



## 27 TOWARDS AN INDONESIAN URBAN LAND DEVELOPMENT POLICY

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Indonesia, the fourth most populous country in the world (following China, India and USA), which recently passed the 200 million mark, is currently experiencing a rapid transformation from an agrarian-based economy to industrial-based economy. The national economic structure is undergoing a shift in its emphasis, from the primary sector, i.e. agriculture, to the sectors of industry and services. The sector of agriculture, which in 1990 accounted for 20.2% towards the national Gross Domestic Product (GDP), will contribute only 10.5% by the year 2005. On the other hand, the sector of industry, which contributed only 27.3% towards the GDP in 1990, will share 42.5% by the year 2005 (Firman, 1997a). This basically indicates that the role of cities as centers for industrial and service activities will be getting more important in the future. In fact, major cities, such as Jabotabek (Jakarta Metropolitan Area), Surabaya, Bandung, and Medan have been growing rapidly as the main centers of secondary and tertiary economic activities in Indonesia. This will also affect the growing needs of the community for urban services, which will drive the increasingly important role of the urban areas as service centers.

For almost the last two decades the urban population in Indonesia has tremendously increased at a rate of 5.2% per year, from 32.8 million in 1980 to about 70 million in 1995. The level of urbanization, that is the proportion of urban population over the total population, was only 22.3% in 1980, but in 1990 the figure reached 30.9%, and meanwhile in the year 1995 it was estimated to have reached 36.0%. A projection indicates that the level of urbanization in Indonesia is to reach 41.8% by the year 2000 and 46.0%. By the year 2005, the absolute number will be approaching 87.5 millions and 102.5 millions respectively (Ananta and Anwar, 1994). Such growth of the urban population is indeed inevitable.

To give a general picture, by the end of the Second Phase of the Long Term Development Program, (1994-2019), there will be 23 urban centers with a population over one million in Indonesia, with eleven of them located outside Java, the main island. Five out of the 23 cities will have a population of over 5 million, including Jabotabek (Jakarta Metropolitan Area), the largest urban concentration in Indonesia, which will be inhabited by more than 35 million people by 2019 (Kartasasmita, 1995). Indeed, this will affect the physical development of these cities, including the urban land. In fact, an estimate shows that the additional need of urban land during the period of 1994-2019 will reach 660,000 hectare or about 26,400 hectares per year on the average (Ali, 1997). In short, urban land will continue to become one of the most important issues of urban development in Indonesia in the near future.

Within this context, this article will discuss the broad issues of urban land resource developments in the future, as a

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foundation for policies concerning urban land development in Indonesia from a national perspective, using illustrations from the four largest metropolitan cities, namely Jakarta, Surabaya, Bandung, and Medan.

It is realized from the outset that this article might be too broad in scope, but there has never been a study which explicitly addresses issues of urban land development in Indonesia in a comprehensive view. This study will present an overall picture of challenges to urban land development policy in Indonesia in an integrated manner, as a basis for urban land development policy formulation. In fact, these issues are not only relevant to Indonesia, but also to many developing countries in Asia, notably in Southeast Asia.

Urban land development policy basically refers to government policy in the control, allocation, and utilization of the urban land resources (Archer, 1990).<sup>1</sup> In general the problems of urban land development in the developing world according to Bernstein (1994) and Farvaque and McAuslan (1992) include inappropriate use of resources and lack of political will to solve the problem; overcentralized and poorly coordinated land management institutions; lack in efficiency, equity, accountability and probity of the administrative systems; inappropriate, inflexible and over-detailed regulatory and legal framework; and reluctance to encourage participation from the urban poor; inappropriate pricing and taxation; inadequate land information; lack of secure tenure; and inadequate infrastructure capacity.

The present study argues that **first**, thus far there have been no explicit, systematic and conceptualized urban land development policies in Indonesia, despite the fact there have been many policies and regulation regarding the use and utilization of urban land. The existing policies and regulation are largely fragmented in terms of objectives, orientation and implementation agencies, and not surprisingly often inefficient, inconsistent and even conflicting with one another. In addition, they are not prepared with an anticipation of urban development in the longer perspective, and instead, often are only piece-meal reactions to situational urban land problems.

**Second:** Against the conventional wisdom which believes that too much government intervention on land development is not conducive for urban land market to work effectively, the study maintains that the argument is basically not whether the intervention is too much or too little, but whether it is efficient and effective enough to guide land development. In fact, as Dowall and Clarke (1993) argue that without regulations and planning, the land market may generate enormous external costs and fail to produce public space. Parallel with this argument, Koppel (1993) maintains that the increasing concerns about the declining affordability of land for urban low-cost housing and socio-economic consequences of land speculation have evoked calls for more active state intervention and regulation in the land market, with the assumption that urban land policies can solve these problems. Indeed, the role of private sectors in urban development is essential, but in many major cities in Indonesia the activities of private sectors, notably major land developers, tends to be

uncontrolled, simply because of many weaknesses in the legal and institutional aspects of urban land development.

**Third:** Therefore there is an urgent need for comprehensive urban land development policies in Indonesia, which should be based on the anticipation of urban growth in the future. Urban policy reforms eventually need bureaucratic reforms, but this study will focus itself on technical aspects of urban land development, not on political aspects of it, although they will also be discussed as necessary.

Apart from the introduction, this article will be divided into four parts. Part One will review the definition and scope of urban land policy for the developing countries; Part Two will discuss the urban development and its impact on urban land use, whereas Part Three will examine the need for urban land management, notably for the large cities. Part Four will conclude the discussion.

## Urban Land Development Policies for Developing Countries

Urban land policy commonly includes policies aimed at affecting ownership; affecting land prices; increasing supplies; affecting the use; and obtaining revenues (Mattingly, 1993), whereas Rakodi (1996) more specifically argues that more broadly, state urban land development policy intervenes with regard to tenure (property right), land use planning and regulation, land taxation as a potential source of government revenue, infrastructure provision and development, and public sector participation in land supply as well as land development. In line with this definition, Darin-Drabkin (cf. Devas, 1983) classifies three general types of land policy. First, legal measures influencing private land use decision, such as zoning and subdivision control; second, government land acquisition; third, land and property taxation.

