

CONCEPT – OCT 2009

**COUNTRY REPORT ON PRO-POOR HOUSING POLICY  
(2<sup>ND</sup> DRAFT)**

## **HOUSING POLICY IN INDONESIA**

**Ministry of Housing  
The Republic of Indonesia**

**OCTOBER 2009**

**UNITED NATIONS  
ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC  
(UN-ESCAP)**

**NATIONAL HOUSING BANK (NHB) INDIA**

## ABBREVIATIONS

- ADB:** Asian Development Bank
- APERSI:** (*Asosiasi Pengembang Perumahan dan Permukiman Seluruh Indonesia*) Indonesian Association of Housing and Settlements Developer
- BAPEPAM-LK:** (*Badan Pengawas Pasar Modal-Lembaga Keuangan*) Supervisory Agency for Capital Market and Financial Institution
- BEI:** (*Bursa Efek Indonesia*) Indonesian Stock Exchange
- BI:** (*Bank Indonesia*) Central Bank of Indonesia
- BKPN:** (*Badan Kebijakan Perumahan Nasional*) National Agency for Housing Development Policy
- BLU:** (*Badan Layanan Umum*) Public Service Agency
- BLUD:** (*Badan Layanan Umum Daerah*) Local Public Service Agency
- BMT:** (*Baitul Mal wat Tamwil*) Sharia/Islamic Cooperation
- BPHTB:** (*Bea Perolehan Hak atas Tanah dan Bangunan*) Cost of Right Acquisition for Land and Building
- BPS:** (*Badan Pusat Statistik*) Central of Statistics Indonesia
- BRI:** (*Bank Rakyat Indonesia*) People's Bank of Indonesia
- BRR NAD-Nias :** (*Badan Rehabilitasi dan Rekonstruksi NAD-Nias*) Reconstruction and Rehabilitation Agency for Victims of Earthquake and Tsunami Disaster in the Province of Nanggroe Aceh Darussalam (NAD) and North Sumatera (especially Nias Island)
- BSP2S:** (*Bantuan Stimulan Pembangunan Perumahan Swadaya*) Stimulant Assistance for Self-Help Housing Development
- BTN:** (*Bank Tabungan Negara*) National Savings Bank
- CIC-MBS:** Collective Investment Contract – Mortgage Backed Securities
- CSR:** Corporate Social Responsibility
- GTZ:** Gessellschaft fur Technische Zusammenarbeit
- JICS:** Japan International Cooperation System
- KFW:** Kreditanstalt für Wiederaufbau
- KLBI:** (*Kredit Likuiditas Bank Indonesia*) Central Bank of Indonesia's Credit Liquidity
- KASIBA:** (*Kawasan Siap Bangun*) Ready-to-Built Area
- KPR:** (*Kredit Pemilikan Rumah*) Home Mortgage/Credit for House Ownership
- KPRS:** (*Kredit Pembangunan/Perbaikan Rumah Swadaya*) Self-Help Housing Credit
- KPRSH:** (*Kredit Pemilikan Rumah Sederhana Sehat*) Simple Houses Housing Credit
- KPR-TU:** (*Kredit Pembangunan Kembali Rumah Tinggal dan Tempat Usaha*) Credit for Rebuilt House and Store Building (for earthquake victims in Yogyakarta and Central Java)
- LISIBA:** (*Lingkungan Siap Bangun*) Ready-to-Built Neighborhood
- LTV:** Loan to Value
- MFI:** Micro Finance Institutions
- MoU:** Memorandum of Understanding
- MSS:** Minimum Service Standard
- NAD:** Nanggroe Aceh Darussalam Province
- NBFI:** Non-Bank Financing Institutions
- ORI:** (*Obligasi Ritel Indonesia*) Indonesia's Retail Bond

**PERUM-PERUMNAS:** (*Perusahaan Umum Pembangunan Perumahan Nasional*) National Urban Development Corporation - NUDC

**PKP:** (*Peningkatan Kualitas Perumahan*) Housing Quality Upgrading

**PLN:** (*Perusahaan Listrik Negara*) State Electricity Company

**PNPM:** (*Program Nasional Pemberdayaan Masyarakat*) National Program of Community Empowerment for Public Housing

**PROPENAS:** (*Program Pembangunan Nasional*) National Development Program

**PT. ASABRI:** (*Perusahaan Asuransi Sosial Angkatan Bersenjata Republik Indonesia*) Social Insurance Company for Indonesian Army Force and Police

**PT. ASKES:** (*Perusahaan Asuransi Kesehatan*) Health Insurance Company for Government Employees

**PT. JAMSOSTEK:** (*Perusahaan Jaminan Sosial Tenaga Kerja*) Social Guarantee Company for Labors/Workers

**PT. SMF:** (*Perusahaan Sarana Multigriya Finansial*) Secondary Mortgage Corporation

**RDI:** (*Rekening Dana Investasi*) Investment Fund Account

**REI:** (*Real Estat Indonesia*) Indonesian Association of Real Estate

**RPJM:** (*Rencana Pembangunan Jangka Menengah*) Mid-Term Development Plan

**RPJP:** (*Rencana Pembangunan Jangka Panjang*) Long Term Development Plan

**RSH:** (*Rumah Sederhana Sehat*) Simple and Healthy Landed House

**RS:** (*Rumah Sederhana*) Simple House

**RSS:** (*Rumah Sangat Sederhana*) Very Simple House

**UNDP:** United Nation Development Program

**UNHABITAT:** United Nations Human Settlements Program

**UNORC:** United Nation for Office Recovery Coordinator/United Nation Office of the Recovery Coordinator for Aceh and Nias

