

# Directions for Affordable Housing Policy in Indonesia



Prepared by the Urban and Local Government Team

World Bank, Indonesia

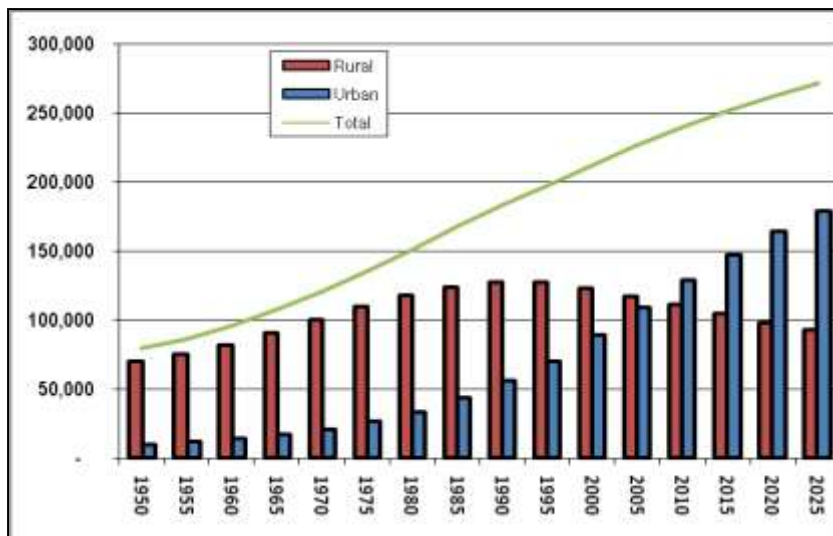
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# Framing the Housing Opportunity in Indonesia

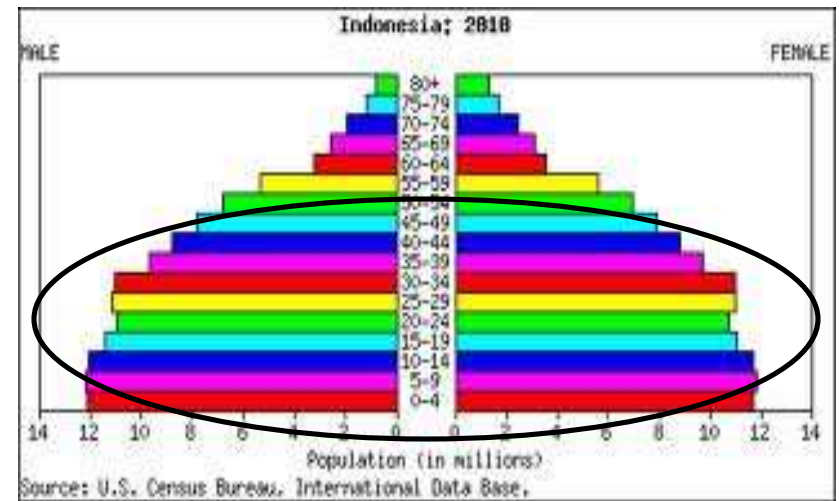
1. **Urbanization is not delivering economic growth benefits – housing is an entry point**
  2. Indonesia is rapidly urbanizing with a young population that will demand housing
  3. The majority of housing (~80%) in Indonesia is incremental & self-built
  4. Affordability for housing is declining, especially for low income groups
  5. Headship rates from 2001-2007 indicate a slowdown in household formation
  6. Constraints to the housing market relate to land, access to financing & targeting of subsidies
  7. What can be done?
    - Leverage Communities and Local Governments in Self-Build Programs
    - Reform land and permitting regulations
    - Expand access to finance and explore options targeting low-income households
    - Improve institutional coordination
6. Where to go from here?

