

PRIVATE SECTOR PARTICIPATION IN URBAN SERVICES IN INDONESIA: CURRENT THINKING*

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Introduction

Economic Progress and Infrastructure Development

Like many other emerging market countries, Indonesia's rapid economic growth has been fueled by market reform, liberalized investment policies and economic deregulation. These policies have stimulated economic development which has brought many apparent benefits to the people of Indonesia, but has also raised new issues and concerns as well, particularly in urban areas. Indonesia's Gross Domestic Product (GDP) is the largest in Southeast Asia, and is continuing to expand. Once almost solely dependent on agricultural oil and gas exports, the economy is rapidly diversifying and industrializing, providing goods and consumer products to serve both domestic and foreign markets. A recently issued report by the Central Bureau of Statistics put the increase in GDP for 1994 at an impressive 7.34 percent. Government estimates that GDP will continue to grow at approximately 7 percent annually for the rest of this century. This means more jobs, opportunities, and increased demand on public services and infrastructure.

This rate of economic expansion presents the Government with new challenges which it is

preparing to meet. While the national rate of population growth is less than 2 percent, Indonesia's urban areas are exploding with an annual growth rate of more than 5 percent. Drawn by the promise of employment opportunities, it is estimated that urban populations, currently at about 32 percent of the total of 180 million, will represent more than half of the population of Indonesia by the year 2020. This means that some 3.5 million people will be added to the cities annually for each of the next 25 years. This population pressure on the country's natural resources, infrastructure capacity, has strained the Government's ability to provide basic public services. Sustained public investment in infrastructure through the first twenty-five year development plan period has greatly expanded service delivery to a broad segment of the public. And still, vast needs go unmet. In the water sector, for example, only 34 percent of urban households throughout Indonesia are served by piped connection, and many families and industries rely on wells and other sources of water supply which are often more expensive or of poor quality. Wastewater treatment is, for all practical purposes, virtually non-existent. As those living in Jakarta can attest, investment in improved roads and public transportation is sorely needed.

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Strain on Government Resources

Government well recognizes that the continued development of the country and improved prosperity of the Indonesia people will be largely dependent on the physical infrastructure require to support the economy. This infrastructure is needed to ensure the efficient movement of people and products, the availability of adequate supplies of clean and safe water for all, communications technologies, and public health and safety. The current five year development plan, Repelita VI, calls for 40 percent of all development expenditures to be allocated for infrastructure needs. Despite the country's impressive economic growth however, Government alone no longer has the financial resources to meet the growing demand for urban infrastructure services, or to make the investments require to effectively position Indonesia in an increasingly competitive regional and global economy. While government will continue to play a significant role in planning and financing urban services, shared responsibility with the private sector will help to fill the resource gap and to better satisfy consumer demands.

Why the Private Sector?

According to Indonesian law, the private sector can now invest in infrastructure projects wholly, or in partnership with the Government. In addition to the infusion of capital required to finance needed projects, the private sector offers other potential advantages in urban service delivery. Management efficiency, fewer bureaucratic constraints and flexibility to respond to market dictates are characteristics of private enterprise which are readily transferable to basic infrastructure services in Indonesia.

Public-private partnership do not, however, obviate the critical role of government in these projects. Under the Indonesian constitution, Government remains the steward, on behalf of the people, of the country's natural resources. Nevertheless, Government's role is evolving from being the primary "provider" of services to that of manager or "facilitator" of the provision of those services. The private sector, in providing new sources of capital, is augmenting or supplementing the resources of Government, not substituting or replacing it. In public-private

partnerships, the Government's responsibility to ensure the safety and well-being of the people is continued through its oversight, monitoring and regulatory functions. In addition, private sector participation itself serves as a catalyst to improved service delivery through public agencies through the competitive element.

Opportunities for Investors

Central to Government's new approach to addressing these critical urban service needs is the expanded role of private sector finance, the introduction of new or improved technologies, and direct private sector participation in services delivery. Fundamental changes in legislation have been enacted to achieve this objective. Laws have been amended or enacted to permit involvement in sectors once legally off limits to private investment, such as water supply. Most recently, in June 1994, foreign investment legislation was amended to permit foreign shareholders to own up to 95 percent of joint venture companies engaged in activities "fundamentally important to the nation and which concern the welfare of the people", such as potable water. Private sector participation in other urban service sectors are being similarly encouraged. In addition, the revamping of the country's commercial code, including the establishment of the Jakarta Stock Exchange and development of corporate bonds as a potential investment source, are all illustrative of the Government commitment to establish and foster the legal, regulatory and financial environment necessary for public-private partnerships to flourish. Results of privatization over the past few years have been encouraging, although much work remains to be done. A few examples:

- Privately developed toll roads in the Jabotabek area helped relieve some of the traffic congestion around Jakarta;
- A joint venture between the water authority (PDAM) and major hotels is providing water on Nusa Dua, Bali.
- A privately financed hazardous waste treatment facility has been constructed and is now operational outside of Jakarta;
- An international consortium will build a privately financed power generation facility to provide a total of 1.2 of megawatts of electricity in East Java;

- In addition to these more capital intensive efforts, the private sector is already assuming other roles in many urban areas, such as parking service, bill collection, street sweeping and solid waste collection and transfer.

Development Objectives of the Government of Indonesia

Longterm Structural Transportation

During the 2nd long term development Indonesia with experience basic socio-economic structural transformation.

First, the economic and demographic transformation moving toward urbanizing society. The estimated number of population at the end of PJP II is around 260 million assuming that the present population growth rate 1.7% will decrease to less than 0.9 percent at the end of PJPT II. Urban population will reach 155 million or almost 60 percent urban population will be more recently distributed among islands. Seven provinces will have urban population more than 60%, ten provinces with population between 50-60% and only one with urban population less than 40 percent. There will be 23 urban center with more than 1 million population, eleven of which will be in the islands. Sixty percent of the non oil and gas GDP will be generated from urban areas.

Second, the longterm process of transformation is taken place in a rapidly global socio-economic-political and environmental changes triggered by information and communication to structural transformation of the world economic system with a strong wave toward a freer flow of resources particularly through investment, trade and technology dissemination.

Third, the role of private sector will become more significant in development activities. Presently, the private sector has provided about 70 percent of all investment in Indonesia. These will be maintain even enhanced. Public investment will be more directed toward less developed regions and build infrastructure networks which are inattractive economically for private investors.

Fourth the process of decentralisation within the framework of establishing full pledged regi-

onal autonomy would be fully realised in PJP II. As a large country with diversified communities; culturally and socio economically, a centralised management system is not practical, let alone efficient and effective autonomy requires quality, government apprators for the community gains real benefit from it.

Fifth, more active peoples participation in the development process and nation building is inevitably needed. The society is more open, more educated, more responsive and more critical toward any changes affecting their future.

Goal of Government Policy

As reflected in the Sixth Five Year Plan, Repelita VI, the Government of Indonesia is committed to the elimination of poverty, greater equity and improved environmental quality. An essential elemental of the overall strategy for urban development included an increased role for the private sector in the provision of basic public services, with a particular focus on encouraging new small and medium size business enterprises to meet there needs.

Decentralization to Provincial and Municipal Governments

Repelita VI inaugurated the country's second twenty-five year development plan, with and emphasis on poverty elimination and improved quality of life. One of the principal philosophical underpinnings of Repelita VI is that local government can most effectively address the needs of the people at the local level. The administrative and, in some cases, fiscal decentralization being implemented. Law 5 of 1974 established the current administrative principles, responsibilities and structure of central, provincial and local levels of government. These were elaborated upon by Regulation 14 of 1987 and Regulation 6 of 1988, and Regulation No. 45 of 1992, which recognizes still further the roles of government at the local level.

The recent reorganization of the Directorate General of Human Settlements (Cipta Karya) of the Ministry of Public Works from functional to geographic regional clusters, including a new subdirectorate for private sector initiatives, is indicative of the increased authority and responsibility being transferred to local and regio-

nal government to address their urban infrastructure (and other) development needs.

In addition, the channeling of funds in the form of development block grants from central government directly to local government has increased significantly. Parallel to this has been increased discretionary spending authority of local government to address locally identified needs and priorities. In sum, local governments now possess both the resources and the authority to initiate solution to urban service needs, including the ability to support an enhanced role by the private sector.

Another example of the Government's commitment to progressively and judiciously decentralize development responsibility is the creation of the Regional Development Account (RDA). Established in 1992, the RDA is a lending facility to assist local governments establish a credit history as a transition for local borrowing from private capital markets. The RDA is to be used for urban infrastructure investment in income producing projects in nine sectors: water, waste water, solid waste, urban roads, kampung improvements, markets, drainage, sanitation, and bus terminals/public transport. RDA is likely to play a greater role in local government financing of urban infrastructure in Repelita VI.