**UNHCR:** United Nations High Commissioners for Refugees

**VAT:** Value Added Tax

#### **CURRENCY EQUIVALENTS (Indonesian Rupiah (IDR or Rp) Compare to USD1)**

<b>Year</b>	<b>End of Year</b>	<b>Average</b>
1999	7.085,00	7.855,00
2000	9.595,00	8.422,00
2001	10.400,00	10.261,00
2002	8.940,00	9.311,00
2003	8.465,00	8.577,00
2004	9.290,00	8.939,00
2005	9.830,00	9.705,00
2006	9.020,00	9.167,00
2007	9.419,00	9.140,00
2008	10.950,00	9.678,09

Note: Fiscal Year of Indonesia: January 1 – December 31

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## CHAPTER ONE: BRIEF DESCRIPTION OF INDONESIA

### A. Physical, Demographic and Socio-Economic Profile



Figure 1: Map of Indonesia

Indonesia is one of the world's archipelago countries. It has 17,508 islands, about 6,000 of which are inhabited. The islands are scattered over both sides of the equator. The five largest islands are Java, Sumatra, Kalimantan (the Indonesian part of Borneo), New Guinea (shared with Papua New Guinea), and Sulawesi. Indonesia is located between two continents, Asia and Australia/Oceania. This strategic location has significant influence towards its culture, social, political, and economy. At 1,919,440 square kilometers (741,050 sq mi), Indonesia is the world's 16th-largest country in terms of land area.

Indonesia is the world's fourth most populous country and has the largest quantity of Muslim population in the world. The country shares land borders with Papua New Guinea, East Timor, and Malaysia. Other neighboring countries include Singapore, Philippines, Australia, the Indian territory of the Andaman and Nicobar Islands.

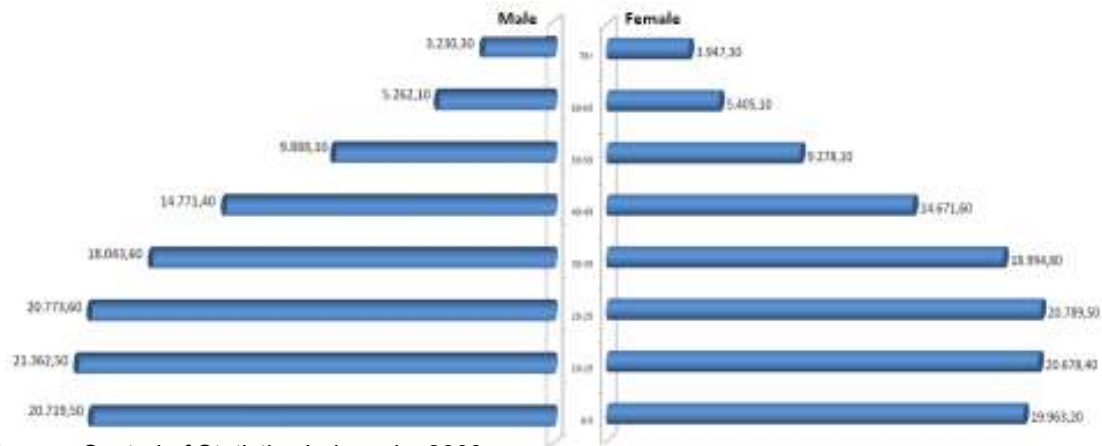
Indonesia has more than 228 million inhabitants in 2008, with varied quantity and density spectrum of citizen in every province. The highest quantity of population exists in West Java province, while the highest density lays in DKI Jakarta.

Referring to gender and age, the composition of Indonesia's population in year 2008 has picture close up to "reverse pyramid, where the composition of age 10 to 19 (male) and age 20 to 29 (female) has the biggest proportion. Meanwhile, the Family Planning program has begun to show result as the proportion of children age 0 to 9 year has declined (figure 2).

#### **Largest city**

The largest city is the capital Jakarta, which has an area of 661.52 square kilometers (255.41 sq mi). Jakarta is also the biggest commercial center of Indonesia. Aside from Jakarta, there are also other big cities; among others are Surabaya, Bandung, Semarang, Medan, Bali, Makassar, and Balikpapan.

Figure 2: Population Age Pyramid



Source: Central of Statistics Indonesia, 2008

### Urban and rural population

The latest census in 2005 shows a total population of Indonesia of 219.2 million and total estimation of 247.5 million inhabitants in 2015. In the year 2000, 42 percent of the total population or approximately 86 million was urban citizen. This number increased to 48 percent or approximately 105.87 million in 2005. It was estimated that in year 2015, the percentage of urban citizen would increase to become 59.5 percent or 147.30 million (table 1).

Table 1: National Population Growth and Distribution

	As per previous Census (2000)	As per latest Census (2005)	Estimation 2010	Estimation 2015
<b>Total Population (million)</b>	<b>205.13</b>	<b>219.20</b>	<b>233.47</b>	<b>247.56</b>
<b>Urban (percent)</b>	86.16 (42.00%)	105.87 (48.30%)	126.52 (54.19%)	147.30 (59.50%)
<b>Rural (percent)</b>	118.97 (58.00%)	113.33 (51.70%)	106.95 (45.81%)	100.26 (40.50%)

Source: Central of Statistics Indonesia, 2005

Despite of population increasing, annual growth rate is actually declined. For example, in year 2005, growth rates of total population is 1.4%, year 2010 1.3%, and year 2015 1.2%, while urban population growth rate in year 2005 is 4.6%, year 2010 3.9%, and year 2015 3.3%.

