



# **Affordable Housing Finance Policies on Indonesia**

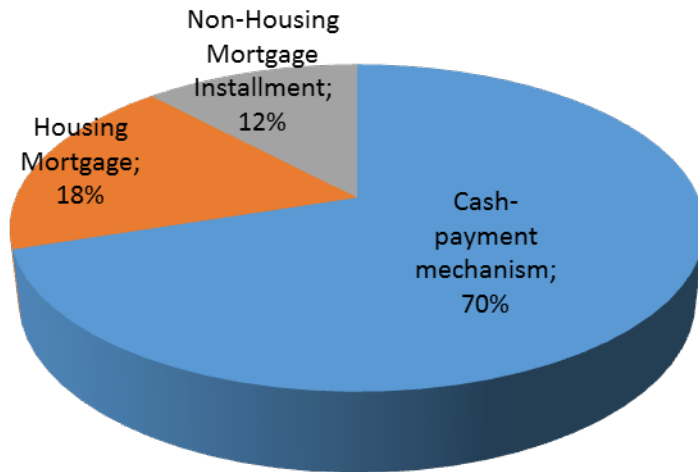
**Washington DC, 28-29 May 2014**

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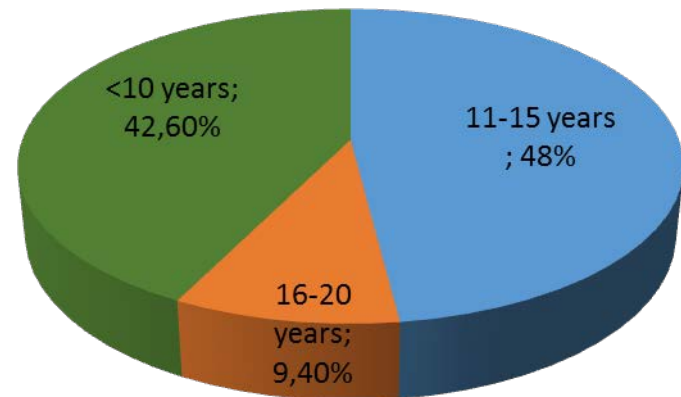