# Rapid Urbanization and Demographic Trends

- Forecasts by the UN suggest that Indonesia will add an average 2.2 million persons per year to cities between 2010 and 2050
- Demographic trends show that Indonesia has a young population, also representing a large number of potential new households



Source: Indonesia Statistical Bureau (BPS) Proyeksi Penduduk, 2005



Source: [http://www.nationmaster.com/country/id/Age\\_distribution](http://www.nationmaster.com/country/id/Age_distribution)

# Population growth is primarily in **periphery**, not in core city.

Metro name	2005			CAGR 1995 - 2005		
	Core	Periphery	Metro	Core	Periphery	Metro
Jakarta	8,820,603	12,799,559	21,620,162	0.44%	2.47%	1.56%
Surabaya	2,611,506	5,974,090	8,585,596	0.33%	1.46%	1.10%
Bandung	2,270,969	5,079,430	7,350,399	0.66%	3.13%	2.26%
Semarang	1,446,533	4,335,017	5,781,550	0.97%	1.15%	1.10%
Medan	2,029,797	1,812,196	3,841,993	1.07%	0.10%	0.59%
Palembang	1,369,239	1,122,731	2,491,970	1.20%	-2.67%	-0.85%
Makassar	1,194,583	1,106,362	2,300,945	1.58%	1.58%	1.58%
Denpasar	574,610	1,208,004	1,782,614	3.97%	1.07%	1.87%

Source: Indonesia Bureau of Statistics (BPS)

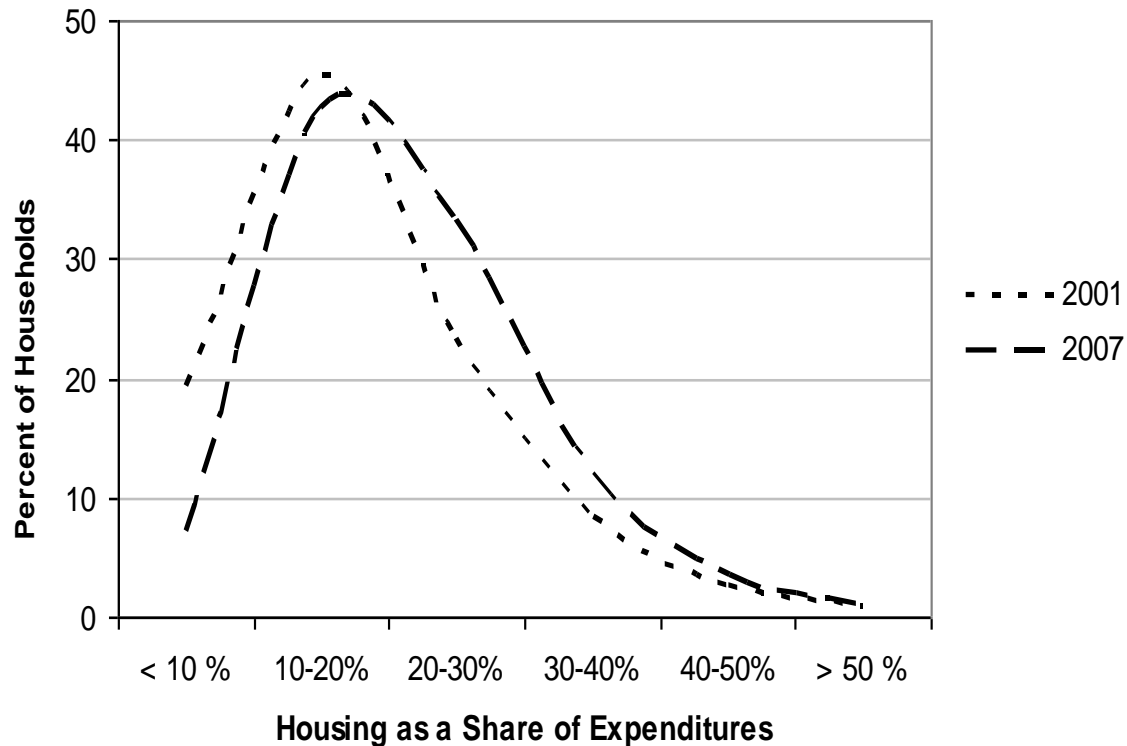
# Self-built houses are the most common acquisition method, especially in small to medium cities

Acquisition Method (Owner HH moving 2001-2007)	City Category				
	JMR	Large	Medium	Small	Towns
Bought from a developer (percent)	15.0	7.8	9.8	3.5	3.4
Bought new other source (percent)	11.7	9.7	7.4	6.9	5.7
Bought second hand (percent)	19.5	15.5	12.6	16.1	11.2
Self-built (percent)	<b>40.2</b>	<b>52.2</b>	<b>55.4</b>	<b>60.1</b>	<b>63.2</b>
Other <sup>a</sup> (percent)	13.7	14.7	14.9	13.4	16.4
Total	100.0	100.0	100.0	100.0	100.0
Households (thousands)	459.6	911.8	391.9	342.9	349.6

Source: Badan Pusat Statistik 2007.