### Urban and rural poor

With reference to the national poverty line<sup>1</sup>, the percentage of the poor declined in the last 30 years. In 1979, the percentage of the poor was as high as 40.1%, and it declined to 17.4% in 1987, and continued to decline to 11.3% in 1996. The economic crisis in 1997-1998 made the percentage of the poor increased to 24.2% in 1998 and became 17.75% or approximately 39 million in 2000.

<sup>1</sup>Poverty line is counted based on the average spending per person for food and non-food. Poverty line of food is the spending for minimum needs of food, which is equal to 2,100 kilocalories per person per day. Poverty line of non-food is the spending for minimum needs of housing, clothes, education, and health. Poor people refer to people who have the average spending per month below the poverty line.



The economic recoveries in 2000-2005 had succeeded to bring the percentage of the people living under poverty line decreased into 16% or 35 million. This was mainly due to the increase of inflation, since the Government increased the domestic gasoline price followed by the increase price of rice. The increase of gasoline price was done to recover the national economy, in response to the increase of the world gasoline price. The positive impacts of various development programs and the improvement of the economy had altogether decreased the percentage of the poor in 2008 to 15.42%, with a total of the poor population of 34.96 million (table 2). Data of Social Safety Program in year 2008 showed that total numbers of poor household is approximately 9.82 million.

Table 2: Number and Percentage of Population below the Poverty Line by Urban and Rural Area, 1996-2008

Year	Number of Population Below the Poverty Line (Millions)			Percentage of Population Below the Poverty Line (%)		
	Urban	Rural	Urban +Rural	Urban	Rural	Urban + Rural
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1996	9.42	24.59	34.01	13.39	19.78	17.47
1998	17.60	31.90	49.50	21.92	25.72	24.23
1999	15.64	32.33	47.97	19.41	26.03	23.43
2000	12.30	26.40	38.70	14.60	22.38	19.14
2001	8.60	29.30	37.90	9.76	24.84	18.41
2002	13.30	25.10	38.40	14.46	21.10	18.20
2003	12.20	25.20	37.30	13.57	20.23	17.42
2004	11.40	24.80	36.10	12.13	20.11	16.66
2005	12.40	22.70	35.10	11.68	19.98	15.97
2006	14.49	24.81	39.30	13.47	21.81	17.75
2007	13.56	23.61	37.17	12.52	20.37	16.58
2008	12.77	22.19	34.96	11.65	18.93	15.42

Source: Based on National Socio Economic Survey

As published by Central of Statistics Indonesia, in 2008 the spending pattern of household in urban and rural area has the boundary of poverty line on the spending of 182,636 rupiahs (equal to USD 15.5/person/month), as shown in Table 3.

Table 3: Poverty Line by Urban and Rural Area, 1996-2008 (IDR/person/month)

Year	Urban	Rural	Urban +Rural
(1)	(2)	(3)	(4)
1996	42,032	31,366	37,474
1998	96,959	72,780	86,592
1999	84,773	67,382	77,590
2000	91,632	73,648	80,842
2001	100,011	80,382	88,234
2002	130,499	96,512	108,886
2003	138,803	105,888	118,554
2004	143,455	108,725	123,455
2005	150,799	117,259	129,108
2006	175,324	131,256	151,997
2007	187,942	146,837	166,697
2008	204,896	161,831	182,636

Source: Based on National Socio Economic Survey

## Major Economic Indicators

The upsurge in economic growth during 2007 improved the welfare of the population. This was indicated by GDP per capita that reached \$1,946 in 2007, up about 17% over 2006. In addition, the economic growth generated employment for approximately 4.5 million new entrants to the workforce, bringing open unemployment down from 10.3% in August 2006 to 9.1% in August 2007. Analyzed by educational level, unemployment among those with academy and university qualifications continued to rise. However, unemployment eased among low-income groups, partly due to the reinvigorated role of agriculture in driving economic growth.

The stronger per capita income was closely tied to rapid economic growth in nominal terms during 2007 alongside moderate population growth. Despite this, income distribution showed little improvement. Based on BPS calculations, the Gini Coefficient in 2007, which measures income disparities, mounted slightly compared to 2006.

The rupiah exchange rate during 2007, in general, was stable, with decreasing volatility. On average the rupiah strengthened against the USD by 0.3% from IDR 9,167/USD in 2006 to IDR 9,140/USD. The rupiah exchange rate stability was further reflected by decreasing volatility from 3.9% in 2006 to 1.4%. However, in terms of point to point, the rupiah depreciated by 4.2% from Rp 8,995/\$ at the end of 2006 to Rp 9,393/\$ by the end of 2007, in particular as a result of external pressures during the second half of 2007 (summarized in table 4).