# Current Condition

- **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

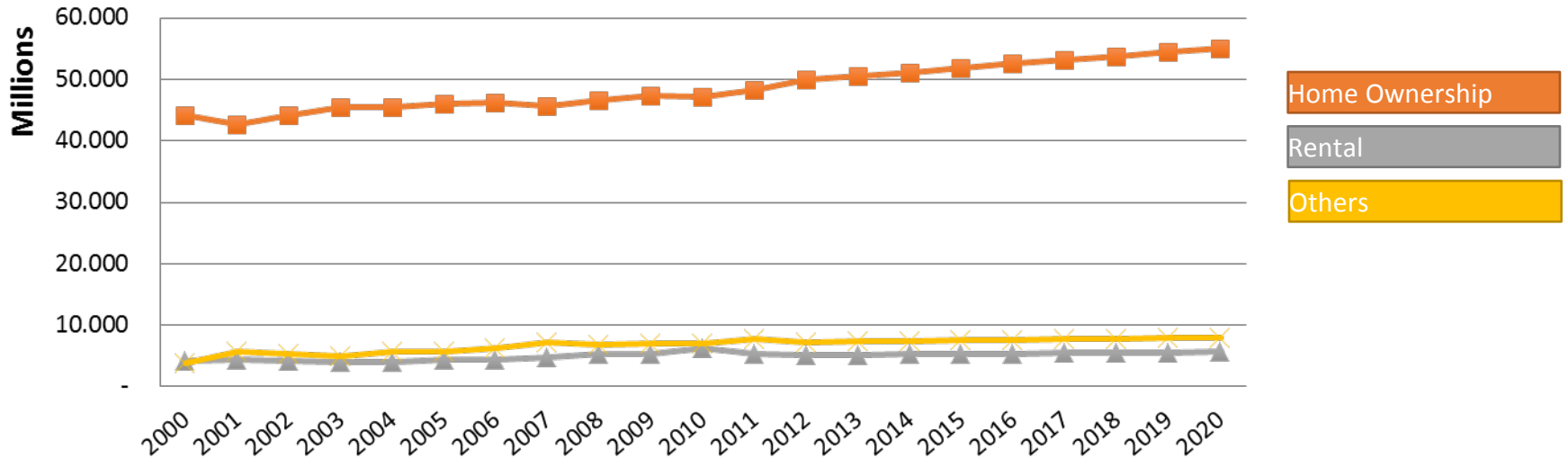


**Lack of low interest- long term financing.** the current tenor may not attract the households to access housing finance from formal financial institutions