Basically, there are three justifications for government intervention to the urban land markets (Dowall and Clarke 1993): (1) Eliminations of market imperfections and failures to increase operating efficiencies; (2) Removing externalities so that the social costs of land market outcomes correspond more closely to private costs; (3) Redistribute society's scarce resources so that disadvantaged groups can share in the society's output (cf Moore, 1978). The first two justifications aim at increasing the allocative efficiency of land market outcome, whereas the third seeks to improve the equity of it, by allocating the land to the low-income groups. Furthermore, Dowall and Clarke (1993) suggest six necessary actions to be taken for reforming urban land policies in developing countries: first, land market assessment (LMA) aimed at providing an accurate up-to-date data base on the operation of the urban land market; second, decentralization of land management authority; third, deregulation to simplify land-use and development control and to shorten the approval cycle; fourth, curtailing public land development authority which may include restructuring large organizations, privatization, or liquidation; fifth, improvement of efficiency in land market

operations; and sixth, provision of financial, institutional, and spatial structures for installing infrastructure networks.

There are two general mechanisms directed towards achieving optimal utilization of urban land resources in developing world: first, to create and protect the private land ownership rights which will in turn encourage and enable the community and the private sector to use, develop, and conserve their lands; second, to enforce control on land utilization by the government (Archer, 1990). In Taiwan, for example, where urban land policies are formulated on the principle that the existing land value is the property of the land owners, but the increase in land value as a result of development and public investment (different from the investment and achievement of the land owner), is the property of the community (Lin, 1993).

In the case of urban land [in Taiwan], the concept of equalization of land rights was applied not to the ownership of the land but to the increase in land value over time, with part of this increase after a base date being collected by way of taxation. Thus, there is a progressive land value tax (progressive on the increase in value over time), and a

progressive land value increment tax, on urban land. The revenues from these two taxes are paid into funds to be used for education, social welfare and development projects (Archer, 1990).

In short, urban land policy deals with planning and implementation of allocation, utilization and control of urban land to achieve efficiency and to improve the equity of land market outcomes. However, this general framework should be put in the context of urban development of a particular country, to result in more relevant and effective urban land policy for the country (see also Bernstein, 1994). With this background in mind, the discussion will next be focused on recent urban development and its impacts on urban land use in Indonesia.

## Urban Development and Its Impacts on Urban Land Use

The immense physical development of large cities has affected the changes in the structure of cities, that is, urban

**Table 1** Conversion of Agricultural Land to Urban Land in Indonesia 1991-1993 (in hectares)

No.	Province	Converted Land			
		Housing	Industries	Offices	Others
1	Aceh	2,223.1	30.4	95.2	1,006.6
2	North Sumatera	3,636.9	259.9	140.0	750.6
3	West Sumatera	2,891.5	89.6	90.9	1,505.7
4	Riau	1,023.6	516.6	24.5	97.7
5	Jambi	610.1	2.5	6.7	372.3
6	South Sumatera	1,063.0	81.0	143.0	2,288.8
7	Bengkulu	306.3	5.5	8.2	349.5
8	Lampung	1,539.9	72.1	449.7	220.4
9	Jakarta	2,570.3	906.3	139.1	379.3
10	West Java	13,354.5	10,220.1	1,343.4	2,720.9
11	Central Java	4,989.1	1,065.3	637.4	1,791.2
12	Yogyakarta	667.2	30.6	87.4	71.2
13	East Java	7,022.4	2,259.4	970.7	3,497.0
14	Bali	1,310.3	52.7	48.8	203.3
15	West Nusa Tenggara	1,890.3	63.0	305.7	1,216.1
16	East Nusa Tenggara	141.9	-	9.2	39.0
17	East Timor	126.3	5.7	-	7.0
18	West Kalimantan	632.3	-	20.8	498.7
19	Central Kalimantan	27.0	2.7	4.1	53.4
20	South Kalimantan	1,042.6	134.4	114.9	984.0
21	East Kalimantan	1,864.3	35.0	82.5	6,483.4
22	North Sulawesi	476.0	245.8	60.4	142.5
23	Central Sulawesi	995.8	48.5	45.4	141.5
24	South Sulawesi	3,523.9	317.6	362.8	953.1
25	Southeast Sulawesi	658.0	6.6	13.7	165.3
26	Maluku	339.5	0.5	1.2	785.2
27	Irian Jaya	2,522.0	0.5	4.5	0.6
<b>INDONESIA</b>		<b>57,987.5</b>	<b>16,452.3</b>	<b>5,210.2</b>	<b>26,774.2</b>

Source: Central Bureau of Statistics (cf. State Ministry for Environment), 1997.

restructuring, characterized by the rapid changes of land use in the urban centers, as well as conversions of prime agricultural lands to subdivisions and other urban land uses in the urban fringe areas, as can be observed today in large cities in Indonesia, such as Jabotabek (Jakarta Metropolitan Area), Surabaya, Bandung and others. The recent development of investment in housing and industrial estates, particularly in the peripheral areas of those cities, has rapidly transformed these areas from prime agricultural land into large subdivisions and industrial estates (see Firman, 1997b). The figure shows that during 1991-1993 the conversion of agricultural land to urban land in Indonesia reached more than 106,000 hectares, covering 58,000 hectares (54.7%) of housing areas; 16,452 hectares (15.5%) of industrial land; 5,210 hectares (4.9%) of offices; and 26,774 hectares (25.3%) of other urban land uses (Table 1).