Table 4: Macro Economic Indicators

Description	2003	2004	2005	2006	2007
GDP Growth (%)	4.7	5.0	5.7	5.5	6.3
CPI Inflation (%)	5.1	6.4	17.11	6.60	6.59
Core Inflation (%)	6.9	6.7	9.75	6.03	6.29
Average Exchange Rate (Rp./USD)	8,579	8,940	9,713	9,167	9,140
Unemployment Rate (%)	9.5	9.4	10.8	10.3	9.1
Poverty Rate (%)	17.4	16.7	16.0	17.7	16.6
Gini Coefficient (ratio)	0.32	0.32	0.36	0.33	0.37
GDP Nominal (billion of USD)	208.26	257.61	281.04	364.15	432.98
Real GDP per Capita (USD)	1,115.80	1,190.35	1,281.86	1,636.30	1,925.60
Real GDP per Capita (thousands Rp)	9,572	10,641	12,450	15,000	17,600

Sources: Central of Statistics Indonesia (BPS)

To figure the welfare level of Indonesia in global scale, the following are tables, which describe ranking of Human Development Index (HDI), Human Poverty Index (HPI), and Gender Disparity Index (GDI) of the country (Table 5 to Table 7).

Table 5: Indonesia's Human Development Index 2006 and Underlying Indicators in Comparison With Selected Countries

HDI Value 2006	Life Expectancy at birth (years) 2006	Adult Literacy rate (% ages 15 and above) 2006	Combined primary, secondary and tertiary gross employment ratio (%) 2006	GDP per capita (PPP US\$) 2006
109. Indonesia (0,726)	101. Indonesia (70,1)	62. Indonesia (91,0)	116. Indonesia (68,2)	121. Indonesia (3,455)

Source: UNDP development report 2008

Table 6: Indonesia Human Poverty Index

Human Poverty Index (HPI-1) 2006	Probability of not surviving past age 40 (%) 2005	Adult illiteracy rate (% ages 15 and older ) 2006	People without access to an improved water source (%) 2006	Children underweight for age (% ages 0-5) 2006
69. Indonesia (17,2)	53. Indonesia (8,7)	42. Indonesia (9,0)	73. Indonesia (20)	106. Indonesia (28)

Source: UNDP development report 2008

Table 7: The GDI Compared to the HDI –a measure of gender disparity

GDI as % of HDI	Life Expectancy at birth (years) 2006 (Female as % male)	Adult literacy rate (% ages 15 and older) 2006 (Female as % male)	Combined primary, secondary & tertiary gross enrolment ratio 2006 (Female as % male)
85. Indonesia (99,1%)	103. Indonesia (105,7%)	76. Indonesia (92,4%)	110. Indonesia (96,0%)

Source: UNDP development report, 2008

## B. Political and Administration Structure

Indonesia is a republic country with a presidential system. As a unitary state, power is concentrated in the national government. Following the resignation of President Suharto in 1998, Indonesian political and government structures have undergone major reforms. Four amendments to the 1945 Constitution of Indonesia have revamped the executive, judicial, and legislative branches. The president of Indonesia is the head of state, commander-in-chief of the Indonesian Armed Forces, and the director of domestic governance, policy-making, and foreign affairs. The president appoints council of ministers, who is not required on election as members of the legislature. The 2004 presidential election was the first in which the people directly elected the president and vice president. The president may serve a maximum of two consecutive five-year terms.

The Republic of Indonesia is now a multi-party democratic country, although the full transition to a transparent and stable democracy still faces numerous obstacles. The President of the Republic of Indonesia is also the Head of State as well as the Head of the Government of the Republic of Indonesia. In the Amended 1945 Constitution, together with the Vice President, citizens elect the President on a ticket. The term of office is five years and after that, the President can be re-elected for only one more term. The current 2004-2009 President is Susilo Bambang Yudhoyono and the Vice President is Jusuf Kalla.

Indonesia is divided into provinces, regencies, and cities, each with its own administration chosen by general election. By 2005, there are 33 provinces in Indonesia, 349 regencies, and 91 cities. The province is the highest tier of local government sub-national entity in Indonesia. Each province has its own local government, headed by a governor, and has its own legislative body. The state recognizes five provinces that have special status. Both regency and city are the same administration level, having their own local government and legislative body. The difference between regency and city lies in demography, size, and economy.

Further regency/city is subdivided into sub districts (*Kecamatan*), and then into village groupings (either *Desa* or *Kelurahan*). Following the implementation of

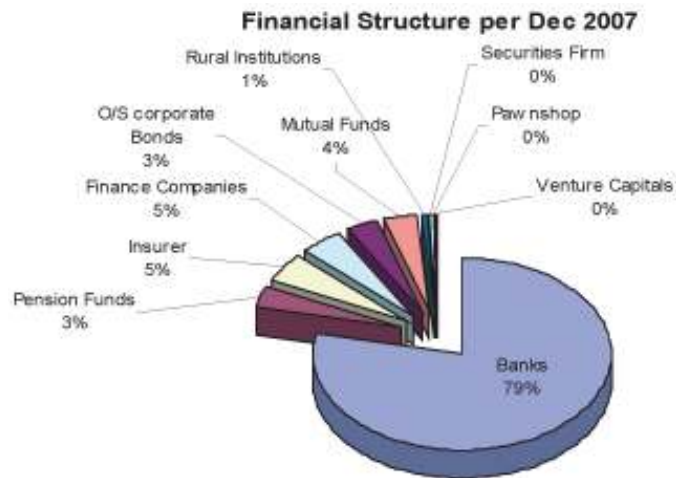
regional autonomy measures in 2001, the regencies and cities have become the key administrative units, responsible for providing most government services. The village administration level is the most influential on citizen's daily life and handles matters of a village or neighborhood through an elected *Lurah* or *Kepala Desa* (village chief).