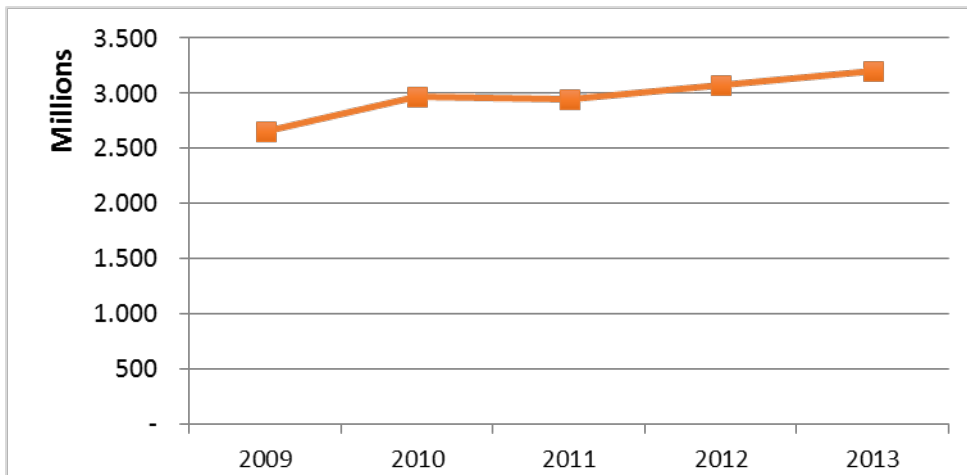


# Current Situation

### Household with Home Ownership



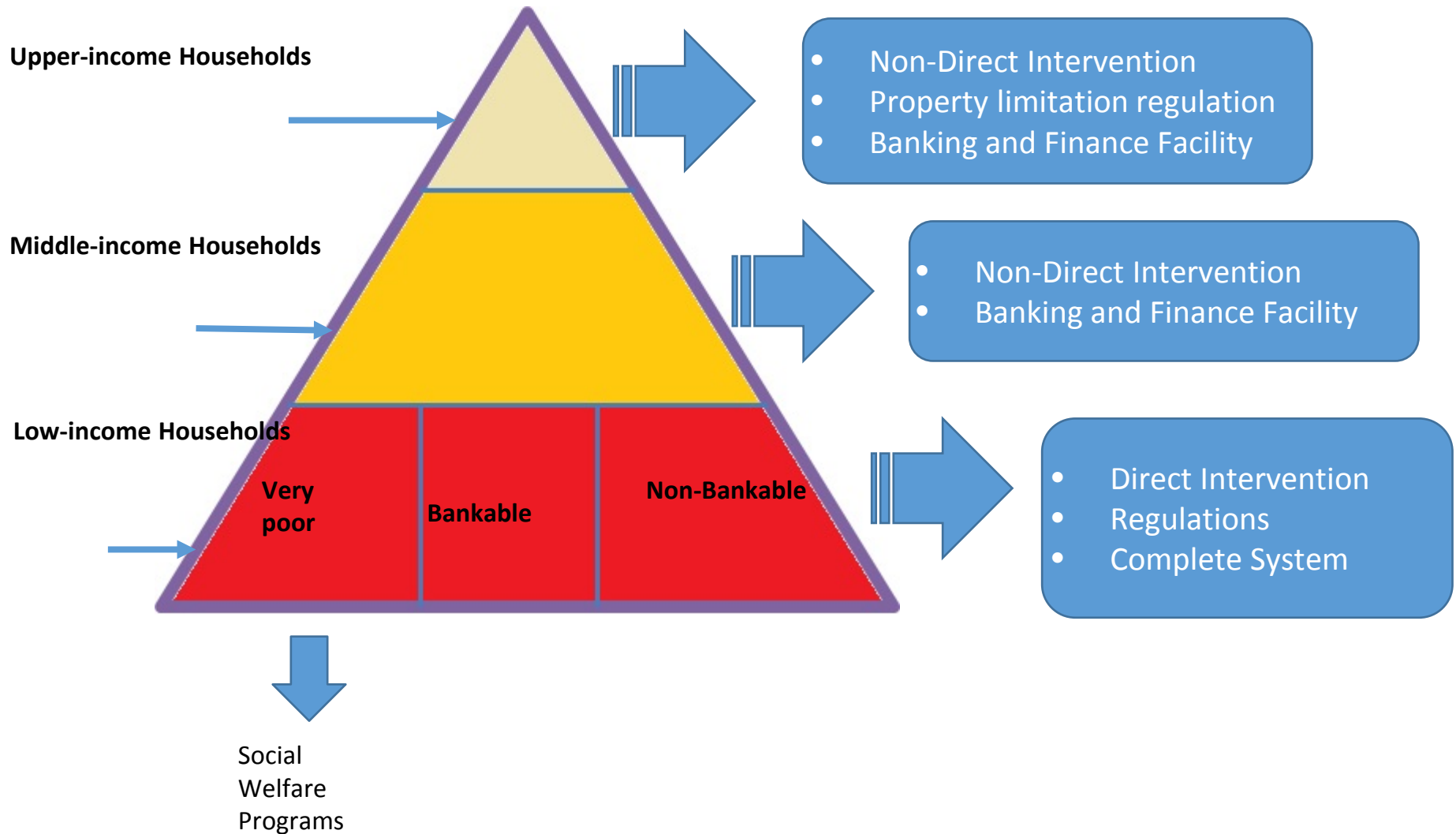
### Household Living in Inadequate House



- 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)