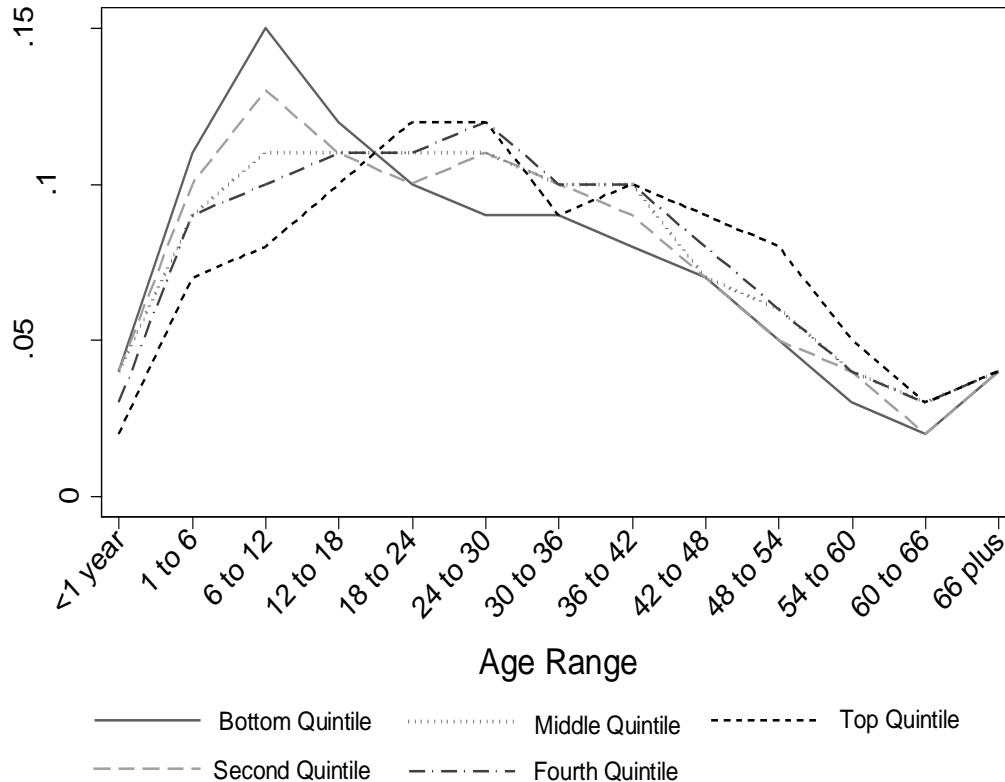
Notes: a Includes inheritance, bequest, administrative allocation and official housing

# Housing is becoming less affordable over time, especially for low income groups....



Source: Badan Pusat Statistik 2001 and 2007.

# And housing demand is projected to grow in lower income groups (based on age/incomes)



AUTHORS' CALCULATION WITH BPS 2007.

# Urbanization and lack of suitable housing have resulted in a deficit of 1.7 million units

According to SUSENAS data, from 2001-2007, 2 million new households were created in urban Indonesia

City Category	New households, 2001-2007	Potential new households, 2001-2007	Housing unit backlog	Backlog as a Percent of All Households
JMR	305,236	723,402	418,166	7.9
Large	719,933	1,401,400	681,467	7.2
Medium	259,849	523,984	264,135	7.0
Small	280,779	416,861	136,082	3.9
Towns	453,448	624,839	171,391	6.9
All urban	<b>2,019,245</b>	<b>3,690,486</b>	<b>1,671,241</b>	<b>6.8</b>



# ...And the deficit is expected to continue to grow over the next decade

To meet future needs, between **600,000 and 900,000** housing units should be built per year; between 2014 to 2021 between **700,000 to 1 million** units per year are needed.

City Category	HHs, 2007	2001 Headship Rates		2007 Headship Rates	
		Households, 2014	Households, 2021	Households, 2014	Households, 2021
JMR	5.3	6.7	7.8	6.3	7.3
Large	9.9	11.8	13.2	11.1	12.5
Medium	3.7	4.5	5.1	4.3	4.8
Small	3.1	3.6	4.0	3.4	3.9
Towns	2.5	3.3	4.0	3.1	3.8
All urban	24.5	29.9	34.1	28.1	32.3

Source: Author's calculation, SUSENAS. Numbers are in millions of households.