## C. Financial Sector

### Banking

Indonesian financial sector stability has been well maintained. The banking sector is the largest segment of the financial sector. As in the end of 2007, it accounted for nearly 79% of financial assets compared to 78% in the year before. The slight decline was largely due to the return of growth to the mutual funds industry this year, however, the stability of the country's financial sector still depends mainly on the healthiness of the banking sector. To date, key financial ratios of the banking sector indicate that financial performance of the bank is sound.

Figure 3: Financial Structure in Indonesia



Source: Bank Indonesia, Bapepam LK (Ministry of Finance)

There are 127 commercial banks, which consist of State Banks, Regional Government Banks, Private National Banks, Foreign Banks, and Joint Banks. Those numbers is not including the 1,796 rural banks that consist of local government-owned rural banks and private rural banks (Bank Indonesia, August 2008).

Banks, whether state owned, regional or private, dominate the mortgage market since finance companies are not allowed to issue mortgage loans and pension funds, insurance companies only hold relatively small mortgage portfolios, mostly for their staff and selected members. Government continues to strengthen the banking sector through improved regulation, further mergers of banks it recapitalized and selective divestment of its ownership shares. Changes in the ownership structure and management of banks often lead to adjustments in credit strategies, and the current mortgage market structure may therefore still see some major changes.

Most funding of bank credit is made through deposit and savings accounts. The average rates paid on deposits in a non-representative sample of banks ranges from 7.0 to 11.5 percent. There is currently a shift from time deposits to savings and checking accounts because depositors want a shorter transaction time in an

environment of rising interest rates. This shift has an impact on the liquidity position of the banks and their duration position. As a consequence, some banks have moved towards personal and working credit as shown in a flattening of mortgage credit expansion, and may cause a return to increased investment in government bonds (which have a current yield of 20 percent compared to 17 and 18 percent mortgage rates).

### **Non-Bank Financial Institution**

Non-bank financial institutions (NBFIs) - such as insurance firms, pension funds, mutual funds, leasing and venture capital companies, and capital markets (including equity and bond markets) - have a key role in Indonesia development. Well functioning NBFIs along with banking system can help achieve government objectives of increasing access to financial services, reducing the cost of financial services, and improving the stability of the financial system.

More than a decade after the onset of the economic crisis, Indonesia's financial sector continues to be dominated by commercial banks. NBFIs in Indonesia are much smaller than those in several other large developing countries and those in many countries of the East Asia region (Figure 3).

In Indonesia capital market, shareholders of the Jakarta Stock Exchange and Surabaya Stock Exchange had approved the merger of the two exchanges. The new exchange had been named the Indonesian Stock Exchange (Bursa Efek Indonesia) and operated since December 1, 2007.

Like the capital market, the government bond market gained in volume and frequency of transactions. Trading volume in government bond climbed 80.1% to Rp 1,468.4 trillion in 2007 from Rp 815.1 trillion in the preceding year, driven in part by additional issues of government securities. During 2007, the Government held 24 government bond auctions, including initial offerings and reopening, besides three auctions of treasury notes, netting a total of Rp 70.7 trillion. Added to this, the government held three auctions of Indonesia Retail Bonds (ORI), raising a total of Rp 15.6 trillion.

### **Micro Finance Institutions (MFIs)**

There are a large number of non-bank credit institutions owned and controlled by provincial, district or village government (over 4,000 in number), savings and credit cooperatives and credit unions (over 2,000) and government pawn-shops (over 700 institutions). They play an important role in providing short-term credit, including for home-improvement/expansion. Jointly with the large branch network of Bank Rakyat Indonesia (BRI/People's Bank of Indonesia), the micro-finance state-owned bank, these institutions make access to financial services widely available in Indonesia. The informal financial sector is known as microfinance sector.

The MFIs and BRI units serve more than 8.2 million clients, i.e. about 20% of the Indonesian households. Their coverage of rural households is even significantly larger (see Table 8).

Table 8: Micro Finance Institutions

No	Institution	Outlets	Outstanding Loans Rp '000	Loan Amount Rp '000,000	Saving Accounts	Savings Rp '000,000
1	Rural Credit Bank	2,156	2,400	10,418,000	5,610,000	9,254,000
2	BRI	4,049	3,100	14,182,000	29,870,000	27,429,000
3	Village Credit Board	5,345	400	197	480,000	380
4	Cooperatives	1,097	665	531,000	na	85,000
5	Saving Lending Units	35,218	10,141	3,629,000	na	1,157,000
6	Rural Fund and Credit Inst.	2,272	1,300	358,000	na	334,000
7	Pawnshops	772	15,692	21,000	no savings available	no savings available
8	Islamic Cooperation	3,038	1,200	157,000	na	209,000
9	Credit Union	1,022	235	396,000	207,147	272,000
10	NGOs	124	162	110,000	81,931	12,000
	<b>TOTAL</b>	<b>55,093</b>	<b>35,295</b>	<b>28,814,926</b>	<b>36,249,078</b>	<b>38,752,472</b>

Source: Recap from National Microfinance Policy – for Indonesia's Development, GEMA PKM Indonesia 2004, Bank Indonesia, BPR Information, 2004.