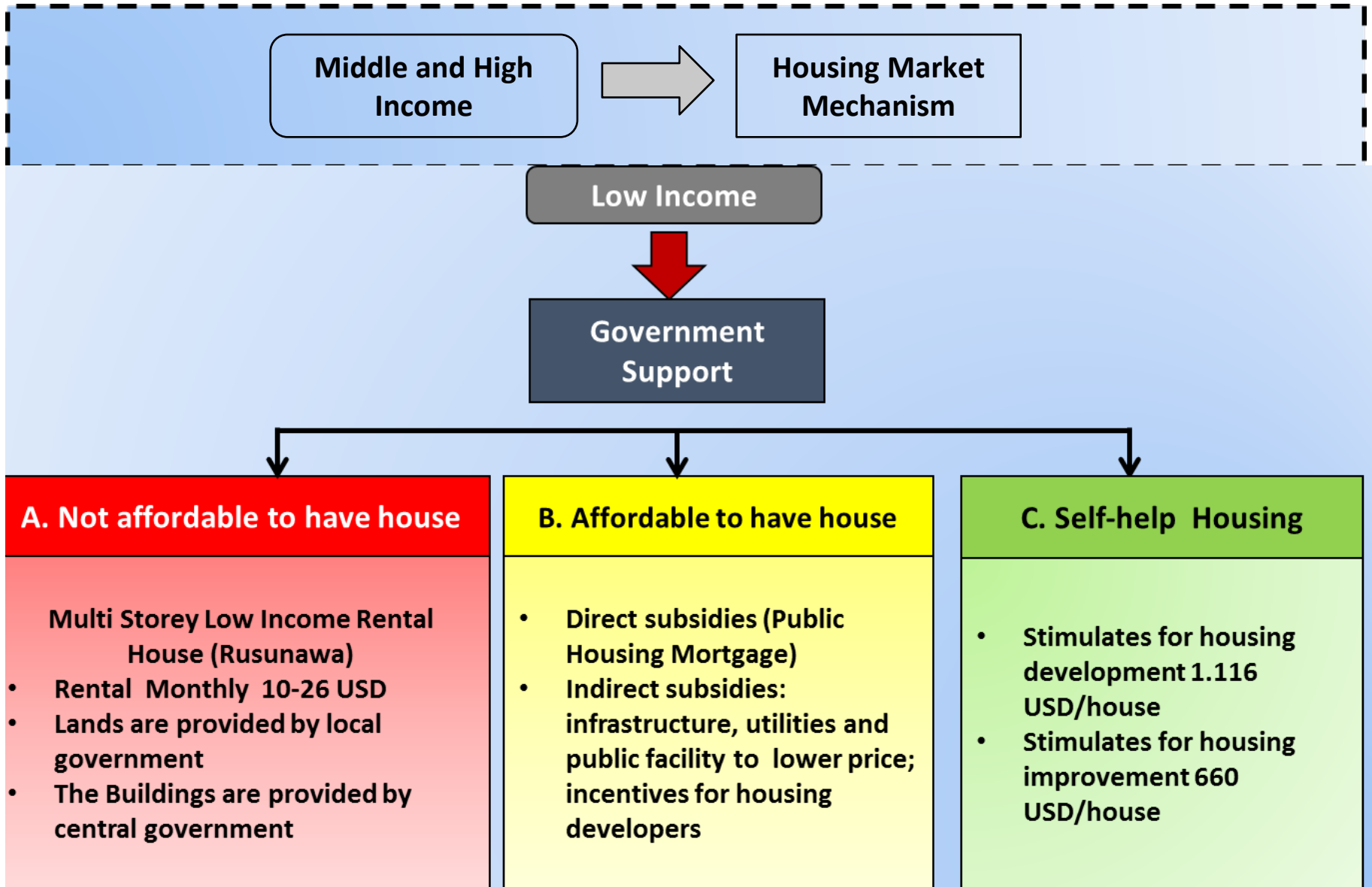


# Government Interventions on Housing





# Target Groups & Government Policy





# 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, include for those who lives in slum area

**Target: 5.000 Units**  
Providing adequate housing for fisherman and households living in remote area within Indonesia

## Special Purpose House



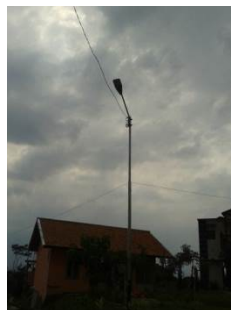
## Target: 230.000 Units

- Financing the improvement for inadequate housing.
- Allocation: USD500 for each unit

## Quality Improvement of Self-Help Housing



## Neighborhood Improvement



## Target: 50.000 Units

Providing basic infrastructure (water, sanitation, solid-waste treatment facility, etc.) for 50.000 low-income households.

