal brokers are sometimes considered to be constraints for the citizens due to the monopoly they brought into practices, as they might determine the levies for their services without any deliberation on formal market price.

- *How are basic public services are being delivered in low-income urban settlements? What is the potential to develop new micro enterprises to meet an increase in subcontracted public services?*

Public services include provision of water, sewerage, drainage, health, education and other services. In terms of public services as of provision of water, sewerage, and other infrastructure, it can be mentioned that average of 60% of Indonesia's urban populations having no direct access to piped water and more than 80% of them without sewerage facilities. A

significant number of urban residents are supplied from individual wells, the large number of which threatens seriously the quality and quantity of aquifer supplies. The environmental situation in Jakarta is generally poor, especially in more marginalized quarters. Some quarters are serviced with public tap water and public toilet which provided through specific government's program/projects with donors' support such as KIP (Kampung Improvement Project) and IUIDP (Integrated Urban Infrastructure Development Programme) among others. Households in many poor neighborhoods in Jakarta generally received their water from private vendors who purchased water from tankers and it is expensive. They often pay higher than middle-upper income households that receive privilege of piped water services.

Most of urban planning in Indonesia does not take into account basic public services delivery in low-income urban settlements, this partially due to the unavailability of legal land tenure in the low-income settlement in nearly all of urban areas. Most of low-income urban settlements occupy land illegally that belong to the government, public or individual; therefore, it is difficult to deliver public services to the area. Their settlements area are also prone to flooding since many of them reside along the river banks which is green space area that need to be protected. KIP (Kampung Improvement Programme) has tried to improve conditions of kampungs in urban areas, the programme is relatively successful in improving physical environment but it can not cover the whole city area. Usually local government has set certain criteria on types of kampung that could receive similar programme, for instance the kampung's condition is not very poor or too decaying and its location is within the city (inner area).

Floods

Floods are not new to Jakarta, since most of the ground surface of Jakarta is lower than the seawater level. Recent floods that occurred in Jakarta swept the city in late January and early February 2002, the floods is considered as the largest floods that have occurred. This time, almost all income groups suffer from the floods. It was not only experienced by low-income urban settlements that reside in flood-prone area. Other than the high rainy season and human behavior such as lack of awareness of garbage disposal, the floods also caused by poorly urban planning implementation in Jakarta as well as in its periphery. Many of rain catchment areas and green areas have lost to development purposes because of human needs due to rapid growth and also human greed. The flood has made the governor of Jakarta, along with the President and the governor of West Java, being sued by flood victims for not warning the public beforehand and being late in responding to the floods. The flood victims filed a lawsuit on March 13, demanding compensation of more than 1.2 trillion rupiahs (around US\$125 million) for the immaterial and material damages and losses caused by the recent floods.

The authorities were blamed mainly for their failure to give early warning information and provide necessary emergency response prompting more than 97,000 families or 365,000 people to leave their homes and take shelter for weeks. Should early warning information and immediate response in support of the residents, the losses could have been greatly mitigated. The flood victims, the plaintiffs are being defended by team of lawyers consisting of 32 pro-bono lawyers from various legal aid institutes in the city, they filed a class action suit against those top officials (The Jakarta Post – April 11, 2002).

Low-cost Housing

Government of DKI Jakarta has prepared low-cost housing program for low-income people as part of public services, however the program has failed to reach targeted beneficiaries because of several reasons. The article below gives a cause.

Box 3 - Scalpers, collusion wreck low-cost housing hopes

The City Administration hopes that people from the slum areas will move into low-cost, centrally located apartments built for them, but collusion between scalpers and certain city officials is damaging those hopes. And the units are being sold to middle-class Jakartans, who are not legally eligible. The city plans to allocate 1.6 billion rupiahs (around US\$166.84 million) to build the low-cost apartments for the 30,000 or so families currently living as illegal squatters along the riverbanks and other common areas throughout Jakarta.

The high demand for low-cost apartments has produced a thriving group of scalpers who buy up the units from the former slum dwellers, and sell them for higher prices, completely defeating the original purpose. The scalpers can be seen operating at the construction site for the apartment block on Jl. Petamburan in Central Jakarta. They have even opened a temporary office in front of the site to accommodate potential buyers.

The three-tower apartment block, comprising 600 units, has fairly strict regulations which allocate the housing to low-income Jakartans, including eviction and fire victims. Currently around 400 units, originally owned by the victims, are being offered for sale, in defiance of the laws and regulations. With the administration plans to officially open the apartment complex on June 22 – in commemoration of Jakarta's 475th anniversary – fancy cars have already been seen in the parking lot. The car owners were seen negotiating with the scalpers.

One of the chief scalpers, Gede, said on Tuesday that he could “help” arrange all the documents needed for the new buyers, regardless of eligibility. “We’ll prepare all the necessary documents including an identity card and a family card, issued by the Petamburan subdistrict, to fulfill the prerequisite to buy each unit in the apartment. No worries. You can also pick which unit you like,” he told a reporter posing as a buyer.

The City Housing Agency code states that each apartment owner's certificate of eligibility must not be handed over to anyone except for relatives or other residents of Petamburan subdistrict. Gede said he could easily falsify the buyer's identity in order to appear as a relative of an eligible owner of the unit by adding the buyer to the original owner's family card. “Piece of cake. We just have to pay certain officials at the Petamburan subdistrict office to get you on the family card as a cousin. They'll make you a new ID card as a Petamburan resident.”

“Each buyer only has to pay 18 million rupiahs (around US\$1,877) to possess the ownership certificate for the cheapest units located on the fifth floor, and an additional 1 million rupiahs to process the new ID card and family card,” he said. Gede claimed the original residents decided to sell their apartments due to their inability to pay for them, which he claimed was more than 20 million rupiahs, payable over a five to 15-year period. However, an official at the agency's apartment division, contradicted Gede, saying that the original price of the most expensive unit was only 15 million rupiahs payable in one lump sum or over time.