Desire to Improve Quality of Life for Low Income People

Relinking of urban service delivery to overall improvement of social condition of the urban poor remain a key policy priority. The Kampung Improvement Program (KIP) has been a centerpiece of a Government effort to improve services and the quality of life for the urban poor. According to data from the Department of Public Works, KIP has improved living conditions for some 15 million low-income households over the past 10 years.

Nevertheless, the quantity and quality of decent housing in low income neighbourhood needs to be improved. With the vast majority of low income housing being provided through the private sector, Government must continue to find ways to stimulate private investment in housing for this sector.

Create Equity in Business Opportunities for Small and Medium Enterprises

The Government recognizes that small and medium size enterprise creation and stimulation will result in strengthened local economies and employment generation. The Government has initiated several programs to address this element of Repelita VI, including cooperative development and credit schemes for small businesses.

Improve Quality of Urban Environment

To continue to attract investment and industry to urban areas, local government needs to address increasing levels of pollution caused by rapidly growing urban population, industrial development and more intensive land use. Policies will need to encourage industrial use of clean technologies, stricter compliance with existing environmental regulations and the general promotion of environmental awareness.

Responsible economic growth means protecting the urban environment and protecting the country's natural resource base. The use of water in particular is of significant concern to the government. Efforts to improve water distribution, and reduce water loss and unaccounted for water are underway in urban areas throughout Indonesia. Depleted aquifers are causing a drop in the water table which is in turn resulting in salt water intrusion in many areas. The recent creation of BAPEDAL, the environmental protection agency, is a step in this direction.

Creating Opportunities to Invest in Urban Environmental Infrastructure

Repelita VI recognized the significant role that private sector is expected to play in infrastructure development during the current five year plan period. It is estimated that sixty percent of the investment capital for urban infrastructure will need to be provided by private capital to realize service targets.

Strong Demand for Water Supply, Waste Water Treatment, Solid Waste Management

Thus, investment opportunities in urban infrastructure are significant. As previously noted, available statistics indicate that only 34 percent of households in Indonesia have access to piped water. PDAM estimated indicate that as much as 50 percent of its water is lost or unaccounted for. Some 63 percent of households rely on wells for drinking water.

With the water sector now open to private sector participation, a number of new and innovative arrangements with the private sector to address the shortfall are possible, including management and operating contract, and build-own operate or build-own-transfer schemes.

Similar opportunities exist in waste water treatment and solid waste management as noted above, wastewater treatment in Indonesia is virtually non-existent. Raw sewerage is piped directly into canals, rivers and the sea. Industrial, commercial and residential wastewater treatment represents a potentially huge investment opportunity for the private sector. The Asian Development Bank has estimated that required investments for the 1990s in this sector alone will total some \$2.3 billion. Opportunities lie in supplying the major industries with wastewater treatment facilities, and for the new residential estates being developed as suburbs of the major urban centers.

It has been estimated that the Government needs to invest nearly \$1.5 billion over the next ten years to meet its targets for urban solid waste management coverage. Current allocations address only about 60 percent of this need. The private sector is being encouraged to help fill the gap. Since 1989, solid waste management has been a service area open to private investment. Solid waste management funding for routing solid waste management expenditures is declining in cities of more than 100,000, municipal sanitation agencies (Dinas Kebersihan) are looking for ways to improve revenue collection. In certain large cities, such as Medan and Surabaya, this function is being contracted out to the private sector. In cities with populations greater than 500,000 these sanitation agencies are being converted to

quasi-commercial enterprises. In addition, the larger cities are required to develop comprehensive land fill management programs which also offer significant opportunity to the private involvement in urban services.

Authority for Local Governments to Undertake Project

The key to the effective implementation of the Government's decentralization program has been transference to the local levels of government the authority to develop and undertake infrastructure projects, including the authority to enter into partnership with the private sector. Dalam Negeri Regulation No. 3 of 1986 permits regional governments to enter into a variety of contractual arrangements with the private sector. Responsibility for public works has been transferred to the Level I and Level II governments, as set both in Government Regulation No. 14 of 1987, and further amplified by Dalam Negeri Regulation No. 4 of 1990. KEPPRES 16 provides even further guidance for local government on how to procure goods and services from the private sector.

