Affordable Housing Finance Policies on Indonesia
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Current Condition

• **Limited access to formal housing finance.** 70% of total workforce are informal sectors, non payroll and most of them are associated with poverty --> deemed non-creditworthy.

• **The vast majority of low-income housings are self-help housing (80%).** --> incremental housing based on financial ability. Only 20% are purchased from developers.

There are barriers for accessing housing mortgage in Indonesia. Limited access to housing mortgage

Lack of low interest- long term financing. the current tenor may not attract the households to access housing finance from formal financial institutions
Current Situation

Household with Home Ownership

- The proportion of households with home ownership is relatively stagnant --> growing backlog.
- The proportion of households living in inadequate houses increases during the last 5 years.
- **Housing Backlog: 15 million** households. This gap **grows by 0.7-1 million** households demanding new units.
- The current housing stock is not sufficient to respond to demand (< 400,000 formal homes developed each year)
Upper-income Households

- Non-Direct Intervention
- Property limitation regulation
- Banking and Finance Facility

Middle-income Households

- Non-Direct Intervention
- Banking and Finance Facility

Low-income Households

- Direct Intervention
- Regulations
- Complete System

Social Welfare Programs
Target Groups & Government Policy

Middle and High Income → Housing Market Mechanism

Low Income

Government Support

A. Not affordable to have house
- Multi Storey Low Income Rental House (Rusunawa)
  - Rental Monthly: 10-26 USD
  - Lands are provided by local government
  - The Buildings are provided by central government

B. Affordable to have house
- Direct subsidies (Public Housing Mortgage)
- Indirect subsidies: infrastructure, utilities and public facility to lower price; incentives for housing developers

C. Self-help Housing
- Stimulates for housing development 1.116 USD/house
- Stimulates for housing improvement 660 USD/house

1 USD = Rp 9.860
Housing Programs 2010-2014

Multi-Storey Low-income Rental Housing

Target: 380 Twin Blocks
Providing adequate rental housing for low income households in urban area, including those who live in slum area.

Target: 230,000 Units
• Financing the improvement for inadequate housing.
• Allocation: USD500 for each unit

Quality Improvement of Self-Help Housing

Before After

Target: 5,000 Units
Providing adequate housing for fishermen and households living in remote area within Indonesia.

Neighborhood Improvement

Target: 50,000 Units
Providing basic infrastructure (water, sanitation, solid-waste treatment facility, etc.) for 50,000 low-income households.

Special Purpose House
The Slum Alleviation Policy and Action Plan (SAPOLA) is an initiative at national level to formulate policies and programs on slum alleviation in Indonesia. **GOAL:** develop effective national policies and strategies for slum alleviation in Indonesia, to improve the capacity of local government in slum prevention and improvement, as well as policy formulation to support housing development.
First home ownership mortgage credit

Dec 10th 1976

Economic crisis

1998

Subsidized home ownership mortgage policy

2002 2005 2010 2013

Subsidized housing mortgage with funding from government and central bank

Liquidity Facility for Housing Mortgage policy.

Subsidies on interest rate and down-payment

Subsidized development or improvement loan policy (KPRS)

Targeted for non-fixed income households with maximum monthly income USD 250

Participated by 1 national bank, 33 rural banks, and 193 cooperatives

Terminated in 2009 due to the implementation couldn’t meet the good governance requirement
Housing Finance Liquidity Facility (FLPP, Fasilitas Likuiditas Pembiayaan Perumahan) is a public institution used by GoI to channel the housing finance subsidy since 2010.

FLPP is based on a highly subsidized structure that relies exclusively on government budget, funding 70% of the total mortgage amount the government also covers 70% of the credit risk by a mortgage insurance given by Askrindo (100% state-owned insurance company), at a 0.37% premium, which is included in the final 7.25% interest rate.

**Structure:**

- **Government Budget**
- **Government Service Unit (BLU)**
- **Implementing Bank**
- **Borrower**
- **Askriindo**
  - **Mortgage Insurance**
    - Covers 70% of outstanding loan when defaulted premium 0.3%
- **Loan**
  - Covers 30% of mortgage funding
  - Bank's own funding
  - Covers 70% of mortgage
  - Bank's own funding

**Source:** World Bank, based on Ministry of Housing, 2013
The market for small houses has been growing, indicating an opportunity for FLPP to play a stronger role. Small houses which are financed by subsidies, have been the largest component of sales growth (41% of total property sales).