Similar scalper operations were also found at the Tebet Barat Apartments II on Jl. Tebet Barat in South Jakarta and at the Benhil Apartments on Jl. Pejompongan in Central Jakarta. Another example is the Kebon Kacang apartment complex which is located near the Jl. M.H. Thamrin business area. The official admitted that the Agency already knew of the existence of the scalpers but said it was powerless to do anything. “We don't have strong enough regulations or the manpower to handle the issue. Before the eligible residents received the units, they had to sign a promissory statement which said they could not sell the units for any reason. But the statement does not contain any punishment,” he groaned.

Source: The Jakarta Post – April 11, 2002

The scalpers or informal broker in the above case have in fact ruined the hopes of providing low-cost housing for targeted beneficiaries. This is an example of illegal informal activity which yield negative impact to government program.

Meanwhile, the central government through Ministry of Settlements and Regional Infrastructure has provided 1.7 trillion rupiahs to build multi-storey housing building (low-cost housing) for low-income people according to a report on April 17, 2002 (www.beritajakarta.com). The budget is allocated to build multi-storey housing in the entire area of DKI Jakarta including on riverbanks. In total, government will build 300 units multi-storey housing along the river for 30,000 families to live in. It is hoped that the community in the area will respond positively to the construction plan and they should not be worried with the cost of the construction since the government will fund those building construction. Learning from experience, it is only time will tell if the plan will be successful to provide proper home for the low-income people who used to live along the riverbank and prone to flooding.

The government of DKI Jakarta currently has a specific program to empowering community at subdistrict level named PPMK (Program Pemberdayaan Masyarakat Kelurahan). The program is a direct assistance to the community; it covers social, economic and physical aspects in order to improve community welfare. The program also provides funding (grant) for the community to improve public infrastructure which includes public services in their area, aside from utilization as capital for productive business and human resource development through strengthening local institutions. However, the program does not support any new establishment of new enterprises particularly when competition is tight. Instead, the program emphasis on developing already established enterprises which creates job opportunities for the community. Therefore, developing new micro enterprises to meet an increase in subcontracted public services seems unnecessary in the framework of PPMK.

Policies and Legal Framework

- *The legal framework: which kinds of legal instruments are available to promote decent employment in the informal sector in Indonesia*

Law 25/1997 of Republic of Indonesia regarding manpower, Chapter IX is specifically ruled for worker within and outside working relationship in informal sector. It mentioned among others the rights of social guarantee for the worker, worker's safety, establishment and development of informal workers (including technical skills and managerial) through training institution, providing consultation and assistants. This chapter is set aside with intention to protect and to increase the welfare of worker within and outside of working relationship in informal sector. The availability of the law opens opportunities to promote decent employment in the informal sector but how it could be fully implemented is still questioned and it needs time to take place.

Law 9/1995 of Republic Indonesia regarding small-scale enterprise is drafted with intention to empower small-scale enterprise which covers its management and establishment, financing and partnership and others. The law defines small-scale enterprise as comprised of informal small-scale enterprise and traditional small-scale enterprise; therefore this law is applied to informal economy for the purpose of its development. Chapter IV on business climate, mentioned that government should creates good business climate through issuing encouraging regulation and

policies covering financing, competitiveness, infrastructure, information, partnership, licensing and protection. Article 9 requires government to draft regulation and policies to provide public infrastructure (covering transportation, telecommunication, power, water, business location and site, as well as market) for small-scale enterprise and lower tariff of specific infrastructure for small-scale enterprise. Chapter V talks about management and development conducted by government, businesses and public through production and manufacturing, marketing, human resource and technology. Chapter VI sets on financing for small-scale enterprise provided by government, businesses and public through credit, non-bank loan, and venture capital among others. Chapter VII on partnerships mentioning that medium and large-scale enterprise conduct partnership relationship with small-scale enterprise in various schemes (such as sub-contracting, franchise, dealership and others) based on mutual relationship. The law has provided and regulates opportunities for small-scale enterprise development through support and cooperation with government, businesses and public. However, its implementation to this point may not have fully achieved the primary intention to empowering small-scale enterprise.

Local Regulation of DKI Jakarta 5/1978 regarding PKL (street vendor/hawkers) mentioned on regulating place and activities of PKL and for its establishment. Chapter III, article 5 instructs local government to carry on establishment of PKL. In carrying on the task, local government must provide training and guidance including business manner to PKL and provide assistance in the process of their business development. Although this local regulation has been existed for many years, the implementation through the years is unclear by looking on development of PKL in DKI Jakarta. It is apparent that the problems of PKL are still persisted in Jakarta to this date, government still has ambivalent attitude toward this business activity. Although regulation and policies seem friendly to informal economy, in reality many are still reluctant to recognize their contribution to local economy development.

Decree of Governor of DKI Jakarta 81/2000 regulates loan disbursement mechanism for small-scale enterprise. The decree determines the amount of the loan given to informal and informal small-scale enterprise and cooperative, the loan varied between 2 million rupiahs for informal enterprise to 50 millions rupiahs for cooperative with 24-months payment period. Following the decree, another one (Governor's of DKI Jakarta Decree 1044/2001) is issued to increase the amount of fund provided for loan disbursement to improve small-scale enterprise and cooperative's business activity. The constraints that small-scale enterprise and cooperative encountered to obtain the loan are limited information available regarding the facility, and the lengthy procedures they have to follow and too many institutions involved in this loan disbursement mechanism. The government has initiated improving services by establishing 'one stop service' for that purpose.

- *Which policies are applied to MSE and to the informal sector (if any)?*

PROPENAS (National Development Program) of the Government of Indonesia for the period of 2000-2004 contains policies applied to MSE and to the informal sector that are become guideline for governmental operation. Several programs have been formulated in PROPENAS to improve MSE which includes informal economy as follow:

⇒ **Developing Micro, Small, and Medium Sized Businesses and Cooperatives**

Development of small and medium businesses and cooperatives, comprises the following programs: (1) the program to create a conducive business climate; (2) the program to improve access to productive resources; (3) the program to develop entrepreneurship and competitive advantage.

⇒ **Program to Create a Conducive Business Climate**

The aim of this program is to expand business opportunities and to create business certainty, without disregard to maintaining economic efficiency. The objective of this program is to reduce transaction costs and to increase the business scale of the SMEs.