It is also interesting to observe that about one-fourth (26%) out of the 106,000 converted land was located in the Province of West Java, notably in the *Kabupatens* (Districts) surrounding the city of Jakarta. Actually, the new town and industrial estate development in Indonesia is governed by *Keppres* (Presidential Decree) 53/1989, which clearly states that the development should not take place in the preservation and conservation areas or on the prime agricultural land. However, a study on urban development in the fringe areas of Bandung (Firman, 1996), the third largest city in Indonesia, shows there have been many violations of this decree because it is not followed by more technical regulations, whereas the demand for land in the areas is increasing tremendously, following the rapid growth of its economic activities.

Another study of conversion of agricultural land to urban land uses in the outskirts of Bandung shows that not only has it squeezed the agricultural areas, notably paddy fields (*sawah*), but it also has reduced the productivity of remaining sawah from 4.5 ton per hectare to 3.4 ton per hectare per harvest (Edrijani, 1994). Besides, the harvesting frequency has dropped from three times per year to twice or even once a year. It is suspected that the damages to the tertiary irrigation channels resulted from construction for industrial and housing development in the area, and have in turn affected the cultivation and harvesting patterns.

The utilization of urban land areas, both in the urban center as well as in the fringe areas, is a product of competitions, frequently characterized by 'conflicts' involving the community, the private sector, as well as the local government (see also Surbakti, 1996; Suyanto, 1996). Many once-residential areas, especially slum areas (*kawasan kumuh*) have been converted into hotels, luxurious high-rise apartments and shopping malls. In Jakarta, for example, during 1980 to 1992 no less than 600 new buildings worth above US\$ 5 million were constructed, including more than 160 super-markets; 66 condominium towers; and 10 four-and five-star hotels, with estimated total investment of US\$ 10 billion (Dorleans, 1994). This development has raised the property businesses in the large cities, which in turn skyrocketed land prices in the Central Business District (CBD).

In the Jakarta CBD, which is popularly known as *Segitiga Emas* (Golden Triangle) Kuningan-Sudirman-Gatot Subroto, the land price has recently reached Rp 7.5 millions (US \$3250) per square meter, whereas at the end of 1970s cost only Rp 0.2 million (Firman, 1997b). Meanwhile, the prime agricultural land in the outskirts of Jakarta, Surabaya and Bandung had very quickly turned into new housing areas, industrial estates, golf courses, and tourist resorts (see Kustiwan, 1997; and Firman, 1977b).

Furthermore, in cooperation with the private developers, some city government have made plans to overcome the problem of land scarcity and to provide cheaper land prices through reclamation of coastal areas, such as the Waterfront City Project in Jakarta, which will add 2,800 hectares of land to the city of Jakarta within 20 years; Teluknaga Project in Tangerang, to the east Jakarta Metropolitan Area, covering an area of 8,000 hectares; and in East Surabaya. These land development projects are suspected to have local socio-economic and environmental impacts, as they may cause flooding in the surrounding area and destroy the coral reef along the shoreline, while many local fishermen may also lose their primary livelihood (for detail see Firman, 1997b).

In the outskirts of Surabaya, the second largest city in Indonesia, during 1990 to 1995 as much as 2,300 hectare of agricultural land was converted into residential and commercial areas, such as hotels, offices, bank and shopping malls; condominium and apartment. In addition, many residential areas in the city center have been changed into shopping centers, hotels, and offices (Budiman, Verbenasari and Salim, 1997). It can also be noted that the paddy fields in the *Kabupaten* (Districts) surrounding Surabaya are substantially decreasing, and have been converted into seven new-towns (sub-divisions) ranging 200 hectares to 1,000 hectares in size, and 28 industrial estates which size range from 15 hectares to 900 hectares. Likewise, in Medan in North Sumatera, the fourth largest city in Indonesia, the urban land use including housing, industrial areas, and spaces for offices during 1980 to 1993 increased by 2,130 hectares, that was from 10,630 hectares to 12,760 hectares, whereas agricultural land decreased from 15,880 hectares to 13,749 hectares during the same period (Data Base of the Municipality of Medan, 1993).

The occupancy rate in many new towns around the large cities built by the private developers is very low, because the luxurious houses there are bought not to be lived in, but only used as second or third houses. From the perspective of land utilization for urban development, this situation is considered inefficient. Considerable land areas in the outskirts of big cities have been acquired by the developers or land speculators, which in turn creates difficulties to establish the land subdivision.

During the last two decades the economic development in Indonesia has rapidly increased the demand for industrial land, especially since the late 1980s, when the government permitted private companies to manage industrial estate. In addition to industrial estate development, many light manufacturing



enterprises such as electronics, footwear, plastic, have also been developed individually outside the available industrial estates. This development has in turn induced land conversion, notably in the fringe areas of large cities, where most of these industrial activities are located. In short, the conversion process is out of control, as it started with an uncontrolled issuance of location permits as well.

Such developments have in fact raised "conflicts" among various interest groups, notably between the old dwellers and the strong investors, which very often end up with the eviction of the old occupants. The change in land use is frequently accompanied with certain parties attempting to take advantages, through a land speculation business. Land acquisitions by the developers were often carried out with a "negotiated" price but no agreement, which basically put the developers at a "monopsonic" position, as the land owners were not having any other options to whom they could sell their lands. On the contrary, the developers were at an "oligopolistic" position when they sell the land to their consumers. Very often the process of "land transfers" from the land owners to the developers or a certain private parties is "unfairly" executed. Frequently, the first party will have to receive an improper compensation, whereas the local governments tend to "take sides" with the second party. The fact is that the above-mentioned distorted land market condition tended to induce the growth of land speculation, which is getting more difficult to control although through the monetary policies as there is opportunities to utilize foreign investments.

Even worse, the land acquisition process in many major cities in Indonesia usually involves brokers (*calo tanah*) who extract large amount of money as a commission fees and make the process more complicated. A study shows that the *calo tanah* collect about ten percent from the transaction value less than Rp. 100 million, and about five percent otherwise (Dorleans, 1994). This is in fact a manifestation of the lack of a mechanism to control the process of land transfers on 'equal' bargaining positions (see also Ferguson and Hoffman, 1993; Firman, 1997b).