In the progress, MFIs are more related to small and medium enterprise performers because they are more flexible, such as in requirement and amount of loan that not as tight as banking requirement, even in gracious suppleness on credit disbursement. However, the existence of MFIs not yet receives a clear place in national economic matters like other financial institutions such as, banking, insurance, and finance company. Banking existence has already been arranged in a clear manner in Indonesian Banking Architecture with Bank Indonesia as a motivator, in fact, there is government guarantee in form of Credit Guarantee Institution that firmed the banking existence. This condition is different compared to MFIs that has noteworthy contribution in small and medium enterprises and major contribution in Gross National Product as well.

## D. National Development Policy

### National Long-Term Development Plan/RPJP (2005 – 2025)

National Long-Term Development/RPJP for 2005 – 2025 is socio-economic development planning and multi-tiered structure of national, regional, and local plans. RPJP for 2005 - 2025 consists of Formulation Procedure of National Social and Economic Development Plan, and Formulation Procedure of Provincial/Local (Regional) Social and Economic Development Plan.

Figure 4: Recap of Long-Term Planning 2005 – 2025

	MIDTERM I (2005 –2009)	MIDTERM II (2010 –2014)	MIDTERM III (2015 –2019)	MIDTERM IV (2020 –2024)
GENERAL	Reform the nation to become the save, peace, justice and democratic Indonesia, with a better prosperity	Secure the national reform through building the capacity of human resources, knowledge and technology, as well as economy advantage	Establish the integrated development, rely on competitive economy advantage based on natural resources, human resources, knowledge and technology	Create the independent, developed, justice and prosperous Indonesia society through acceleration of development in various sectors, based on a secure economy structure and competitive advantage
HOUSING	Decency and affordability Local capacity building Integrated and Sustainability	Affordability and productivity Local delivery system Feasibility and Sustainability	Competency and advantage Integration of delivery system Sustainability and self-sufficiency	Decent housing, on a functional settlement supported by infrastructure, utility and facility towards eradication of slum and sustainable urbanization

### Medium-Term Development Plan/RPJM (2005-2009)

Based on the Presidential Regulation No. 7/2005 about Medium-Term Development Plan/RPJM for period 2005-2009, government has identified five priority areas to achieve its goals. They are: (i) job creation and poverty reduction programs; (ii) macroeconomic stability with stable prices, fiscal sustainability, and financial sector reforms; (iii) accelerated investments, exports, and tourism through reforms for a healthy business climate and flexible markets; (iv) improved access to quality of education and health; and (v) infrastructure development through improving the efficiency of existing services and private sector participation. Poverty reduction strategies are becoming increasingly localized; local governments are encouraged to set up poverty reduction committees and develop their own strategies.

The RPJM targets having the percentage of those below the poverty line to 8.2% by 2009 through programs to improve food security, water supply and sanitation, access to basic health and education services, and shelter. The macroeconomic targets by 2009 include an increase in economic growth from 5.5% to 7.6%, and a reduction in open unemployment from 9.7% in 2004 to 5.1%.

In housing and human settlements sector focused on: (i) People's livelihood improvement, through decent housing provision and affordability improvement, and (ii) Acceleration of low cost vertical settlement development to strengthen the sustainable urbanization.

In finance sector, the plan focused on: (i) Building up the capacity of banking & non banking financial institution to provide the diversify community needs, (ii) Building up synergy and coordination of the incremental funding from various

sources at different level, and (iii) Setting up the secondary mortgage facilities through establishment of PT. SMF.

### **Second Medium-Term Development Plan/RPJM (2010-2014)**

Based on the law No. 17/2007, for achieving poverty reduction goals, the plan will be focused on: (i) Livelihood improvement specified by human development index extension; (ii) Income household improvement through job creation, poverty reduction, and economy development, supported by social assurance institution; (iii) Level of education and health improvement including gender children welfare and population growth; and (iv) Equality of prosperity among individual, community, and region through acceleration development of growth center outside Java.

In housing and human settlements, sectors will be focused on: (i) Livelihood security improvement through decent housing provision and utilization of settlements as centre of productivity, and (ii) Local delivery housing system extension towards feasibility and sustainability.

In finance sector, the plan will be focused on building up the housing financial system through: (i) Access credit extension, especially for the low-income, (ii) Mobilization of long-term capital through primary and secondary market, (iii) Sustainable housing assistance program, and (iv) Investment for housing development financial resources.



## CHAPTER TWO: HOUSING CONDITIONS AND HOUSING POLICIES

### A. Housing Condition

#### Housing in General

Housing spectrum in Indonesia is largely diverse, from traditional to podium houses, simple houses in both urban and rural areas, houses in transmigration area, maisonette, and compound of middle to luxurious houses and high-rise apartments, from low-cost to extravagant apartments. This variety has emerged different kind of problems as well as the solution regarding to housing.

Figure 5: Housing Spectrum in Indonesia



Traditional house in Papua



Transmigration area in Kalimantan



Residential area in Central Java



Maisonette house



Simple Apartment



Luxury Apartment

#### Housing Stock and Condition

The great majority of households occupy a single/non-attached dwelling unit and the total stock is approximately 54 million housing units of which approximately 24 million in urban areas.

This rapid growth of the urban population in Indonesia creates a growing need for housing that is estimated to have an annual average of 800,000 housing units by the households. Statistics show that 7.5 million households do not own a house and about 14 million units of existing housing stock are sub-standard. Besides, 17.2 million families lived in approximately 10,000 slum areas covering 54,000 hectares.