The policies and steps to be taken in this program are as follows: (1) Improving laws and regulations, simplify licensing, bureaucracy, regional rules, and fees and improve law enforcement and protection against unfair competition; (2) Improving fiscal policy, and policies related to taxation, and sectoral policies including policies on inter-regional and international trade, and policies related to SME investment; (3) Granting incentives and facilities to develop a broader institutional network to support the SMEs in the regions, such as community/traditional financial institutions, credit guarantee institutions, and institutions that provide business development services, training, technology, information, and advocacy services. Incentives are given at the early stage coincidental with promoting institutional building; (4) Increase the ability and involvement of stakeholders in the development of SMEs at the central and regional level. This covers aspects on planning, implementation, and control of policy and development programs, including improved coordination, and promotion of work ethics and business culture.

⇒ **Program to Improve Access to Productive Resources**

The aim of this program is to improve the ability of SMEs to open opportunities and access resources, particularly local resources. The immediate objective is the availability of supporting institutions for increasing access of SMEs to productive resources, such as human resources, capital markets, technology, and information.

The activities of the program are: (1) Improving community/traditional and secondary financial institutions to support micro business in local areas, through: (a) providing protection on the SME status as legal entities; (b) increasing management and funding capacities and providing guarantees on a selective basis; and (c) establishing networks among the community/traditional financial institutions (LKM), and between the LKM and banks to facilitate financial cooperation; (2) Expanding sources of financing for the SMEs through such schemes as loan guarantees, venture capital, and providing incentives to foreign investors that wish to take part in equity financing of venture capital undertakings and by promoting the leasing industry as one of the main financing institutions for the SMEs. Efforts to ensure greater access to funding of SMEs are to be accompanied by the promotion of the credit evaluation system and its information network; (3) Improving the management capability of local institutions that provide business development services, in a participatory and competitive manner. This should be accompanied by the promotion of the accreditation system and certification of business development services; (4) Developing the incentive systems and strengthening of training institutions and their networking; (5) Reorienting and restructuring government training and research agencies in order for them to become self-reliant SME business development institutions. This should be accompanied

by upgrading and repositioning of advisors to become professional and self-reliant SME consultants; (6) Strengthening organizations and modernizing the management of cooperatives to make SMEs able to jointly reach more economic and efficient scales of operations

⇒ **Program to Develop Entrepreneurship and Competitive Advantage of SMEs**

This program is designed to improve the entrepreneurship and competitiveness of SMEs and cooperatives. The objective is to improve the knowledge and entrepreneurship and increase the productivity of SME businessmen and those engaged in cooperatives.

Activities include: (1) popularizing entrepreneurship and developing incentive systems for new entrepreneurship (business start-ups); (2) Developing business and community oriented incubators and technology that support the development of SMEs and Cooperatives. This should be accompanied by growth in venture capital and long term loans; (3) preparing an incentive and supervision system to accelerate the growth of technology based on SMEs using local technology and innovations. Disseminate innovative technologies. Promote partnerships between foreign companies that transfer technology or management skills to SMEs. Provide business facilities that assist in modernization or increase value added; (4) Developing production and distribution networks by utilizing the information technology. Developing horizontal and vertical networks among SMEs and with big business through partnerships; (5) Improving the skills of SMEs business people including business women, to become businessmen that operate in a cooperative spirit to develop their potential, skill and expertise while innovating and creating increased job opportunities.

Institutional framework

- *The institutional framework in the government and the local government: who does what concerning the informal sector and the possibility of creating employment through subcontracting public works?*

The fact that the informal sector is so large in many countries can be attributed to the widespread inadequacy of the existing institutional framework and its regulatory system and this is also the case for Indonesia. Many of law and regulations are formulated at the national level and have not been able to be detailed at local level; therefore, they are not yet effective to benefit local communities. The national framework provides policies for developing SMEs which includes informal sector and it becomes the responsibilities of national government through ministries and departments to conduct policies through programs and actions. At national level, State Ministry of Cooperative and Small Medium-scale Enterprise is responsible to formulate policies and coordination in the sector. At local government level there are units responsible for handling informal sector that varied from one city to another, among others: unit or office of cooperative and small medium-scale enterprise responsible to handle management of the sector, unit of *Tramtib* (City Public Order Agency) that is responsible to manage PKL location to avoid public nuisance in keeping orderliness, bureau of economic which responsible to guarantee loan as capital for small-scale enterprise in DKI Jakarta, bureau of economic administration which concerned with number of informal economy including location of PKL activities. Those are some of responsibilities of units/bureau or office in relation with informal economy. Nevertheless, the attention given to informal sector both at

national level and local level is still considered very low and tend to neglect the potentials of informal economy.