Conversion of agricultural land to urban land areas is a normal part in urban development, however, it is observed that what has been going on at present around the major cities in Indonesia is largely uncontrolled. First, the process tends to become a "land business undertaking." Basically, there are two types of private developers who carry out land development in large cities, notably Jakarta: (1) formal private developers, which are mostly real estate companies developing land on a registered title; (2) the informal private developers constructing building and land development not on registered title (for detail see Leaf, 1990 and Archer, 1994). One of the consequences is that many of the land areas that had been bought for a long time, but have not been developed, become idle, thus there are many of these neglected land areas (*tanah tidur*: "sleeping land"). Second, the process is taking place at a very large scale, hence the apprehension that it will affect heavily the production of foodstuffs, as well as a squandering in the investment of irrigation at agricultural farm

lands, notably the paddy fields.

It should be kept in mind though as Bernstein (1994) argues that there has been no evidence that any country had been able to successfully limit agricultural land conversion without causing high pressure on land prices for other purposes, as was the case in Japan.

... Japan has artificially preserved agricultural land, but it has resulted in the inflation of rice prices to seven times the world market price and inflated the cost of residential housing to the highest in the world (Bernstein, 1994, cf. Mekvichai et al., 1991)

Third, it can also be observed that land conversion is not only affecting the prime agricultural land, notably in the urban fringe, but also taking place in many areas which have been designated as conservation areas functioning for water recharge, such as Northern Bandung and *Jalur Puncak* (Puncak Strip) near Jakarta, which may have serious negative impacts to the environment.

From the mid 1980s up until the mid 1995 the National Land Agency (BPN) whose tasks are to manage land records, to process land title and to administer land development, issued nearly 350 permits to large private developers involving more than 80,000 hectare land in the fringe areas of Jakarta. However, thus far only about 40 percent of the total area has been developed while the rest has become abandoned land. Some have argued that this amount of land would be more than sufficient to meet the demand for land for low-cost housing up to 2018, and therefore asked why the BPN still issue permits for land development in this area.

In other words, too many land development permits have been granted in Jakarta Metropolitan Area, but it is doubtful if the developers as permit-holders are able to develop fully this sizeable area, as many of the developers simply do not have enough technical as well as financial capabilities to do so. To a large extent this situation also reflects the absence of a comprehensive urban land policy for the Jakarta Metropolitan Area.

It should also be pointed out that in general, the capacity of the local government to manage and implement the spatial plan (*Rencana Tata Ruang*), particularly in the monitoring and controlling land conversion, has been inadequate, while pressures from the businesses are immense. The government, i.e. the National Land Agency (BPN), has recognized this problem, and therefore issued a ministerial decree in October 1996 to freeze the granting of location permits in Jakarta Metropolitan Area, but then in early 1997 relaxed this decree by granting the permits to some developers selectively.

In summary, the major cities in Indonesia are experiencing urban restructuring (see also Firman 1994). The city center are transformed to become center of commercial, services and financial activities, whereas the fringe areas are in the process of becoming new residential and industrial areas. This process has triggered land conversion both in the city centers

and in the periphery, and it seems that the process will be more extensive in the near future, as the socioeconomic activities in the urban areas are developing rapidly. The urban physical restructuring is a normal part in urban development, but it seems that at present the process is largely uncontrolled mainly because of the absence of an urban land policy. Bearing this background in mind, the discussion is next focussed on the issues of urban land management in Indonesia in anticipation of those processes in the future.

## The Need for an Indonesian Urban Land Management

The management of urban land resources in the future should be aimed at increasing the effectiveness and efficiency of land utilization based on principles of "equity" and "sustainability". The ideal aspirations might in turn affect the requirement for 'policy reforms' in urban land utilization, as stipulated in the *UUPA* (*Undang-Undang Pokok Agraria*—Basic Agrarian Law) promulgated in 1961 that the land has its social and functional values, and not a commodity for trading to seek maximum profits. This study will basically address five issues of urban land development, including: land ownerships and transfers; land use development; land taxation; land development institutions; and land administration.

**First, the issue of land ownerships and transfers.** The basic principle appealed by the prevailing regulations is to prevent excessive "ownership" of urban land as well as inefficient land utilization, which can even become a matter of speculation of certain parties, and in turn disbenefit the public and even widen social disparities. In fact, this matter had been specifically addressed in the Basic Agrarian Law (*UUPA*) which is still very relevant to the present condition, however, the context has shifted from rural land to urban land areas. The fact is that concentration of urban land in the hands of large developers is increasing (see for instance Leaf, 1991), while some developers tend to become rent seekers and land capital gain speculators, resulting in increases in the land price but decreases in the land utilization. This matter should get more serious attentions as the conflicts of economic interests and the likes in urban areas in the future will be getting more complicated in character.

This matter is in fact demanding a long-term policy for the utilization of urban land resources. The policy should contain the principle and control mechanism of land use, including the location permit to the building permit.<sup>2</sup> It should be kept in mind that the location permit first of all is a tool to control land use development, and not a granted exclusive right for land acquisition as has been wrongly practiced at present (see also Archer, 1994). On the contrary, the present land-development permit system in Indonesia essentially reserved the land almost exclusively to the approved developers (Firman, 1997b). Besides, for the authorities, notably the National Land Agency (*BPN*), the location permits tend to become a tool to collect fees, and consequently processing the location permits is often costly and unnecessary

complicated. In many cases the increase in land value due to the construction of public infrastructure did not much result in an increase in public revenues, but it tended to be more profiting the developers than the public itself. As Archer (1993) correctly argues:

..., the issue of [land] permits [in Indonesia] has facilitated the assembly and development of much land, but many permits have been issued for excessive areas of land relative to the applicants' ability and/or intention to develop it. This has blocked a large amount of suitable land from urban development and thereby reduced the supply of development land and increased its price, and increased the scatter of urban development.