# What is the government currently doing to support housing?

- Government financed programs support about 100,000 new houses per year – 12.5% of the demand
- The public sector should support the housing sector but cannot directly build enough houses for everyone – **nor should it!**
- BUT: Government policy and programs could leverage, stimulate and facilitate the market production of houses by households through incremental approaches, as well as a range of private sector and community-based developers for a larger population base

# How can Indonesia move towards a more efficient, affordable housing system?



# Different People Access Housing Differently

<u>LAND</u>	<u>FINANCE</u>	<u>MATERIALS</u>	<u>LABOR</u>
squat	savings	temporary	self-help
rent	pay as go	combined	barter
buy	loan	solid	contract
other	other	other	other

Supply of different types of housing is required

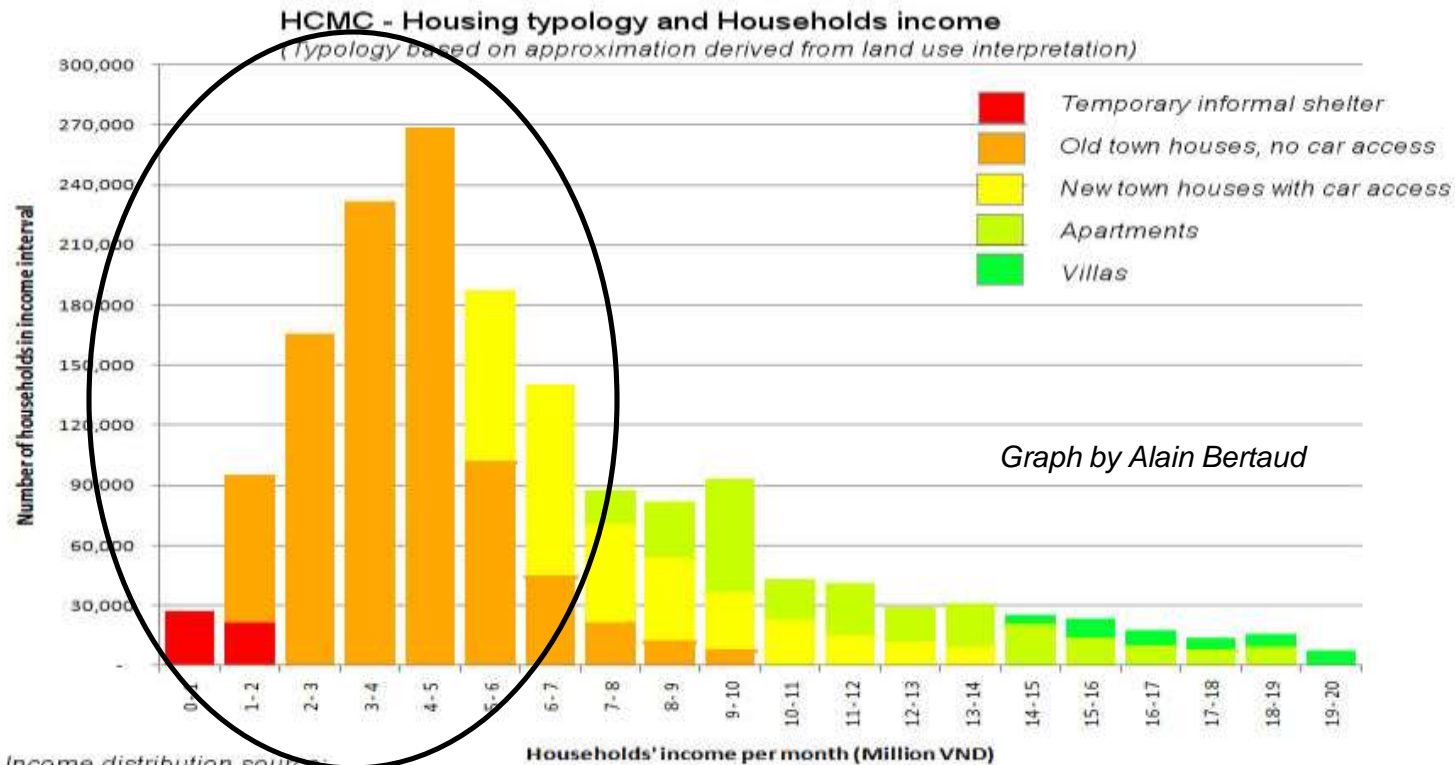
# Policies must vary by Target Population Segment

- Cornerstone of good housing policy: Create conditions that stimulate and enable market provision of various streams of housing supply to different segments.
- Different segments of the population access and combine the basic inputs into housing (Land, Finance, Materials and Labor) using a range of different methods.
- Analyzing how each different segment of the market accesses housing, and the bottlenecks in this system, is a crucial step in formulating Government programs.
- This can indicate priority areas for Government programs and also greatly enhance the efficiency and outcomes of Government subsidies and programs.