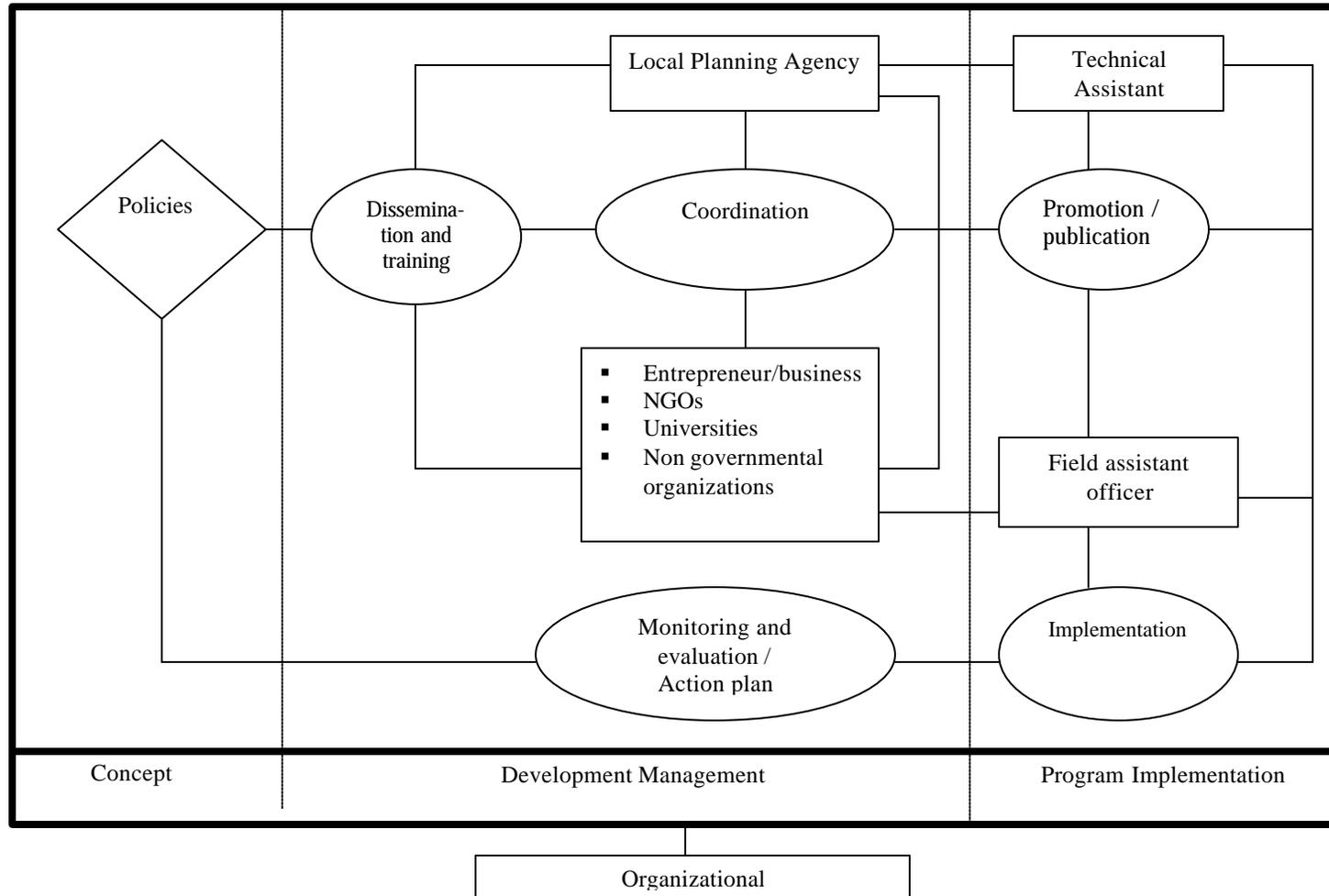
Subcontracting public works have been conducted during the implementation of Social Safety Net program so called Labor-based Public Works Provision in Urban areas. The projects were contracted to small contractors who must hire local workers that fulfil certain criteria and conditions. The program has been recognized as able to create temporary job for the unemployment during the ongoing project.

- *The framework of existing intermediary organizations (NGOs and CBOs) that bridge (or has the potential to bridge) the gap between local government and the private sector mainly enterprises and individuals active in the informal sector.*

There are several NGOs already involved in developing informal sector and they are potential to bridge the gap between local government and the private sector. Inadequacy of available institutional framework hinders the potential of NGOs to act as intermediary organizations. However, there have been efforts to develop local economic development which include informal economy, the Local Economic Development framework is one of them. The framework has been applied in three provinces in Indonesia, and it involves many stakeholders in the scheme in various sector and covering regions (across administration boundaries). The scheme is planned to be replicated in other regions. Although it is still in its early stages of implementation but it has showed efforts in allowing local stakeholders to work together in developing local economic development that include informal economy (see figure 1 and 2). The concept is developed based on effort for community's potential development, increasing access to economic resources, avoid imbalance competition, and create mutual-relationship and partnership. By recognizing each other's potential and contribution to accomplish a strong economic development based on local resources and partnership among various actors. The concept also recognizes the potential of people's economic and the benefit of partnership among private sectors, SMEs and MSEs. The local economic development through partnership scheme will give the government role and opportunities to improve its function to provide public services and to act as facilitator and enabler for all local economic actors (source: Antonius Tarigan, Basic Concept and Partnership Program Approach for Local Economic Development,).

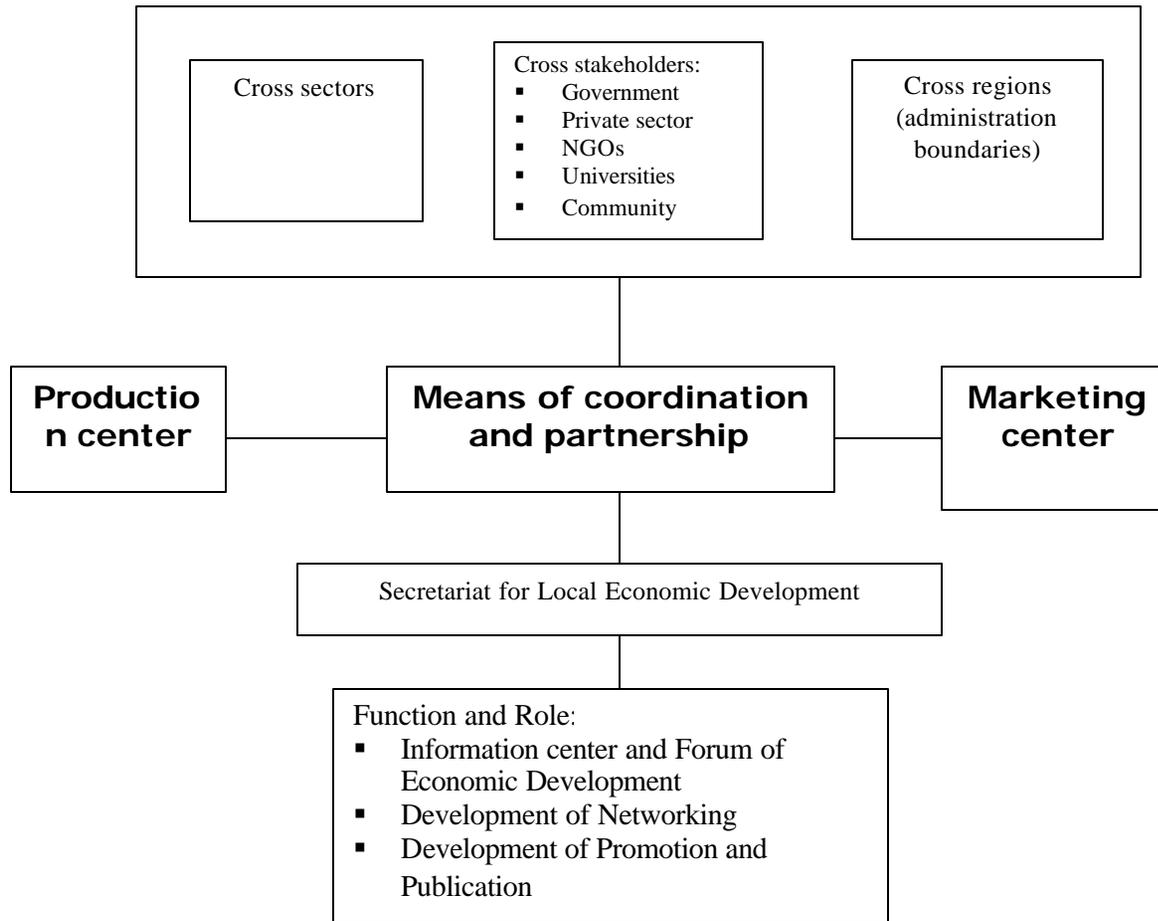
Meanwhile, the current empowerment program or PPMK of DKI Jakarta will employ NGOs for assisting community. NGOs will give assistance to the community during the whole process of loan utilization, starting from proposing program/activities, implementation and during supervision. The community will conduct the whole process with the assistance of NGOs.