At present, the national economic development policy is also focussed on attracting foreign as well as domestic investment. This policy has largely pushed the *BKPM* (Investment Coordinating Agency) who is less concerned with the negative impacts of physical development, to grant investment permits to both foreign and domestic investors in order to achieve the national investment targets. Under this circumstances, the location permits as a tool to control land-use development is obviously considered not too important, while the investors should be facilitated by the easiest way to obtain land for their operation, even by relaxing the requirements for location permit if necessary.

In short, the existence of location permit systems as a tool of controlling land development should be maintained, but obviously it needs an extensive review to avoid possible abuses of it, such as for land speculation (see also Archer, 1993).<sup>3</sup> Perhaps, the location permit fees should be to the lowest possible, if not removed at all, to avoid using it primarily as a tool of revenue collection, though it is not a guarantee because there are always possibilities of collecting informal permit fees.

Another important aspect is more "equitable" land transfers. The prevailing mechanism of land transfers at present is giving too much authority to the developers, while the land owners seem to have no options regarding to whom they are going to sell their lands. Even if there are certain mechanisms for negotiating in deciding the selling price, in the realization however, very often the buyers are being "supported" by a certain *oknum* (the Indonesian term for people with a certain capacity, especially with negative connotation). A study shows that 20 out of 23 (87%) of land acquisition cases in Surabaya during 1992-1993 were done in force, not with consensus (*musyawarah*) between the land owners with the developers (Suyanto, 1996), as the land owners basically were not satisfied with the compensation offered by the developers. It should also be noted that up until now, the compensation given in the form of an amount of money is in fact to compensate the lost assets only, especially land, buildings, utilities, as well as the plants existing on the land, and does not consider the loss of income and the other disadvantages experienced by the land owners due to the land transfers.

Later, in July 1997, the government announced a decree (*Paket*

*Deregulasi Juli 97*) which no longer allows banks to give loans to developers who are involved in large-scale land development projects, except for those involved themselves in low-cost housing projects, considering the high total amount of property loans, may affect seriously the national economy, as the loans are potentially delayed in the repayment (*kredit macet*: bad loan), which has been the case at present. In the short run this policy may squeeze large-scale land acquisition and land speculation, but in the long run it is questionable if it can cut land speculators significantly, because there are other ways for developers to obtain financial resources, such as mergers or international loans.

Land transfers in major cities in Indonesia are also characterized by the fact that a substantial number of the lands are not registered, and instead have the status of a *hak garapan* (use right) or a *hak girik* (tax letter right) which are rooted in the 1870 colonial agrarian law. These land rights are now considered under the traditional land ownership without legal distinction between them. This also reflects the dualism of land law in Indonesia (Leaf, 1993), which clearly disadvantages the land owners. In fact, the market prices for *hak girik* lands were 78 to 83% of the market value for registered land parcels, whereas *hak garapan* land were priced even lower, that was, 63-69% (Dowall and Leaf, 1991).

The administration of land acquisitions for the sake of the public facilities and infrastructure development projects is governed by The Presidential Decree (*Keppres*) No. 55/1993. In principle, the *Keppres* stresses that land transfers for private projects are basically a business transaction between the respective community and the private developers. In fact, the procedures of land transfers for the benefit of the public interest should entail the involvement of the land owners and their associates, the *DPRD* (Assembly at provincial, regional, or municipal level), and of course the executive, both in formulating the utilization of land categorized as public interests as well as in the determining compensation value of the people's land as such that it will at least be capable of improving the socio-economic condition of the respective land owners towards a better quality. It is also emphasized in the *Keppres* that land acquisition should be implemented through direct deliberation (*musyawarah*) and achievement of consensus (*mufakat*), and on voluntary basis between the concerned parties. However, the *Keppres* has not touched the procedures of land acquisition for private projects that are still using the old way of lacking empowerment of the land owners.

There should be a mechanism for land transfers that will not physically evict and take ownership of the land from the owners, but the land owners should be positioned as "shareholders" in the project being carried out by the developers (private) on their lands. This is undoubtedly the essence of partnership between the private sector, the community and government in urban land use development. In fact, several techniques for this particular purposes have already been applied in Indonesia, for example through land consolidation, land pooling and readjustment.<sup>4</sup> The management should also be based on the fact that communities

are increasingly demanding participation and openness in a more democratic atmosphere.

One of the difficulties being faced in providing land for the development of the public facilities and infrastructures, particularly for low-cost housing, is the scarcity of low-priced land areas. In fact, it has been planned for quite some time that the establishment of Land Banking, that is, a process whereby the land required for particular needs is purchased well in advance of those needs (Devas, 1983), to be managed by the government through the state-owned companies and by the local government through the local government-owned companies. Concepts like *Kasiba* (*Kawasan siap bangun* or Ready-to-be-developed-areas) and *Lisiba* (*Lingkungan siap bangun* or Ready-to-be-developed-subdivisions), in which the BUMNs and BUMDs are authorized to acquire land to be developed, especially for the low-cost housing projects have been put forward, however, until present there is almost no significant progress in the development, least of all, the implementation of the ideas.

**Second, land-use development.** Land utilization in the urban area should principally be based on a spatial plan, the *Rencana Umum Tata Ruang* (*RUTR*). However, it seems that with today's rapid growing economic activities, in the attempt to accommodate these economic activities or because of the interests of certain parties, the Urban Spatial Plan has to be 'adjusted' without proper procedures (Firman and Dharmapatri, 1994).

Given the vast urban land use change taking place in large cities, there should also be clear and transparent requirements regarding the process of land use changes and shore reclamations, as these matters have extremely great impacts to the social economic condition as well as the environment. Nevertheless, what is needed in this case will be a transparent mechanism for the change of land use, which is lacking at present. On the whole, this condition also indicates that the *RUTR* or more general, the Law No. 24/1992 pertaining to Spatial Planning should still be followed with the implementation procedures of the urban plan.