# Different People Access Housing Differently


## - Each City has *Segments of Demand*

Housing Market Segmentation done by the World Bank for Ho Chi Minh City (HCMC) in Vietnam



Income distribution source:  
URBAN POVERTY ASSESSMENT IN HANOI AND HOCHIMINH CITY  
UNDP - Hanoi and Ho Chi Minh City Statistics Office, September 2009

# **GOI can address bottlenecks to housing production across market segments by:**

- 1) Improving coordination and investment in infrastructure by local government
  - 2) Strengthening land policies and management, urban/spatial planning processes and streamline housing development regulations
  - 3) Enhancing construction (supply side) finance and mortgage/housing improvement (demand side) finance and better targeting of subsidies
- 

# Key elements of the Government's housing strategy should be to...

1. Increase local government and community involvement in housing
2. Reform land policies and permitting regulations
3. Expand access to, and targeting of, housing finance
4. Coordinate institutional arrangements

... and enable the private sector to support housing construction



# 1. Increase local government and community involvement in housing

Over 80% of all housing is built by people's own initiative

For instance, an unprecedented 300,000 houses were reconstructed by community groups in post earthquake Yogyakarta and Klaten (2006-2008), resulting in near 100% occupancy.

How can Government Support this type of process more systematically?

## 1) Access to Land for the Poor

- Comprehensive look at land administration and management in the country
- Provision of serviced land to the poor at good locations + efficient and dense use of land
- Enforce sanctions on non-supervised and idle land
- Enhance the Land Consolidation approach to urban expansion (see following slides)
- Include communities in urban planning process and jointly determine land use requirements

## 2) Resources and Programmatic Support

- Small loans and training programs for small contractors or self-build communities
- Micro-Finance for the households financing these homes
- Facilitation and agencies to help coordination with local Government Infrastructure provision and right-of-ways (aligning with trunk infrastructure services as part of formal plans)
- Knowledge and Outreach programs, technology, materials

## **2. Reform land policies and permitting regulations**

In order to facilitate house building, major reform is needed at the local level in several areas:

1. Enhance and revitalize Indonesia's Land Consolidation Program
2. Improve the housing development permitting process

# Land Consolidation (Land Pooling and Readjustment) International Successes

- Land consolidation, also known as land pooling and readjustment, allows government to expand urban infrastructure without having to acquire large amounts of land.
- The government typically uses 30-40% of the land for roads and other public purposes, and returns the remaining land to the original owners as reshaped plots for urban use.
- This method has been successfully in many countries and also Indonesia – where the scope of the approach should be enhanced
  - In Japan, by the end of the 2006 fiscal year, 33% of the urbanized land area
  - In South Korea, the Seoul City Government produced 41 large-scale land pooling and readjustment projects.
  - In East Asia, Taiwan, Malaysia, and Indonesia have also used such schemes.

# Land Consolidation: What are the Benefits?

- 1) prevent sprawl and irregular urbanization on the urban fringe (and the high infrastructure inefficiencies and costs associated with this),
- 2) unlock finance for infrastructure and public services (in some cases low income housing as well) through the gains from higher land values and the rezoning of land to residential/commercial use,
- 3) create a basis for urban connectivity and the sensible extension of transport networks and
- 4) ensure the original rural landholders participate in the gains of urbanization as they retain their claim to the land through the scheme.