According to National Socio-Economic Survey 2007, household that occupied their own house is 78.22% from total national household. From this kind of household, percentage in rural areas (86.72%) is higher than in urban areas (67.02%). High-priced housing with low purchasing power in urban areas has forced some citizen to rent house even occupy parents/relative house (Table 9). There are

three identified physical types of housing in Indonesia, podium house, non-podium house, and houseboat. Majority of the physical type of house is non-podium house (87.28%), followed by podium house (12.64%) and houseboat (0.08%).

Table 9: Housing Ownership and Type of House in 2007

	Urban	Rural	Urban + Rural
<b>Type of dwelling tenure</b>			
Ownership	67.02%	86.72%	78.22%
Lease	8.36%	0.80%	4.06%
Rent	8.81%	0.77%	4.24%
Rent free	2.15%	1.75%	1.92%
Parent/relative	11.60%	8.28%	9.71%
Other	2.06%	1.69%	1.85%
<b>Type of house</b>			
Non Podium house	94.07%	82.12%	87.28%
Podium house	5.87%	17.79%	12.64%
Houseboat	0.06%	0.09%	0.08%

Source: BPS Housing and Settlements Statistics 2007

Based on the building condition in year 2007, percentage of household occupied a good condition of housing in urban areas are higher than in rural areas. Whereas, percentage of household occupied a damage and severe damage condition are decreasing, from 8.34% in 2001 to 5.71% in 2004. In year 2007, this percentage has increased to 10.22% (Table 10).

Table 10: Percentage of Dwelling Condition Year 2001, 2004 and 2007

Dwelling Condition <sup>2</sup>	Urban			Rural			Urban + Rural		
	2001	2004	2007	2001	2004	2007	2001	2004	2007
Good	54.03	52.49	53.33	40.88	41.67	40.32	46.60	46.27	45.94
Moderate	40.34	43.07	39.64	48.69	51.68	47.21	45.06	48.02	43.94
Damage	5.29	4.21	6.46	9.68	6.17	11.37	7.77	5.34	9.25
Severe damage	0.34	0.23	0.57	0.75	0.48	1.10	0.57	0.37	0.87

Source: BPS Housing and Settlements Statistics 2007

Other urban housing characteristics can be summarized from the BPS Housing and Settlement Survey (2007) as follows:

- About 85% of urban housing is single storey non-attached housing,
- About 40% of plots are more than 70 m<sup>2</sup>; 17.0% are between 55 – 70 m<sup>2</sup> and more than 40% is smaller than 55 m<sup>2</sup>,
- About 67% of households built their own house, 6% bought the house second hand and 3% bought their house from a developer,
- Close to 70% of owner households paid for the house in cash, while 18% used a mortgage and 7 % used non-mortgage credit.

<sup>2</sup> Housing condition is divided into categories: (1) Good, is a house where its core structure (roof, wall, and floor) or other building component does not need any repair, (2) Moderate, is a house where its core structure or small parts of building components needs repair or one of the core structure is broken, (3) Damage, is a house where its two core structure or majority of the building components are broken, and (4) Severe damage, is a house where its core structure needs repair as soon as possible because it could endanger the occupants.

## Access to Basic Infrastructure

Basic infrastructure data mentioned in Table 11 includes source of clean water, access to electricity, and existence of bathroom. In urban areas, biggest resource of clean water taken from pump well (31.33%) while in rural areas, majority of clean water taken from protected well (33.21%). According from National Electricity Company (PLN), electricity usage in urban areas has reached out more than 97%, while in rural areas still at 81.51%. Although on national, percentage of household that using electricity from beyond PLN only 11.49%, but in fact in more than half of some province using electricity besides served by PLN.

Table 11: Percentage of Access to Basic Infrastructure in 2007

	Urban	Rural	Urban + Rural
<b>Source of Water</b>			
Pump	31.11	13.49	21.10
Piping water	25.45	5.09	13.88
Vendor	3.83	1.42	2.46
Protected well	28.46	33.21	31.16
Unprotected well	5.11	14.43	10.41
Protected spring	2.64	11.79	7.84
Unprotected spring	0.75	7.55	4.62
Rivers	1.93	10.77	6.96
Rainwater	0.44	1.59	1.09
Others	0.28	0.65	0.49
<b>Electricity</b>			
Use electricity	97.73	81.51	88.51
Others	2.27	18.49	11.49
<b>Bathroom</b>			
Individual bathroom	88.27	62.83	73.81
Others	11.73	37.17	26.19

Source: BPS Housing and Settlements Statistics 2007

## Housing Neighborhood Condition

In urban area most households live at periphery road/alley (94.21%) and 14.58% of which are vulnerable to disaster (floods, fire, landslide, earthquake, mount erupt, etc). While in rural area, 10.21% of households still live at periphery or in the forest. Sewer in housing environment needs attention, especially when some households disposed sewage directly into sewer. Slow flow or not flowing condition needs special attention because causing unpleasant smell and become breeding environment for diseases. Besides, garbage disposal system also has an effect on environment cleanness. In urban areas, most of the garbage is transported by the worker to the final disposal site (44.62%) or burned (48.94%), while in rural areas, most of the garbage is burned (79.36%) because they do not have garbage management system such as in urban area (Table 12).