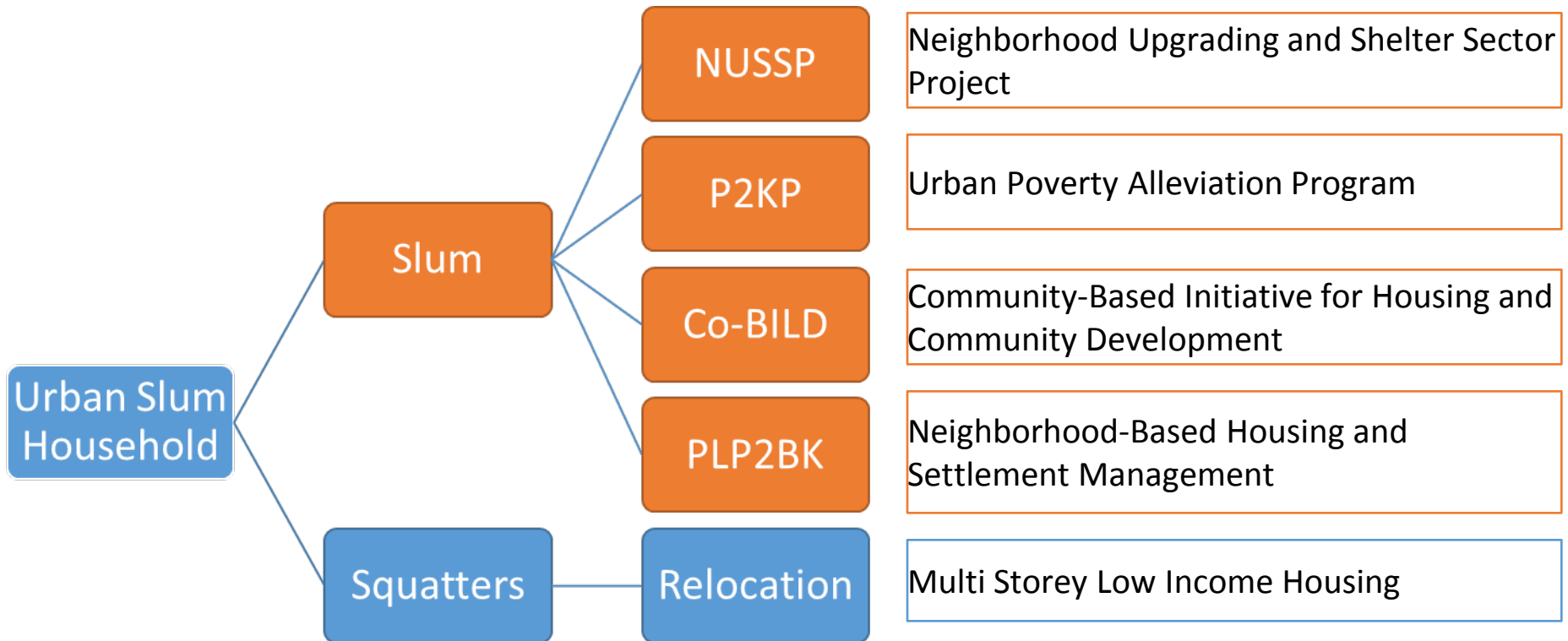


# Slum Alleviation Initiatives

## SAPOLA

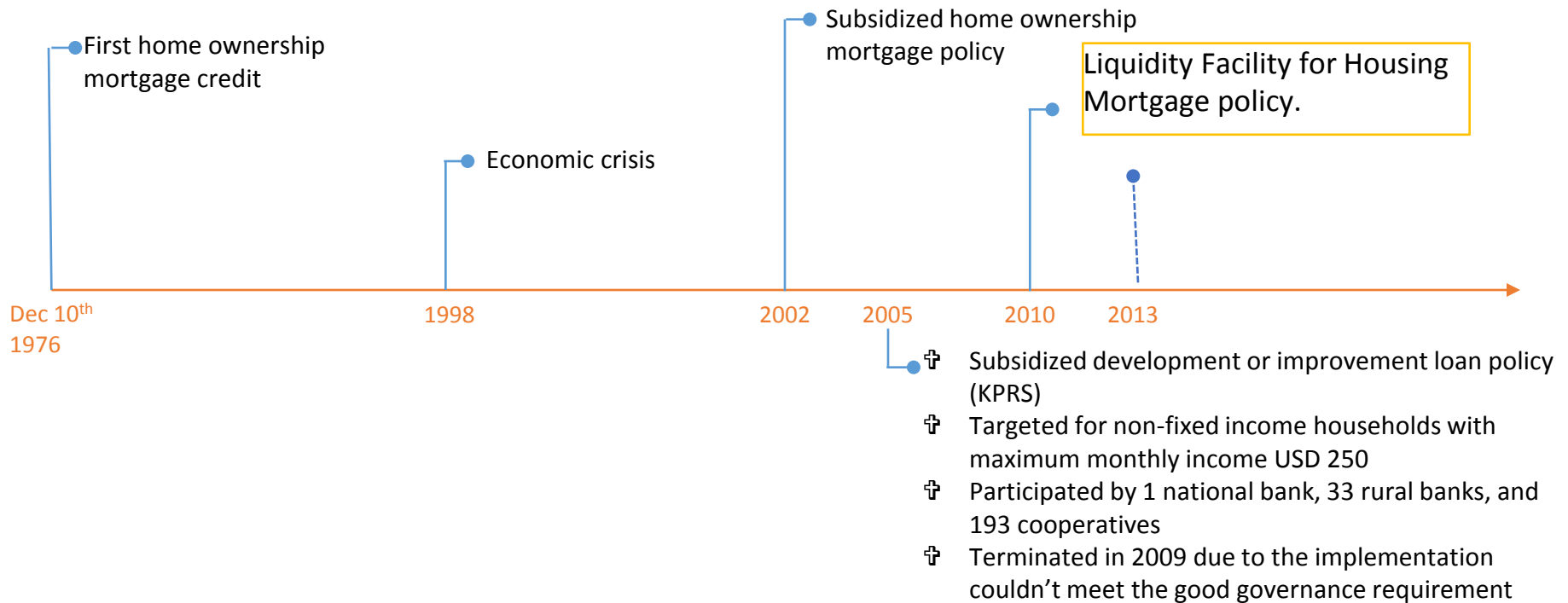
The Slum Alleviation Policy and Action Plan (SAPOLA) is an initiative at national level to formulate policies and programs on slum alleviation in Indonesia.

