



Neighborhood Upgrading and Shelter in Indonesia

Rapid population growth and its attributed hovering problem

In 2000, Indonesia's population surpassed 200 million. While significant reductions in the overall population growth rate have been achieved over previous decades, the urban population continues to grow at about 4.6% per year. An estimated 42.5% of the country's population lived in urban areas in 2000, and this statistic is projected to exceed 50% by 2010 and 60% by 2025.

As a result of the above trends, conditions in urban areas housing the poor continue to deteriorate, despite significant investment in urban infrastructure. Only an estimated 36% of the urban population currently has access to piped water, and only seven cities have sewerage systems. Further, less than 10% of the aggregate population of these seven cities is connected to sewerage facilities. While access to toilet facilities is increasing, most of the latter do not provide safe treatment of human waste. Only about 50–60% of waste produced is collected by a municipal service on average.

While improved financing has received considerable attention as the main instrument for improving access to housing, housing policy has often neglected the interests of the poor. Requirements for access to credit (a land title in good order, a 30% downpayment, and proof of income) virtually exclude the poor from access to financing for housing. This is especially true of the self-employed or those working in the informal sector. Subsidies disbursed through formal financial channels thus typically fail to reach the poor.

Strategic upgrading of neighborhoods and shelters

The Neighborhood Upgrading and Shelter Sector Project was financed by a \$68.6 million loan from the Asian Development Bank's (ADB) ordinary capital resources and a loan on concessionary terms of 13.89 million Singapore dollars. The project was approved on 19 December 2003, was declared effective on 31 March 2005, and is scheduled to close on 31 December 2009.

Its purpose is to upgrade slum tenements and provide new housing for beneficiaries. Its goal is to help improve living



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Children and women using the water and washing facilities constructed in Mataram under the project

conditions among the urban poor by having the beneficiaries both participate in and benefit from development of upgraded housing facilities. Beneficiaries are also to participate in managing and financing the initiative in a way that both expands their asset base and improves their overall level of well-being. As the project is being implemented in 32 cities in 17 provinces, it is also expected to make planning for and provision of housing for the poor more responsive to the needs of beneficiaries.

The project's four components are

- improving site planning and management systems for establishing new sites and upgrading existing ones,
- providing access to housing finance through a central financial institution and local financial institutions,
- upgrading low-income neighborhoods and developing new housing sites, and
- strengthening the institutions responsible for delivery of the above.

The project's approach is to integrate the above functions into agencies of participating local governments. The local governments participating in the project were selected competitively according



A newly constructed footpath in a community in Serang, West Java

to two criteria: their willingness to contribute resources to the project, and the proportion of the total population under their jurisdictions currently living in informal housing settlements. A natural result of the latter criterion is that most participating local governments are located in provincial capitals, metropolitan cities, or large or medium-sized urban areas that have slum areas of significant size suitable for upgrading.

The project addresses key constraints relating to provision of affordable shelter to low-income groups: inadequate planning and finance, allocation of resources to slum upgrading based on community demand, and new site development requirements. Further, project investments are to be identified via a participatory, community-driven development process under which beneficiary communities themselves develop neighborhood upgrading plans (NUPs). The beneficiary communities will then directly receive funds in tranches that will allow them to implement their NUPs, and will provide in-kind and cash contributions for meeting

their share of the financing requirements for implementing their respective NUPs. Cost sharing by national and local governments is likewise an integral feature of the project.

Collateral improvements

By the 4th year of project implementation, more than 350,000 families living in slum areas have benefited from the project through provision of urban infrastructure such as water supply and sanitation facilities, drainage and road networks, solid waste collection facilities, and street lighting. Improved access to safe water and sanitation facilities resulting from the project has reduced the amount of time and effort required in obtaining water of acceptable quality, thus leaving additional time for income-generating activities. Better quality water and improved hygiene has also reduced the incidence and severity of waterborne disease, which has reduced days of healthy life and increased health-related expenditures. Improved street lighting has reduced petty crime and violence, and improved drainage facilities have reduced flooding and thus destruction of property and the incidence of waterborne disease. More than 1,000 low-income families have received credits for improving their dwellings. The project has also created 300,000 jobs for beneficiaries, and improved the functioning of community-based organizations through workshops aimed at improving community management and development intervention skills.

Lessons learned

Capacity-building activities under the project have created a strong sense of community ownership as well as active participation in planning and implementing neighborhood upgrading plans. However, in retrospect, the goal of improving local government systems relating to pro-poor spatial planning, formulation of community-level shelter strategies, development of new housing sites, and delivery of financing for shelter for the poor appears to have been a bit ambitious. Lack of political will and commitment on the part of local governments are major issues in this regard.

While the beneficiary communities themselves admirably achieved the planning and construction of facilities, in some cases the facilities constructed were not properly maintained. To ensure proper maintenance of such facilities, their development should be complemented with appropriate behavioral change programs.