A common problem with much urban spatial planning in Indonesia is that it is intended and therefore designed to control urban development in very detail, which obviously cannot be fully implemented by the local government, given many constraints in the available resources to implement the plan. Therefore, the urban spatial planning should be rather guidelines focussed on long-term strategic components of urban development, instead of the physical design of the city in detail as being practiced at present. Another common problem with the urban planning in Indonesia, is that it has rarely been a negotiation process to build up a consensus among various parties and stakeholders involved in the urban development. It is therefore not surprising if only little commitment is given by those parties to the implementation of the plan.

The control of land use planning is difficult in the condition where the urban plan is concealed to the public as has been



the case in many cities in Indonesia. Obviously, disclosing the urban spatial plan to the public has induced land speculations by certain groups which has privileged access to the urban plan. Therefore, urban spatial plan should be made available and accessible to the public, so that it may motivate them to actively participate in urban land development control.

**Third, land taxation.** Land taxation can serve as an instrument in administering land utilization. There are two different taxes that can be used as instruments, namely property taxes and value improved taxes. Urban land taxation can indeed encourage and promote the use of "private land" and will certainly assist the authorities to develop public infrastructures, which will in turn enhance urban development by communities and the private sector.

It seems that these economic instruments have not been effectively employed to control land utilization in Indonesian cities. As has been discussed earlier, there is even the tendency that land taxes, including location permits and building permits, are more considered as an instrument to collect revenues, rather than an instrument for land use control. Overall, what is needed is a more comprehensive land taxation which take into account the efficiency of land use, services and infrastructure provided by the government, and socio-economic and environmental impacts of land development.

One of the prevailing property taxes at present is the *Pajak Bumi dan Bangunan* (PBB, Land and Building Taxes), which can in fact be used as a control instrument for land utilization, however it turns out to be far from expectations, as it does not refer to the urban spatial plan. Yet, the revenues obtained from the land and building tax (PBB) are found to be insignificant in comparison to the profits extracted by the private developers in Jakarta Metropolitan Area. The figure shows that the land and building tax in Indonesia only amounted US \$400 million in 1991, whereas in 1986 when this tax was introduced for the first time, government revenue originated from it reached only US \$162 million, contrasting to US \$71.2 billion estimated land transactions value in Jakarta alone from 1989 to 1993 (Dorleans, 1994).

A study of land and building tax (*Pajak Bumi dan Bangunan - PBB*) as an instrument for urban land taxation indicates that the PBB basically is designed with the objectives of increasing the revenue, while the determination and evaluation methods of it has nothing to do with urban land use planning, resulting in the fact that the PBB simply cannot function as instruments for urban land use control (Parengkuan, 1991). Some shortcomings in the current PBB system include (1) the determination of taxable value does not consider various land use categories; (2) the levy is relatively low compared to it in other developing countries; (3) the system is simply not able to accommodate the change of taxable values.

High property taxes should be imposed on urban land that have not been developed for quite some time. Business transaction taxes on relatively short period land ownership should also be increased to curb the motivations for land

speculation. The fact that the Ministry of Finance has prepared the regulation which taxes the transactions of individual land valuing more than Rp. 500 million with capital gain more than 10 percent. Furthermore, the possibilities for implementing the land value tax; land increment tax, location value tax, and betterment levies, should be further studied in the urban land taxation law and regulations in Indonesia. At this point, there should be underlined the principle of property taxes such as suggested by Archer (1990), that is, the property tax charged on urban land should be based on land value instead of on the improved value, and on a realistic estimate of the market value of land, so that the tax will be adequate, equitable and efficient. This principle implies that the property tax system needs to be buttressed by an efficient land valuation system.

**Fourth, land development institutions.** It should be acknowledged that the institutions for land development are fragmented and lacking of integration both at the local as well as national levels. At the national level, for example, there are at present at least 12 institutions related to land affairs (see also World Bank, 1994), which include the BPN (National Land Agency), whose task is to coordinate for land registration, permits and ownership regulation; Ministry of Finance, Bappenas (National Planning Board), Ministry of Forestry, Ministry of Energy and Mining, Office of the State Minister of Environment and Bappedal (Agency for Environmental Control and Management), Bakosurtanal (National Coordinating Agency for Surveys and Mapping), Office of the State Ministry for Investment Promotion/BKPM (Coordinating Agency for Investment), Ministry of Public Works, Ministry of Agriculture; Ministry of Home Affairs and the local government, who coordinate and control land-use planning and its implementation. Coordination between the different institutions is clearly not an easy task. To give an example, the local government has a city and regional plan, but the ministry of public works has its own road development plan, whereas the Minister of Agriculture has its own irrigated rice field plan, and yet those plans are quite often conflicting with one another.

Considering that the Government, through the issuance of the *Keppres* (Presidential Decree) No. 75/1993, had established the *Badan Koordinasi Tata Ruang Nasional* (BKTRN, National Body for Coordination of Spatial Planning) chaired by the State Minister for Development Planning/Head of Bappenas, the possibilities for coordinating land resource utilization by the respective bodies should be studied, without reducing the functions and authorities of the ministries and each respective institutions.

Coordination should of course be implemented at the local level as well. In compliance with it, the Local Development Planning Board (*Bappeda*) of the first administrative level (Province) and of the second administrative level (District or Municipality) should be the institution that can undertake such coordination. It might have been undertaken for different matters, however, very often with constraints and sectoral conflicts which may have in turn resulted in inefficient urban land utilization.



It is realized that establishing a coordinating agency to facilitate bureaucratic interaction might be not an easy task, which also holds true for some other issues which have been discussed: such as public disclosure of planning information and strengthening local capacity for community participation, because all the issues are linked quite fundamentally to the political economy development in Indonesia, including vested interest, but it needs to be done in order to pursue a more effective urban land development in Indonesia. More importantly, it will need a political will from the authorities to improve urban land development and management in the country.