Figure - 1 Framework of Local Economic Development



Source: Pung Permadi, Experience of Networking Development

Figure 2 – Institutional Coordination and Development



Source: Pung Permadi, Experience of Networking Development

Privatization and decentralization process

- *The privatization process. Very short history and the present situation.*

Referred to a Morgan Lewis White Papers July 1998 entitled “Indonesia’s Privatization Program”, it is stated that Indonesia’s history is one of active state involvement and protectionism for certain sectors of the economy. Opportunities to invest in such sectors through existing state-owned companies in telecommunications, steel, cement, mining, toll roads, ports, airports and plantations are nearly unprecedented in Indonesia. However, the process of privatization in Indonesia has begun since the early 1980s along with the process of economic liberalization and deregulation as results of globalization. Globalization has led the state to give a greater role to the business sector in the development process (including privatization).

Recently, the Government of Indonesia announced a privatization program providing for the sale of substantial stakes in 12 state-owned companies. The government agreed to take this action under the terms of the US\$43 billion structural reform program it signed with the International Monetary Fund (IMF). The privatization program represents a once-in-a-generation opportunity for foreign investors to buy into state-owned companies involved in sectors that, until very recently, were closed or restricted to foreign investment. The companies to be privatized include some of the most important and largest enterprises in Indonesia, including companies involved in domestic and international telecommunications, steel, cement, mining, toll roads, ports, airports and plantations. A number of the companies to be privatized are already listed on an Indonesian or foreign stock exchange, with the government maintaining a controlling stake, while others are wholly-owned by the Indonesian Department of Finance and run like agencies of the government.

According to that paper, the government of Indonesia has established an aggressive schedule for the privatization process. Under the terms of the IMF structural reform program, Indonesia is committed to sell stakes in all 12 companies by the end of 1999. In addition, the government has committed to sell four of the companies by the end of this year.

A new development has occurred within the country regarding the privatization plan by the government. Many parties disagree if the government plans to keep it going, the following newspaper article describes opponents toward the plan coming from the labor unions.

Box 4 - Labor Unions step up anti-privatization campaign

Hundreds of workers from some 15 labor unions representing workers in state-owned enterprises (SOEs) staged an anti-privatization protest in Jakarta on Tuesday as part of a campaign to pressure the government to abandon the program, which is seen as being crucial to the country's economic recovery hopes. Secretary-general of the Federation of SOE Labor Unions Nazir Safrie said that the privatization program would only inflict losses on the country, including massive layoffs. "The government just wants to sell, sell and sell the SoEs ... to meet its budget targets. We are against such measures," he told reporters. He added that a privatization law must first be introduced before the government proceeded with the sell-off program.

During the one-day rally, the workers went to the presidential palace and to the Office of the State Minister of State Enterprises to voice their demands. But neither President Megawati Soekarnoputri nor Laksamana Sukardi showed

up to meet them. Labor unions participating in Tuesday's rally included those from the West Sumatra-based cementmaker PT Semen Padang, telecommunications firms PT Indosat and PT Telkom, Bandung-based aircraftmaker PT Dirgantara Indonesia, and Surabaya-based electricity transmission company PT PJB. The current anti-privatization campaign could trigger larger protests with the potential to derail, or put a brake on, the government's privatization program.

Over 120 labor activists from around the country gathering here for a labor union conference had earlier warned against pursuing trade liberalization and the privatization of SOEs as it would only create misery for Indonesian workers. The government has included 25 SOEs in its 2002 privatization list as part of a bid to raise around Rp 6.5 trillion (US\$698 million) to help plug the state budget deficit, which is estimated at Rp 42 trillion, or 2.5 percent of gross domestic product. The House of Representatives' Commission IX on financial affairs recently approved the plan, although some legislators still insisted that the government must continue to consult with them on the privatization of individual SOEs.

The privatization program is also part of a deal agreed with the International Monetary Fund, which is sponsoring the country's economic reforms. Backtracking on such a key program could strain relations between the Fund and the government, which in turn would affect investor sentiment, analysts have said. The government failed to meet its privatization program target last year for various reasons, including widespread protests over plans to sell a controlling stake in cementmaker PT Semen Gresik to Mexican cement giant Cemex SA de CV.

Separately, in Padang, West Sumatra, the Semen Padang labor union reiterated on Tuesday its opposition to the sale of Semen Padang to Cemex. They said that they would launch a campaign to expel Cemex officials from the province if they dared to go ahead with their acquisition plan. Semen Padang is 100 percent owned by Semen Gresik. The workers demanded that the government spin off Semen Padang from Semen Gresik if it wished to proceed with the sale plan.

Meanwhile, Revisond Baswir, an economist from the Yogyakarta-based Gadjah Mada University (UGM), also said that hasty moves to privatize state enterprises would merely inflict losses on the people. The government should wait until the country's economy recovered from the crisis so as to obtain optimum proceeds from the sale of the SOEs.