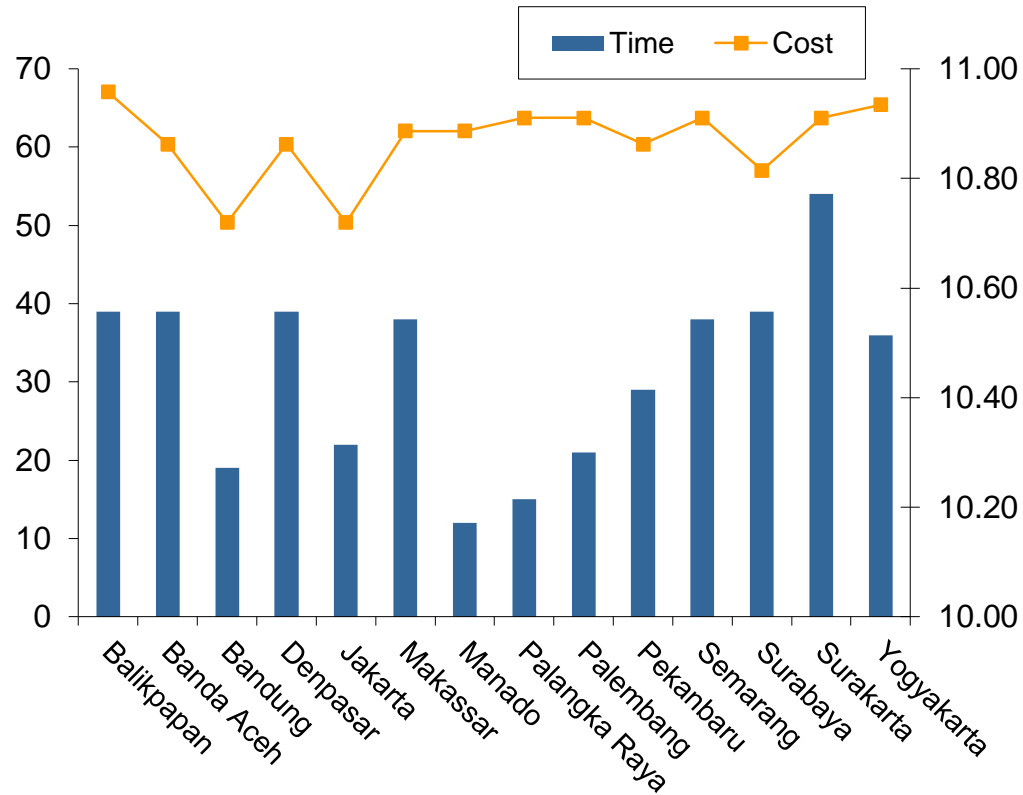
# Improve the housing development permitting process in Indonesia

Country	Getting a Construction Permit			Registering Property		
	Steps	Time <sup>a</sup>	Cost <sup>b</sup>	Steps	Time <sup>a</sup>	Cost <sup>b</sup>
Cambodia	23	709	54	7	56	4.4
<b>Indonesia</b>	<b>14</b>	<b>160</b>	<b>195</b>	<b>6</b>	<b>22</b>	<b>10.7</b>
Korea, Rep.	13	34	136	7	11	5.1
Lao PDR	24	172	144	9	135	4.1
Malaysia	25	261	7	5	144	2.6
Philippines	24	203	82	8	33	4.3
Thailand	11	156	12	2	2	1.1
Vietnam	13	194	248	4	57	1.1

Source: World Bank, *Doing Business*, nd.