Besides, the need for decentralization in decision making regarding land development is increasingly felt, as in many cases the decision making is very much centralistic in character, and done with no considerations to the specific conditions of the area. In other words, the local government should have more authority in decision making on land development. Consequently, the capacity of local government in this matter should be strengthened. Such institutional building should indeed be supported by the availability of human resources that are capable of managing the urban land resource development, given the fact that the existing condition in many institutions looks apprehensive, the institutions at the local level in particular.

Therefore, a special program should be designed and implemented to upgrade the capabilities of the human resources in urban land management, especially at the local government level. The presence of private developers in urban area development is necessary, and should indeed be encouraged, as Indonesia is basically facing problems of land development such as experienced by other developing countries in general, that is to say "too much government regulation and not enough support of private sector institutions" (Dowall and Clarke, 1993). Therefore, a supporting climate should be developed. One of the main components is of course the availability of a legal assurance for the operation of the private sectors; furthermore, there should be supports of financial institutions that can provide loans for such undertakings, notably for small and middle developers, and the presence of competent construction industries as well as suppliers of construction components. Nevertheless, as has been discussed earlier, what happens at present is that the role of the private sector, especially the large developers, seems to be out of control, because of the weaknesses in the existing system of land regulation and institutions.

**Fifth, land administration.** Another important matter to note is that one of the difficulties experienced in urban land management at present is the lack of adequate information and data on land affairs to be used as a basis for decision making and planning in general as well as for public services. Most of the lands do not have formal title, while the inadequate land administration has made for high transaction costs and land disputes, particularly in rapidly growing areas such as in the fringe of Jakarta.

Ideally, there has to be a land registration system, covering at least the data on real estate registry, ownership, and rights, in the form of maps, or in other words, there should be provided a national registry of real estate data. Farvaque and McAuslan (1992) argue that land registration can help land markets to work; facilitate the conveyancing process and subsequently ensure the transparency of the transactions; and provide availability of records for land market operation.

According to the records, out of the existing 54 million non-forested land plots in Indonesia at present, only about 30% (16.5 million land plots) were registered since 1961 (Harsono, 1996). As Dowall and Clarke (1993) argue, the lack of clear proof of land ownership will impose substantial costs on the land market, because without accurate ownership data potential buyers should investigate the property ownership prior to deciding whether to purchase the land, as they obviously do not want to be involved in land disputes in the future. Besides, the untitled property owners will not be able to use the land for collateral to apply for loans from banks or other financial institutions, and thus have to find more expensive lending. Fortunately, at present the Government of Indonesia, with the assistance of the World Bank, through the Office of the State Minister of Agrarian Affairs/BPN (National Agency for Land Administration), is carrying out a giant project known as the 'Land Administration Project' (LAP), which is essentially a reform in land administration, human resources, and institutions (Harsono, 1996), albeit this registration program may take 25 years to complete. Against the opinion that this seems to be unrealistic considering the size of the task at hand relative to the resource available, this study argues that the program should be started somehow, otherwise Indonesia will never have an appropriate land registration system.

Another problem encountered with the land information in Indonesia at present is the fragmentation of many institutions related to land data, and each institution has its own interests in compiling and documenting the information, which end up with the circumstances in which each institution has its own information systems, and a lack of exchange of information among themselves. Obviously, this has resulted in inefficiency and duplication in land information compilation. In other words, there is a need to improve the coordination among many institutions in charge with land data.

## Conclusion

The development of large cities in Indonesia is an inevitable process, and will proceed in line with the social economic development of the nation. Most crucial to be developed is the capacity to manage the emerging problems due to urban development.

One of the main issues that will emerge with the development is urban land resource development. The problem is in designing an effective, efficient, and equitable land resource

management, in accordance with the social functions of urban lands, and therefore there is the need for reforming and reorienting the policies for urban land development in the future (Table 2).

Improving the regulations and institutions should become the key agenda for the reformation, which covers land use control, clear and transparent mechanisms and regulations regarding changes of land use as well as shore reclamation, land transfer mechanisms, taxation that can become incentives and disincentives for land utilization, procurement of land banking, and others. Furthermore, institutional building is necessary for coordination and decentralization of land resource utilizations.

The role of private sectors is central for urban land development in Indonesia. Therefore, assurance for development of their activities and presence of financial institutions that can provide financial loans, notably for small and middle developers are essential. In the future, the government should play a role more as the enabler, instead of controlling urban land development very dominantly (see also Farvaque and McAuslan, 1992). Although this study is about the problems of urban land development in Indonesia, to a large extent it exemplifies the broad challenges to urban land development policy in developing countries in general, which include inappropriate land regulatory and legal frameworks; over-centralized and poorly coordinated land management institutions; inappropriate taxation; and inadequate land information (see also Farvaque and McAuslan, 1992; Bernstein, 1994). The existing urban land policies and regulation in Indonesia are fragmented in terms of orientation, objectives, and implementing agencies, and therefore often inefficient, ineffective and even conflicting one another. In fact, this study has been a lesson which shows the complexity of urban land development problems in the developing countries.

Overall, this study has sought to identify urban land development issues and examined the need for urban land policy in Indonesia in a comprehensive manner. Admittedly, however, it largely focusses itself on technical issues and some policy implication of the issues, but does not much examine the political economy of land development in Indonesia, which is obviously linked quite fundamentally to the technical issues of urban land development which have been discussed. Having realized this shortcoming, the study recommends further studies of Political Economy of Urban Land Development in Indonesia in order to understand better the dynamics of socio-political aspects of urban land development in the country.

**Table 2** Issues of Urban Land Development in Indonesia (a Summary)

### **Issue 1: Landownership and Transfers**

#### **Problems**

- Uncontrolled land conversion which encourage some developers to undertake land business speculations.
- The prevailing land permit systems which reserve the land almost exclusively to the approved developers.
- Undervalued land compensation and unfair treatment to the landowners.