Source: Jakarta Post – April 17, 2002

- *The decentralization process. Very short history and the present situation.*

Since the 1950s, Indonesia has been a centralized unitary state, with provinces and local governments under central government. Now, a “window of opportunity” has opened by the enactment of two new laws. Law No. 22/1999 on local autonomy creates a framework for autonomous and participatory local government in a decentralized state. James Alm and Roy Bahl in their paper entitled “Paper on Decentralization in Indonesia”, June 1999 mentioned that the new Law No. 22/1999 eliminates the hierarchical relationship between the provincial and kotamadya/kabupaten. Kotamadya/kabupaten will be called kota/kabupaten and will become fully autonomous. Mayor and bupati (head of kabupaten) will no longer report to provincial governors, they will be accountable to the local parliament or DPRD. The law also makes many deconcentrated central government ministries at the province and district levels the responsibility of local government, with huge implications for the way public services are delivered.

A companion Law No. 25/1999 alters the transfers received by local governments from the central government, it establishes inter-governmental revenue-sharing arrangements for newly autonomous local government. Alm and R. Bahl also wrote that the law introduces revenue sharing for provincial and kota/kabupaten, assigning each level of government its share of revenues from taxes on land and buildings, the transfer of land and buildings, forestry, mining, fisheries, oil and gas. Other local government sources of revenues (e.g., own source revenues, fees and charges, profits from government enterprises, borrowing) are unchanged, as are

revenues from specific Inpres grants used to finance development projects in areas like primary schools, health facilities, water supply, and roads.

If fully implemented, the two laws will transform intergovernmental relations in Indonesia since the laws have the potential to increase the accountability of local government officials significantly. It is through this accountability that major advantage of decentralization is obtained: moving government closer to the people. But, it is not happening yet. The reasons for lack of progress in decentralizing government authority, finances and services in Indonesia are numerous, but in general terms the main obstacles have been:

- A resistance of the center to giving up planning and implementation powers to the local level;
- A lack of adequate authority and human & financial resources at the local level;
- A lack of clear and coordinated policy, programs and financial investment decision-making by key central government ministries;
- A lack of incentives for the many institutions involved in domestic governance to work toward better coordination, either horizontally or vertically;
- A lack of clarity about roles and relationships between central government agencies and local governments; and,
- Funding policies and decisions by donor agencies that reinforce tendencies by ministries to over-specialize, and even compete with one another.

Although both laws offer the promise of greatly accelerating the slow progress on decentralization taking place over a quarter century, yet realizing this promise is not at all assured. There is an absence of any over-arching policy to guide implementation of decentralization in Indonesia. Without clearly defined priorities and objectives deriving from policy frameworks, implementing regulations for the laws will be inadequate and monitoring and evaluation nearly impossible. There are other challenges to decentralization: the capabilities of newly elected local councils; capacities of local administrative bodies; and the ability of the central and local governments to provide adequate financial resources. Greater decentralization is a desirable medium-term goal; however, without improved administrative capacities and human resources at the center and sub-national levels, it will not be achieved. (Source: Proposal on “Policy and Guidelines on Urban Sector Development in a Decentralized Environment” prepared by IPA, URDI and P3WK – ITB submitted to ADB, 2000)

Impact to Business Climate

Research has been conducted to find out the impact of the two new laws on business climate. A SMERU Working Paper by Ilyas Saad entitled “Indonesia’s Decentralization Policy: The Budget Allocation and Its Implications for the Business Environment” tries to answer some critical questions regarding the financial activity of local governments to implement regional autonomy. It is agreed that during the early stages of the implementation of autonomy, financial aspects have been crucial for every kabupaten and kota administration. There are indications that local governments have been so eager to increase local revenue through imposing more local taxes and levies.

SMERU has conducted field studies in twelve kabupaten and kota across nine provinces and it has obtained the results. It found that, in many cases local governments at the kabupaten and kota level have received an allocation of funds from the central government that exceeds routine expenditures. However, this level of funding is substantially less than the total transferred into

the regions (including funds received by central government offices operating at the kabupaten and kota level) during the period prior to regional autonomy. It is a different matter, however, at the province level where the allocation of funds from the central government is much smaller than their routine expenditures. The size of the budget allocation is one of the key reasons given by local bureaucrats to explain why local governments both at the kabupaten and kota level as well as the provincial level, have been working hard to increase local revenues by imposing more local taxes and levies. The field studies have yet fully captured the negative impact of these levies on the business and investment climate. However, local businessmen have pointed out that most levies have not yet been fully imposed and there is some variation between regions in the degree of their commitment to the creation of these new taxes. But it is widely accepted by local businessmen that all these new levies will create distortions in the market and a high-cost economy in the near future.

The probable trends of the impact of excessive levies that were identified during the field studies are mentioned below.

- Increased distribution cost
- Forcing down prices at the farmer or producer level
- Accelerating the high cost economy and social unrest
- Weakening local competitiveness and commodity exports
- Main goal of autonomy overlooked: increasing the quality of public services
- Conflict of interest between the province and Kabupaten/kota through overlapping taxes and levies

The study found that it is estimated that the number of new taxes and levies will increase significantly. There is a clear indication that local governments have been deliberately exploiting the momentum of regional autonomy to strengthen their financial base in any way they can. Many parties are of the opinion that the majority of the taxes and levies that have been introduced have been created simply to collect as much revenue as possible, while disregarding the long-term potential distorting impacts. The extent of local government awareness of the potential impact of such policies remains unclear. Many entrepreneurs and traders are beginning to complain about the increasing number of levies. If the policy of regional autonomy is only to be exploited as means of providing the regions with legitimate tools to increase the tax burden on the community without the compensation of better public services, the business community will have ample reason to oppose the implementation of regional autonomy.

It is unclear how much understanding of the local governments on the negative impact of increasing new taxes and levies to business climate in the long-term by overlooking the main goal of autonomy to provide better public services.

Partnerships (with an employment promotion emphasis)

- *Existing partnerships between the private and the public sectors.*

Water authorities are interested in collaborating with the private sector in areas such as tariff collection, meter reading and water loss management. More significantly, authorities are increasingly exploring the scope for BOO/BOT type arrangements for new raw water supplies

and distribution systems. The local government of Jakarta has begun with partnership with two foreign water companies, to manage water supply for certain area of Jakarta.