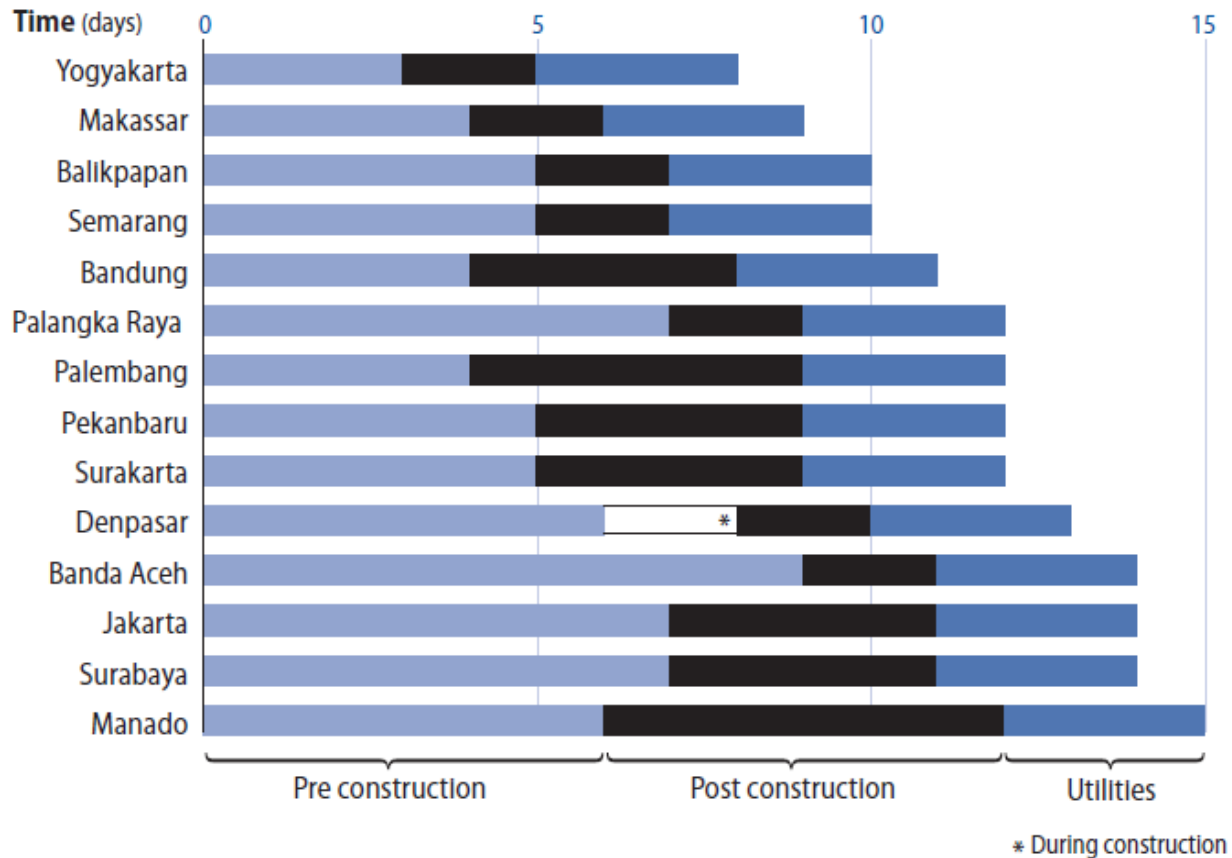
Notes: **a** Time in days. **b** Cost is reported as a share of income per capita.

# Time and cost to register a property



Time is in days; cost is a % of property value; World Bank, 2012.

# Dealing with construction permits— many local differences during pre-construction phase



World Bank, 2010.

### **3. Expand access targeting of housing finance**

Many households are creditworthy but cannot access the formal finance system due to low or unstable incomes.

There are different ways to make these households eligible, such as:

- A credit association for people employed informally.
- A savings scheme connected to subsidized loans.
- Expanding housing microfinance and cooperative lending through training and other technical assistance.
- Review targeting and efficiency of financing subsidies



# 4. Enhance Institutional Coordination

- Cities are at the frontlines of housing development to support sustainable land use, urban planning and local economic growth
- Housing is multi-sectoral and cuts across urban development, spatial planning, finance, land, and infrastructure
  - Involvement from Ministry of Housing, Bappenas, and Ministry of Land is needed
  - Coordination with Ministry of Public Works is also important for local government engagement and linking infrastructure provision with housing development
- **A high-level working group could be established, chaired by Bappenas**

# Housing policy framework – core messages

- Create conditions that stimulate and enable market provision of various streams of housing supply to meet different demand segments
- Cities and local governments should be leading the housing agenda at the local level
- Focus on approaches for self-built, incremental housing for low-income groups
- Expand housing policy framework to include areas of land administration, permitting, property taxes, finance, urban planning, and infrastructure
- Establish a high level task force to coordinate the range institutions involved in housing sector

# Proposed Next Steps – World Bank

- Continue the affordable housing dialogue and determine key areas of interest for GOI (focus at the city level)
- Support the upcoming housing survey being done for 2014 Medium Term Development Plan
- Provide TA at the city level to:
  - (i) develop and monitor housing demand and affordability;
  - (ii) analyze how different supply options in the city are meeting the demand segments; and
  - (iii) conduct an analysis of how demand side (access to housing finance) and supply side (access to land, restrictive building regulations, etc.) are effecting each market segment
- Consolidate the SAPOLA/low-income housing work toward a strategic program on slum upgrading

# Thank you