#### **Objectives**

- To prevent an excessive land ownership in the hands of small groups of developers.
- To ensure more equitable land transfers.
- To make the increase in land value benefiting the public

#### **Actions to be taken**

- Evaluate the present land permit systems as a tool to control urban land use development.
- Create incentives and disincentives to prevent an excessive land ownership and land trading speculation through a comprehensive land taxation system.
- Develop a mechanism for fairer compensation in land transfers and in land acquisition which will not physically evict the land from the owners.
- Expediate the issuance of land banking regulations.

### **Issue 2: Land Use Development**

#### **Problems**

- Inappropriate urban spatial plan adjustment.
- Concealed urban spatial plan.
- Too detailed urban spatial plan.

#### **Objective**

- To make urban spatial plan more effective as a guidelines for urban land development.

#### **Actions to be taken**

- Focus urban spatial planning on the strategic issues, not on the detailed plan.
- Develop mechanisms for land use change and for land reclamation.
- Disclose urban plan to the public.

### **Issue 3: Land Taxation**

#### **Problems**

- Ineffectiveness of land tax as an instrument to control urban land-use development.
- Too much emphasis on land tax as an instrument to increase revenue.
- The increase in land value resulting from construction of public infrastructure did not much result in increase in the public revenue.

#### Objectives

- To establish a comprehensive land taxation method which takes into account the efficiency of land use, services and infrastructure provided by the government, and the socio-economic and environmental impacts of development.

#### Actions to be taken

- Assess the possibilities of employing land value tax, land increment tax, location value tax, and betterment levies.
- Improve the *Pajak Bumi dan Bangunan* (land and building tax).
- Impose high property taxes on urban lands that have not been developed for long a time.

### Issue 4: Land Development Institutions

#### Problems

- Fragmented and poorly coordinated land development institutions.
- Lack of decentralization.
- Domination of large private developers.
- Low capacity of the local government institutions.

#### Objective

- To improve coordination of land development implementation.
- To enhance the local government capacity in urban land development.
- To encourage the role of small and medium developers in urban land development.

#### Actions to be taken

- Assess the possibility of Badan Koordinasi Tata Ruang Nasional (BKTRN - National Body for Coordination of Spatial Planning) to become a national coordinating agency for urban land development.
- Decentralise more decision making on urban land development to the local government.
- Strengthen the capacity of local planning agency (Bappeda) as a coordinating institution of land development at the local level.
- Encourage local community participation in urban land development.
- Create legal assurance for the development of private sector activities in urban land development.
- Create environment which is conducive to attracting competent construction industry as well as suppliers of construction materials.

### Issue 5: Land Administration

#### Problems

- Lack of adequate information and data on land affairs to be used for decision making and planning in general.
- Only about 30% land plots which have been registered.
- *Inefficiency and duplication in land information compilation.*

#### Objective

- To have a land registration system which cover data on

real estate registry, ownerships and rights in the form of maps.

- To improve coordination of institutions related to land data.

#### Actions to be taken

- Expedite the land administration program (LAP)
- Study the possibility of land data coordination.
- Strengthen the institutional and technical capacity in land data administration at both national and local level.

### Notes

<sup>1</sup> Archer (1990) stated further that the aspects contained in the development of urban land resources include: Land ownership, tenure and transfer systems; Property valuation and taxation; Provision of network infrastructure; Land use controls; Transport and traffic controls; Provision of social infrastructure; Municipal administration and services; Government land ownership; Participation in private development; Financing property development and investments; "Profession of the land"; Land information.

<sup>2</sup> Developers who intend to acquire and assemble land for subdivision project are required to have location permit (*ijin lokasi*) and land purchase permit to authorize the land purchase and its conversion to registered land title (Archer, 1994:39). As Archer (1993:19) maintains that basically there are five basic functions of land permit systems in urban development: (1) guiding the location of the (formal) private land and building development projects; (2) coordinating the government and the formal private sector development activities; (3) facilitating land assembly for the development projects; (4) facilitating land assembly for large-scale development projects, including new town and industrial estate projects; and (5) attaching appropriate project development conditions to the permits for the land acquisition for the proposed development projects. However, as Ferguson and Hoffman (1993) argue, the existing land development permit systems in Indonesia affect land prices in two respects: first, the systems tend to reduce the price paid by the developers who have been authorized to acquire the land; second, they tend to increase land prices by the end-users. In addition, the permit systems also encourage developers to leave the land idle, thus constraining land supply (see also World Bank, 1994).

<sup>3</sup> As Archer (1993) technically suggested the potential benefits of land permit systems in Indonesia can be improved by several conditions: First, there should be a land use and circulation plan for district and municipality that indicates the proposed network of main road and distributor/collector roads together with the land use zoning, and it should be supported by more detailed plans for the preferred development areas; Second, permits should be issued in stages according to the achievement of developers; Third, permits may have to be attached with several conditions, for instance donation of the land for the public road shown in the official plan, and provision of low cost

housing. In addition, it might also be necessary to reduce the excessive stock of land currently under permits. It can be done first of all by assessing the urban development conditions to identify the priority development areas; secondly, the location permits granted in the priority areas should be evaluated to ensure that amount of land purchased, and progress of development in general is according to the official plan.

- <sup>4</sup> According to Archer (1994) urban land consolidation is a technique used for managing and financing the development of selected urban fringe areas, by which groups of land parcels are consolidated for their unified design, servicing and subdivision into a layout of streets, building plots and open spaces, with the sale of some of the plots for cost recovery and the distribution of another plots back to the original landowners. He also argues that land consolidation is a technique for converting rural land into urban land by which a group of neighbouring rural land owners are combined in compulsory temporary partnership for the unified planning, servicing and subdivisions of their land, while the project costs and benefits being shared among the land owners (for details see also Archer, 1987, 1989, and 1993).

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