Management Improvement at Local Levels, Institutional Strengthening

Stronger institutions at the local level are essential to effective implementation of Government policy, and for local government to be a full partner with the private sector infrastructure project development. It is often a concern of central governments that institutions at the local level are inadequately prepared to assume the burden of administrative, financial and managerial responsibilities resulting from decentralization policies. While recognizing that many of the skills and experience needed to implement the new urban policies can only be acquired over time and through "on-the-job training" the Government is attempting to support decentralization and address the relative inexperience of local governments in working cooperatively with the private sector in implementing infrastructure projects.

To address these concerns, the Government has comprehensive training and institutional development programs. For example, the Ministry of Home Affairs, has instituted the local

level Revenue Improvement Action Plan (through PUOD) and the Local Institutional Development Action Plan (through BANGDA). The Ministry of Public Work's Directorate General for Human Settlements (Cipta Karya) has set up a separate subdirectorate for private sector initiatives and is sponsoring training programs for local level government employees. There is also an inter-departmental training program, the Urban Management Training Program (UMTP) focusing on the development of needed skills of local administrators which is supported by National Training Coordinators.

International donor and lending agencies also recognize the priority the Government is placing on local institution strengthening. The USAID-funded PURSE Project is instituting training programs throughout Indonesia to introduce the concepts of public private partnerships to local government officials. The Municipal Finance Project also funded by USAID, supports the Urban Management Training Program and has sponsored training programs in improved municipal finance and accounting principle. The World Bank-funded National Water Supply Sector Project focuses on the development of corporate plans for local water authorities is also expected to result in an intensive training program.

Government interest in private participation in infrastructure development has also been demonstrated by its role as host for the World Infrastructure Forum held in October 1994, and for another conference focused on Build Operate Transfer (BOT) projects expected to be held in Indonesia later this year.

International Support of Private Sector Initiatives in Infrastructure

Government effort in infrastructure development are being supplemented through cooperation with numerous bi-lateral and multi-lateral donor and lending organizations. These programs are providing technical assistance, training and education to government officials at all levels, as well as to the private sector, to establish the fundamental legal, regulatory, financial, contractual and administrative systems necessary to attract private capital to infrastructure investment opportunities. These efforts are bringing to bear the experience and lessons

learned in other countries faced with similar urban infrastructure service demands and financial resource constraints. Among the many programs underway, a few merit brief mention.

- USAID (Private Participations in Urban Services Project).

PURSE is working with four Government Ministries to address issues concerning private investment in three urban infrastructure sectors: water supply, wastewater treatment, and solid waste management. Technical assistance and training efforts are focussing on policy, financial and legal regulatory issues, and the implementation of pilot demonstration project throughout the country.

- USAID (Economic Law and Improved Procurement Systems Project)

The ELIPS project is helping the Government to develop the country's economic law system, provides legal training and information systems, and is helping to strengthen the Government's procurement systems.

- World Bank (National Water Supply Sector Project)

NWSSP is investigating ways to improve the quality and availability of water supply services throughout Indonesia, in large part through increasing the role of the private sector.

Currently in its preparation phase, the Project is paying particular attention to improving the management capability of local water authorities (PDAMs) to make them more viable business partners, and therefore attractive to potential private investors.

- Asian Development Bank (ADB)

In addition to its current loan portfolio for Indonesia, the ADB is funding technical assistance efforts to identify projects suitable for private sector investment. Underway currently in Bandung and Semarang are efforts tied to the Government's Integrated Urban Infrastructure Development Program (IIUDP). The ADB is funding efforts in some 70 "priority" cities in West Java and Sumatra (including BOTABEK).

- JICA/OECF

Grants and loans from JICA and OECF support privatization initiatives in Ujung Pandang, in Surabaya in the Urban Development Program under IUIDP, and in Jakarta Solid Waste Management Improvement Project.

Methods of Involving the Private Sector in Infrastructure Development

A range of options for involving the private sector in urban infrastructure service exists. These can be organized into two types:

Public-Private Partnerships (PPP)

Public-Private Partnerships are capital intensive which include significant equity investments by the private sector, and the subsequent development and operation of the facility (a waste water treatment plant for example). Government assumes the important functions of authorization, monitoring and contract control to ensure that the private party is providing the quality and level service specified at the agreed upon price. Because they generally include the investment of substantial private capital, PPPs typically result in the government and private business becoming partners. The Nusa Dua water project is an example where the PDAM took a 45 percent equity position in the new project company (PT) created to provide the bulk water.