**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.





# EVOLUTION OF HOUSING FINANCE POLICIES IN INDONESIA



Subsidized housing mortgage with funding from government and central bank

Subsidies on interest rate and down-payment

Liquidity Facility for Housing Mortgage



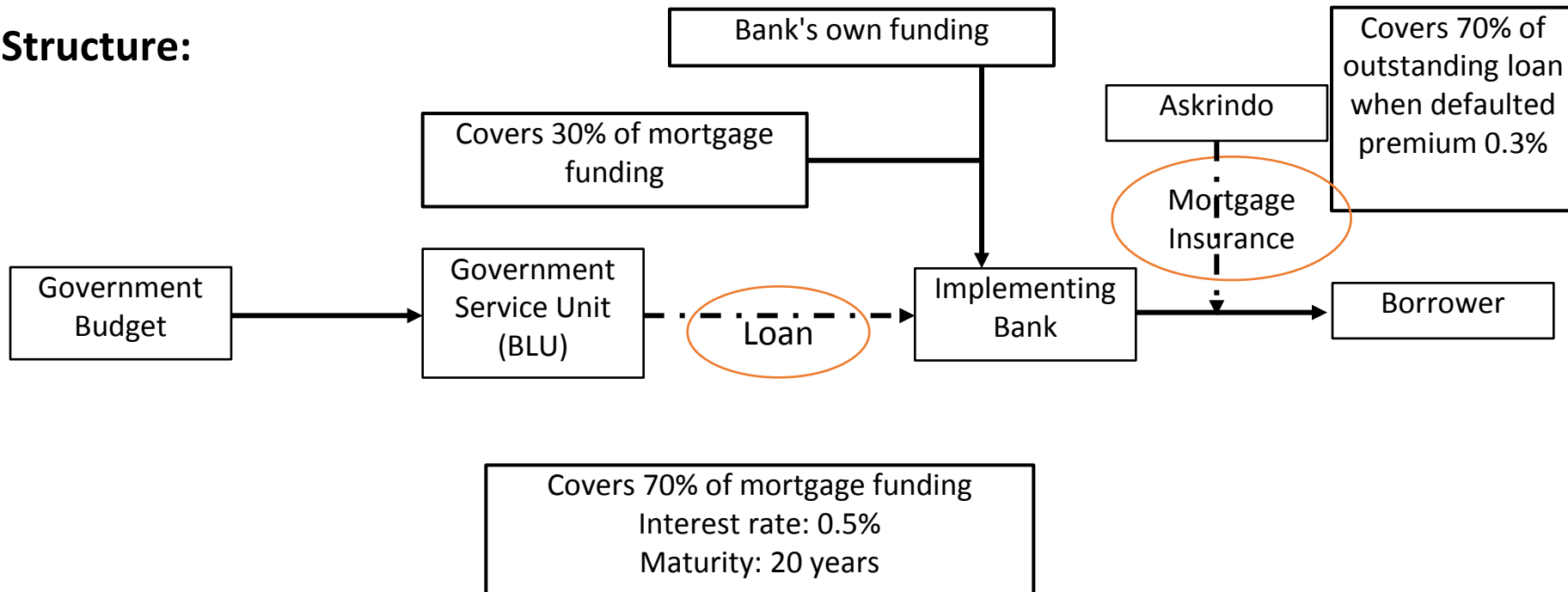


# Housing Subsidy Program (FLPP)

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:





# Housing Subsidy Program (2)

**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)

Interest Rate

Maximum 7,25 % with fixed mortgage rate.

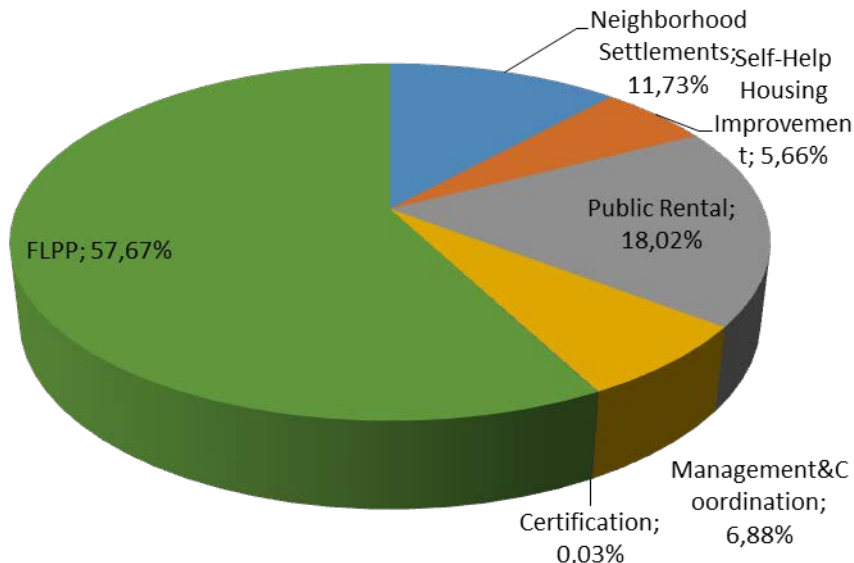
Down Payment

As per the requirements of implementing bank

Tenor

Maximum 20 years

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



- **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**



# New Instruments for 2015-2019

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.



# Current Housing Microfinance Initiatives

## 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.
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- 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





# Current Housing Microfinance Initiatives (2)

## 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, hosing construction, etc.

## Output





# 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

Mismatch supply-demand and substandard housings.

Market failures in low-income housing market: housing price overshooting, under supply of affordable housing, low quality housing.

Limited access of low-income households to housing finance

Lack of long-term financing

Ineffective and mis-targeted government interventions; limited capability to empower low-income housing market

Many good initiatives from government and community in the past but have not been successfully scaled-up.

## 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