PAM JAYA (Public Water Company), Jakarta - In June 1997, PAM Jaya (the public sector utility) signed co-operation agreements, comparable to concession contracts, with private foreign investors. The partner selected for East Jakarta included a local majority shareholder and Thames Water International (TWI). PAM Jaya continues to own the assets, but the use of assets (and their management, improvement and expansion) has been licensed to the private partners for a period of 25 years. About 80 percent of PAM Jaya's staff were seconded to the private companies; the remainder continued to be employed by PAM Jaya. Other participants that play lesser roles specifically in the focus project area include: the municipality of North Jakarta, the Ministry of Public Works, the trade unions, the Consumer Association and Marunda City Planning Council.

In broad terms, the 'partnership' is also aimed at providing water to the urban poor of Marunda District in Northern Jakarta. However, calling the relationship a tri-sector partnership perhaps stretches the definition of the term. The relationships lie primarily between TWI and Pam Jaya, but the project is also influenced by the Marunda City Planning Council, the municipality of North Jakarta, the Indonesian Consumer Association and the Ministry of Public Works. Though some of these are obviously formalized through the contract, they are not through specific partnership structures - no formalized and regularized mechanism brings the public and private sector stakeholders together to raise and resolve issues. The relationship with the community is largely that of operator/client-customer. There are no civil society actors (NGOs, CBOs or otherwise) directly involved in the work in poor communities. (Source: Business Partners for Development: "Jakarta, Indonesia: Water Supply Improvements to Marunda District)

Toll Road - The private sector is well established in the operation and funding of toll roads as example in Jakarta toll roads but the partnership is currently within a 'shaky' situation due to conflicting interest in terms of profit sharing composition.

PT Jasa Marga (state-owned enterprises) gives the opportunity to public who wants to invest in toll roads. In the past, PT Jasa Marga (Persero) has raised funds for the construction of toll roads by inviting the community to participate in its business by purchasing bonds. In recent years, the need for additional toll roads has become so great and urgent that it has exceeded Jasa Marga's ability to finance and construct the needed new toll roads. Therefore, the government has invited private companies (national and foreign) to participate in the development and financing of new toll roads.

Since 1986, the business of constructing and operating toll roads has been included the priority ranking list of the Capital Investment Coordinating Board (BKPM), which invites private investors to participate in the development of toll roads through joint ventures with PT Jasa Marga (Persero). This type of public/private partnership is called a BOT (Build, Operate, and Transfer). Another type of partnership is called a BTO (Build, Transfer, and Operate). Both types of partnerships will allow Jasa Marga to provide additional toll roads to the public faster than it could alone, and at the same time provide private companies the opportunity to gain profit from the financing, construction, operation, and maintenance of toll roads in Indonesia.

- *Potential partnerships between the private and the public sectors.*

Solid waste: waste management agencies are exploring sub-contracting to both commercial and community organization in the areas of bill collection, refuse collection and transportation and operation of final disposal sites.

Sewerage: sewerage infrastructure provision is not a profitable area for the private sector, beyond the operation of de-sludging trucks. However, administrative and legal revisions could open the door to substantial sewage treatment contracts financed through environmental fees and levies.

Drainage: except within the framework of wholly private development projects there is little scope to privatize drainage operation beyond contracting out maintenance tasks to private firms.

Train: PT KAI (state-owned enterprise) is now interested in private sector involvement to upgrade signaling, franchise certain routes and develop tourism facilities.

Subway: The new subway proposal in Jakarta will be heavily dependent on private sector investment, loans and partnership agreements but its progress is being slow because of a lot of disagreement on the project questioning the adequacy in terms of financing.

- *Expectations for the future concerning public-private partnerships.*

There is considerable potential for the private sector in public-private partnership, but it is necessary to develop an appropriate regulatory framework. Local governments need to be able to negotiate on an equal footing with private sector partners, and rules are needed to define the scope for partnerships and how potential private partners for development projects would be evaluated and selected. Private partners need to feel that their rights and interests are protected, and urban governments need to have the legal authority and the capacity to enforce contracts they negotiate with private sector partners.

Encouragement for Small and Medium Enterprises (SMEs)

In the area of SMEs development, SMEs in Indonesia hold great potential for rapid economic growth and employment creation. The Government is therefore dedicated to continuing with various programs assists these enterprises, including simplifying the regulatory and policy environment, removing obstacles to securing access to raw materials, removing tax related impediments and improving access to credit. The Government will promote mutually advantageous, commercially beneficial subcontracting/partnership arrangements between large-scale foreign and local firms and small-medium scale business. (source: Investment Indonesia Online, BPKM)

However, the government's plan to restructure SMEs debt faces challenges and many parties are of the opinion that the government is reluctant to provide support to SMEs. The article below depicts the situation.

Box 5 - Restructuring plan for SMEs hits snags

The formulation of a policy to restructure the bad debts owed by small and medium enterprises (SMEs) has turned out to be complex than expected as government officials are now divided on what approach should be taken. Reports that the International Monetary Fund is also unhappy with plans to provide a debt reduction facility for SMEs seems to have created renewed confusion in the Ministry of

Cooperatives, which has been assigned the task of drafting a presidential decree on an SME debt restructuring scheme. The government was supposed to complete the SME debt restructuring plan this month. Under the scheme, SMEs making repayments up-front in cash would enjoy a generous 50% reduction in debt principal plus a 100% cut in outstanding interest and penalties.

But Vice President Hamzah Haz was quoted as saying last week that he disagreed with the debt reduction proposal. He said that it would be better for the debts to be rescheduled and to provide the SMEs with refinancing facilities. Hamzah made the statement following reports that the IMF was concerned over the negative impact of any debt reduction on the country's banking sector and the overall economy. The IMF is providing a multibillion dollar bailout facility to help finance the country's economic reform program.

Minister of Cooperative Alimarwan Hanan said that his ministry would have to seek other alternatives if the Vice President or President Megawati Soekarnoputri disagreed with his proposals. He said that he was still unaware of the IMF's objections, although he said that the Fund had no right to oppose the proposed debt reduction proposal. Sources said that the Ministry of Finance and the Office of the State Minister of State Enterprises had also objected to the debt reduction proposal.