Public Private Partnerships can take several forms. There are many contractual arrangements which may be structured between private parties and government to provide infrastructure services. Two of the most common include:

- Build-Own-Operate (BOO): This is a contract whereby a private party is entirely responsible for the financing, construction and operation of an infrastructure facility. The private party owns the facility in perpetuity, and is not contractually obliged to relinquish control of it to the government.

The BOO approach is used to permit complete privatization of selected infrastructure facilities in exchange for private assumption of a wide range of risks, based on public po-

licy considerations. The provision for the continuation of private ownership, typically in a regulated environment, is designed to assure standards of construction and maintenance.

- Built-Operate-Transfer (BOT): Under this contract method, a private party is responsible for the financing, construction and operation of an infrastructure facility during a leasehold or concession period. During the concession period the private entity owns the facility, which is then transferred to the government at the conclusion of the concession period. A typical leasehold will be for 15-30 years.

The BOT approach substitutes private investment capital for public funds in the financing of infrastructure. The provision of facility transfer to the government at the end of the leasehold period enables government to control the operation and maintenance of the facility, and to add the facility eventually to its asset base.

Private Sector Participation (PSP)

Private Sector Participation refers to a non-capital intensive infrastructure activity by which a private party provides a service under a contractual agreement to a government entity.

There are many forms of PSP. Two of the most common include:

- Service Contract: a transaction whereby a private party enters into a contract with a government agency to provide a specific, routine service such as scheduled maintenance of vehicle, street sweeping solid waste collection, or meter reading. Service contracts are usually of short duration, and involve minimal capital investment by the private party.
- Operating Contract: a transaction whereby a private enters into contract with a government entity to provide a specialized and technically difficult service, such as operating a water supply system, or providing management of a major organizational function, such as bill collection. An operating contract will likely be of medium term (three to five years) and may involve more significant private investment, such as vehicles

and equipment, staff training etc. It generally encompasses a wide functional agenda and transfers significant responsibility to the private party. Government retains general oversight responsibilities.

Challenges to be Met Related to Private Sector Initiatives

To stimulate private investment in infrastructure services, the Government understands that the issues and concerns of the private investor must be understood and addressed. For true public-private partnerships to be formed in an emerging market economy such as Indonesia's, investor confidence in the laws, regulations, courts, financial institutions and procurement systems is fundamental.

Need for Clear and Consistent Legal Framework

Despite the numerous laws and regulations enacted over the past several years, the current legal and regulatory framework in Indonesia remains a constraint to effective privatization and private sector initiatives in infrastructure development. The system of laws, decrees, regulations and instructions which can emanate from different levels of government are often vague, conflicting and contradictory, and present the potential private investor with an unclear and uncertain legal environment in which he is being sought to put his money.

Investors abhor uncertainty and seek to minimize risk. More work must be done to clarify and systematize the body of laws and regulations which govern private investment in these areas. Legal language must be made clear, unambiguous and consistent.

In many cases, laws need to be updated and amended to reflect the reality of private sector participation. The Government might also consider the merits of comprehensive legislation for such public-private partnerships as Build-Own-Operation and Build-Operate-Transfer (BOO-BOT) schemes, such as the Amended B.O.T Law 7718, recently enacted in the Philippines.

Need for Transparency of Transactions

Indonesia recognizes that to ensure the highest quality services at the fairest cost to both Government and the consumer, a system for the procurement of goods and services that is transparent, open and equitable needs to be established. With the promulgation of Presidential Decree No. 16 of 1994 (KEPPRES 16), a major step forward was taken to improve the government procurement system. KEPPRES 16 has been widely hailed as it encourages competition, increases the overall efficiency of the procurement system, and seeks to provide greater flexibility in the tendering process. It is critical that the principles established by KEPPRES 16 be adhered to and enforced in the development and execution of transactions with the private sector in infrastructure development. Specific procurement systems appropriate to project developed with private resources, as opposed to Government resources, also need to be developed.

Need for Reliable Legal Recourse

Confidence in the Indonesia legal system is a critical factor in ascertaining the levels of risk faced by an investor. The private sector requires confidence in the nature and enforceability of the security package available to the lender, including recourse to marketable assets or credit worthy parties in the event the project is abandoned or never reaches stipulated levels of performance. The ability of the court system to fairly and impartially enforce contracts, arbitrate disputes and adjudicate settlements among the parties involved is central to the creation of an investment climate attractive to private capital.

Fundamental in this regard in Indonesia is the need to make public and readily available, all laws, regulations and decrees. While some publications do exist for this purpose (Lembaran Negara Republik Indonesia; Tambahan Lembaran Negara; and Berita Negara, among others), not all governmental rules are required to be published. More needs to be done to make clear to all participants the legal and regulatory framework in which private investment

can be encouraged, and public private partnerships structured.