- 57% of Government Budget Allocation for housing is allocated for FLPP. Government contingent liability should be minimized.
- Private sector involvements are virtually absent.
- FLPP has been particularly used by 30% of Indonesians with formal incomes able to afford mortgage payments. Needs be more balanced for low and very low income facilities.

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FLPP also seeks to increase the participation of The national Bank and Regional Development Bank. Currently there are 6 National Banks and 15 Regional Development Banks participating in FLPP.

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Currently, The Government of Indonesia is considering several new instruments in housing finance, such as:
1. Housing Contractual Saving Scheme for Housing (Tapera - Tabungan Perumahan Rakyat)
2. Microfinance institution for self-built housing and home improvements

Those instruments will support GoI objective of enabling all the citizens to own homes. They are expected to:
1. Provide opportunities for those without payroll or not creditworthy to access formal housing financial facilities;
2. Provide opportunity for the large part of population who can not afford for down-payments as demanded for entering mortgage market

- Microfinance Institution is needed as 70% of housing development in Indonesia are self-help housing.
- Microfinance for housing has proven to be an effective solution for the low-income segments of the population and thus deserves government supports.
Informal Settlement Community Network of KALIJAWI, Yogyakarta

- initiated by women community group living by the riverbanks of Gajah Wong and Winongo River
- Realize that they are living in an illegal settlement with inadequate housing and environment conditions
- Initiated housing saving to improve housing conditions and acquire legal land parcels to build homes.

- Currently there are 17 community saving groups in 12 neighborhoods / illegal settlements.
- The amount of current saving is enough to buy land and they are ready to move to legal settlements.

Program

Home improvement for 186 houses, provision of water and sanitation facilities, road improvement, and construction of river embankments.

Outputs
Co-BILD, Yogyakarta

- Community Based Initiatives for Housing and Local Development
- Pilot Projects in 12 cities/province within Indonesia on 2011
- Initial Fund: USD200,000/city

Target
Low-income households with non-salaried or creditworthiness to access formal financial facility and living in urban area.

Product
- Loan fund for housing quality improvement
- Maximum Fund USD420/person/Household
- Interest Rate: 15% per year flat (10% through KSM)
- Payback period 2 years = 24 months

Program
Home Improvement, Land-Titling, electrification, sanitation, housing construction, etc.
Priority Activities for The Next 5 Years

ESTABLISHED ACTIVITIES

1. Development of Housing Financing System
2. Channeling FLPP.
3. Increase participation of Regional Development Bank in channeling the FLPP
4. Establish Secondary Mortgage Facility (PT SMF)

ON-GOING ACTIVITIES

1. Channeling The FLPP to broader segments of households
2. Preparing Draft of Contractual Saving Scheme Law
3. Preparing Draft of Housing Financing System Government Regulation
4. Facilitating the improvement of PT. SMF role.

NEXT ACTIVITIES

1. Develop housing financing scheme for non-bankable households/individuals (Housing mortgage for Self-help Housing, lease-purchase, construction credit, and down-payment)
2. Preparing schemes and institutional settings for Home Contractual Saving
3. Increasing private banks participation in housing finance
4. Further improve the role PT. SMF.
Summary

**Issues**

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<th>Mismatch supply-demand and substandard housings.</th>
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<td>Market failures in low-income housing market: housing price overshooting, under supply of affordable housing, low quality housing.</td>
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<td>Limited access of low-income households to housing finance</td>
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<td>Lack of long-term financing</td>
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**Initiatives**

1. Channeling FLPP
2. Improve the role of Regional Development Bank in channeling the FLPP
3. Established Secondary Mortgage Facility Corporation
4. Multi Storey low-Income Rental Housing
5. Neighborhood development
6. Quality Improvement for Self-Help Housing
7. Revitalize the role of Perumnas (National Public Housing Enterprise)
8. Establish housing microfinance institutions

Putting together a road map for accelerated public housing provisions and slum alleviation in 2015-2019, with focus on a select number of programs that are achievable and providing strong bases for scaling up
Thank you