Bad debts owed by SMEs are estimated at around Rp 39 trillion (US\$3.9 billion). But the debtors (over 414,000) are not necessarily SMEs as the government has simply categorized debtors with individual debts of up to Rp 5 billion as SME debtors. In fact, some of the debts are consumer credit loans, credit card loans or loans owed by business linked to large groups.

The Indonesian Bank Restructuring Agency (IBRA) has taken over most of the debts, with the remaining small portion either owed to state-owned banks or transferred to the Directorate General for Debt Recovery and State Disposals at the finance ministry. IBRA has also sold a large chunk of the debts to Bank Danamon and Bank Artha Graha.

The SME debt restructuring scheme is also facing legal snags. Under the plan, SMEs would be exempted from paying income tax on the gains obtained from debt and interest relief, which would be a violation of the existing tax law. Meanwhile, economists urged the government to be selective in extending any debt restructuring facility as not all so-called SME debtors were true SMEs.

University of Gadjah Mada economist Sri Adiningsih said over the weekend that a proper assessment of who should really be entitled to a favorable debt restructuring package was crucial for ensuring that the program benefited the intended targets. Bustanul Arifin, an economist with the Institute for the Development of Economics and Finance (Indef) concurred with Sri, but also warned that the SME restructuring scheme might be used by politicians to garner popularity ahead of the 2004 general election.

Source: Jakarta Post - April 17, 2002.

Meanwhile, new development has occurred regarding a new program that the central government plan to launch in providing financial support to MSEs as reported in the following article.

Box 6 - Banks to channel around 30 trillion rupiahs for MSEs

Bank Indonesia and the Poverty Eradication Committee (KPK) signed a Memorandum of Understanding (MoU) on the empowerment and development of micro and small-scale enterprises (MSEs). Bank Indonesia Governor Sjahril Sabirin said the MoU covers 30 trillion rupiahs (about US\$3.2 billion) worth of funds set to be channeled to MSEs during the year, in which the central bank would act as supervisor, in a bid to help create job opportunities and eradicate poverty. "The funds come from 14 banks in the country to be allocated for MSEs in 2002, through a banking mechanism fully supervised by BI," said Sjahril. He added that the deal was necessary as loan programs from banks had the potential to help

reduce poverty, saying: "These loans from the banks can be used to finance labor intensive programs which absorb plenty of workers."

Meanwhile, Coordinating Minister for Public Welfare Yusuf Kalla, who is also the KPK chairman, said that the deal to empower MSEs through capital injection was part of the efforts to reduce poverty from the current 19% of the population to 14% by the end of 2004. After the 1997 financial crisis, the number of poor people in the country increased sharply with almost 50 million people categorized as poor by the end of 1998. But the relatively better political and economic condition has gradually reduced the number with the latest data showing it has dropped to less than 40 million, which accounts for some 19%.

The role of MSEs is seen as crucial to further reduce the number, as they have been proven to have the strongest resilience even during the economic crisis. Giving capital support to them will therefore be significant in efforts to eliminate poverty in the country. "With this, we expect to create more job opportunities in order to generate income," Yusuf said. He also added that the government itself had set aside some 250 billion rupiahs of funds for MSEs this year. Under the MoU, the central bank will conduct a study on various matters to help make sure that the credits would benefit MSEs. The study will be centered on what commodities are eligible for banks to fund for MSE development. The central bank is also in charge of providing banking regulations to help push banks to lend to MSEs. The MoU will be in effect for a three-year period and can be extended thereafter.

Source: The Jakarta Post – April 23, 2002

A supporting statement coming from the vice president regarding SMEs development, there's hope that current administration will be different from the previous ones that it will give SMEs more opportunities and not only promises. However, many still wait for its realization.

Box 7 - SMEs need business opportunities, protection: VP

Vice President Hamzah Haz said on Wednesday the country's small and medium enterprises (SMEs) needed not only capital, but business opportunities and protection as well. "What is also important is to give SMEs the business opportunities and protection," Hamzah said, as quoted by cooperatives and SMEs observer Sri Edi Swasono after their meeting on Wednesday. The protection given to SMEs could be in the form of rulings obliging big stores and supermarkets to close at certain hours so customers can shop at smaller stores, Edi said. SMEs could also be given fiscal incentives, he added. "Such protection is an investment in the development of SMEs," Edi said as quoted by *Antara*.

Some big countries protect their SMEs, he said, citing as an example Australia, which obliges supermarkets to close at 4 p.m., and the United States and Japan, which have Saturday and Sunday markets, which are special markets for SMEs that open only during the weekend. Edi noted that the government provided SMEs with sufficient attention, but the enterprises still needed help to survive. The government has announced that it will provide Rp 30 trillion (US\$3 billion) worth of credits to SMEs and MSEs. However, Edi said, everyone should join in the government's effort to develop small and medium enterprises. He added that the government should be prudent in distributing assistance to SMEs and MSEs, and banks should prioritize their lending to the enterprises. "If need be, banks should have special counters for SMEs and MSEs," he said.

Source: The Jakarta Post – April 23, 2002

Conclusions and recommendations

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- Which role can the local government play in the creation of decent employment through optimizing the potential of the informal sector?

The local government can act as the enabler who could set up adequate institutional framework allowing informal sector to develop. Local government should improve regulations apply specific to informal sector development along with the enforcement. The regulation should also allow intermediary organizations to get involve in the development of informal sector. Government must also provide funding support in form of small loans with low interest to informal sector and improving access to the loan. The government of DKI Jakarta has already provided the scheme allowing informal sector to obtain loan from local government owned bank with no collateral requirement. In order to improve services, the government also establishes 'one stop services' to eliminate lengthy bureaucracy and high costs to obtain loan for MSEs including informal sector. But it still needs a lot of improvement along with extensive dissemination of the scheme to the targeted beneficiaries.

- What can intermediary organization do to support the local government in the above-mentioned role?

Intermediary organizations such as NGOs can bring both sides (local government and informal sector) closer, reducing gap and building trust between them. NGOs may provide inputs to local government in preparing policies and programs that support informal sector and they can provide assistance to informal sector. NGOs can help local government to interact with informal sector in disseminating government's program that will improve their business activities.

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