Steps which might be considered include: the establishment of a commercial court system staffed by judges with special training in commercial, corporate and financial law; intensive training for members of the judiciary; publication of legal decisions to allow for improved consistency and predictability in dispute resolution; and alternative means of dispute resolution.

Need for More Comprehensive Investment Laws

Recent Legislation such as Government Regulation Number 20 of 1994 clearly allows for private investment in urban infrastructure projects, and many of the investment contracts involved in a PPP project are common and familiar to the Indonesian legal system. Joint venture agreements, construction contracts and loan agreements are well-known legal documents and are generally understood by the courts, regulatory authorities (such as BKPM) and the legal community. Others, such as escrow arrangements, development agreements and concession arrangements are less common, however. These represent complex legal and financial relationships among the various parties which are difficult to understand without specific knowledge and experience. A comprehensive law or regulation specific to PPP projects should be seriously considered by government.

Other issues that must also be examined are the ability of an infrastructure project company to raise funds on the capital market system, the development of corporate bonds and the certain of other financing instruments tools to raise private capital for infrastructure projects.

Need for Financial Guarantees and Incentives in Specific Sector

The government recognizes that most local governments and local utilities do not have the financial resources to invest in major infrastructure systems. Indeed, infrastructure investment needs are projected at \$10 billion annually well into the next century. With the legal and regulatory framework for public-private partnerships

still evolving. One possibility is a loan repayment mechanism that will permit central government to guarantee the financial performance of local government, should the local level fail to meet its contractual obligations under the contractual public-private partnership arrangement.

Need for Improved Technical Regulations and Guidelines

As the private sector becomes more active in providing urban services, the Government must develop technical regulations and implementing guidelines to ensure that the services being provided are in accordance with Indonesian law, and that the health, safety and well-being of the Indonesian people are being protected. Such laws and regulations will greatly facilitate the administration and monitoring of contracts with the private sector, will set operating and quality control standards, and will help ensure accountability by the private party. A good example are the solid waste management regulations, currently under review by the Ministry of Public Works.

Any set of regulations is, of course, only as good as the enforcement mechanisms behind them. Indonesia must do more to allow regulatory agencies (such as BAPEDA) to ensure compliance with existing environmental standards.

Conclusions

Twenty five years ago, Indonesia was one of the world's poorest countries, with a per capita income of about \$50 a year. Its dramatic rise over the past quarter century, achieving average GDP growth of nearly 7 percent, and annual increase of 4.5 percent in per capita income has placed Indonesia on the brink of joining the ranks of middle-income countries.

While too many Indonesians are still below the poverty line, the nation benefits from a growing middle class, and increased health and educational services to all.

Indonesia has also made significant strides over the past 5-10 years in finding ways to work with the private sector to further development

of the country. Important legislation has been enacted to allow private, including foreign, investment in urban infrastructure projects. Policies and programs of decentralization are empowering local levels of government with authority and responsibility to take new initiatives and find local solutions to their development problems. The Government of Indonesia is supporting their efforts with targeted training and other programs to strengthen these local institutions, to better prepare them for the challenges they now face. Local governments, too, are looking to the private sector to be an active participant and partner in addressing these issues.

In a partnership relationship, the role of Government as a facilitator and manager of the infrastructure development process, as well as a guardian of the well-being of the people, requires a clear, consistent, comprehensive framework of policies, regulations and systems to allow the private sector to do what it does best. With a strong legal, regulatory and financial system in place, the private sector will bring its financial strength, its creativity and innovation, and its managerial and technical capabilities to bear on the critical problems facing urban infrastructure services in Indonesia.

While many pieces are in place, this framework is still evolving. The Government recognizes that several issues of concern to the private sector still need to be addressed, and is working toward solutions--but this will take time. Government also understands that true partnerships with the private sector, must be built on trust and mutual respect.

To ensure a "Win-Win" situation, Government and the private sector must together find solutions and put into place the necessary laws, regulations, financial structures required to make the investments and improvements necessary. The result will be an increased stock of urban infrastructure which will contribute to the continued dynamic development of the

country's economy and the prosperity of all its people. Government financial resources will then be freed to address other pressing social and economic concerns. If this can be achieved, a win-win situation for everyone involved,--the GOI, the private sector and most importantly, the people of Indonesia can be made a reality.

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