Table 12: Percentage of Household by Neighborhood Condition in 2007

	Urban	Rural	Urban + Rural
<b>Location of Dwelling</b>			
At bank of river/lake/reservoir	4.20	6.71	5.63
At periphery/in forest	1.40	10.21	6.41
At periphery road/alley	94.21	86.75	89.97
At disaster gristle region	14.58	12.27	13.27
<b>Gutter condition</b>			
Fast flowing	66.09	42.76	52.83
Slowly flows	12.37	9.30	10.63
Not flowing	3.69	3.98	3.86
No gutter	17.84	43.96	32.68
<b>Garbage disposal</b>			
Carried away to the final disposal	44.62	2.41	20.63
Dumped	13.80	27.28	21.46
Burned	48.94	79.36	66.23
Thrown to the river	8.28	13.67	11.34
Thrown any places	3.58	15.87	10.68
Others	6.09	12.61	9.80

Source: BPS Housing and Settlements Statistics 2007

## Access to Housing

Based on BPS Housing and Settlement Statistics 2007, almost 65% of households living in urban area and more than 80% of households living in rural area have access to their house by cash. Typically, most households own their house by self-finance and provide their own housing in an incremental manner using whatever resources become available. Others mode of access to housing finance is formal housing loan from banks/microfinance or financed by individual incrementally self-help.

## B. Stakeholders in Housing

Stakeholders involved in housing development and finance in Indonesia can be classified as follows:

- a. Government: as a policy maker, has role in governing, supervising, facilitating, and mediating the housing policy development. At national level, the Ministry of Housing executes housing policy and program. After the implementation of decentralization, there are no specific housing agencies/boards at provincial and local level. Each provincial and local government has different institutions regarding housing development, could be in form of Housing Agency (*Dinas Perumahan*) or Housing and Settlement Agency, majority is part of Public Works Agency or Settlement and Regional Infrastructure Agency.
- b. Producers: as housing developers. At national level, there is a state-owned National Urban Development Corporation (*Perum Perumnas*), which its day-to-day activities should be coordinated and monitored by Ministry of Housing. Private developers in Indonesia categorized in two associations, Real Estate Indonesia (REI) that focused on upper-middle class of housing provision and APERSI that has core business in provision of housing for middle-lower class. At community level, housing development by developers could also performed by cooperatives, building contractors, and individual developers.

- c. End-users, families and households: as the party needed housing and funds to finance the acquisition or construction of their houses.
- d. Financial institutions: Banks (whether state-owned, regional or private) including Bank BTN, secondary mortgage institution (PT. SMF), cooperatives, multi finance and micro finance institutions.
- e. Supporting institutions: community based organizations, NGOs, universities, research institutions, international organizations, donors, professional associations.

### **C. Housing Policies**

Policy for low-income community is based on credit scheme either related to it or not. Besides, low-income community is divided into several groups showing their purchasing power on government support. Each income group determined which type of supports government should facilitate them.

The lowest income group, which includes the poor community, indeed does not have capability to buy a house. Therefore, the policy is to support them in economic empowerment so that their capacity, in term of purchasing power, will be improved. The policy on rental low cost flat is formulated for group that has only capability to rent based on their income.

In order to provide affordable shelter for each group, government supports are also given in supply side, such as for permits, infrastructure, taxes, and land availability. All supports hopefully could make the shelter price be affordable to low income community.

Latest policy released is for low-income community who would like to live in vertical housings, or known as low-cost apartments, especially in urban areas. This policy is to solve the problem of urban land availability and to promote people living close to their workplace.

Low-income community is divided into four (4) groups based on income up to 2.500.000 rupiahs per month. For vertical housings in urban areas, the income is up to 4.500.000 rupiahs per month (considered as middle-income community). A support from government is subsidy in demand side to increase purchasing power of the groups, and tax incentive in supply side to shape an affordable price.

The housing policy for the community can be summarized as described in following table.

Table 13: Matrix Policy of Housing Assistance for Low-income Community

Target Groups (Rp/month)	Support types	Housing Assistance Program		Note
		Related to credit scheme	Not related to credit scheme	
(I) I < 500.000	Owned House ◆ Self Help Economic empowerment Rental Low-cost Flat Non cost-recovery	◆ Micro credit for entrepreneur ◆ Micro credit for housing ◆ Insurance/credit guarantee	◆ Infrastructure ◆ Environment quality development ◆ Operational & maintaining subsidy ◆ Fiscal Incentives ◆ Land Certification & building permit	<ul style="list-style-type: none"> <li>• Business Development Economic</li> <li>• Poverty Alleviation Program</li> <li>• Social Housing</li> </ul>
(II) 500.000 ≤ I < 1.000.000	Owned House ◆ Formal ◆ Self Help Rental Low-cost Flat Non cost recovery	◆ Up front subsidy ◆ Buy-down subsidy ◆ Micro credit for housing ◆ Insurance/credit guarantee ◆ Interest Subsidy For Construction Credit	◆ Infrastructure ◆ Environment quality development ◆ Operational & maintaining subsidy ◆ Fiscal Incentives ◆ Land Certification & building permit	
(III) 1.000.000 ≤ I < 1.700.000	Owned House • Formal • Self Help Rental Low-cost Flat Non cost recovery Owned Low-cost Flat	◆ Up front subsidy ◆ Buy-down subsidy ◆ Insurance/credit guarantee ◆ Interest Subsidy For Construction Credit	◆ Fiscal Incentives ◆ Limited Infrastructure ◆ Cost of Building ◆ Operational & maintaining subsidy ◆ Land Certification & building permit	For owned low-cost flat, income of the target group is up to Rp 4.5 million/month
(IV) 1.700.000 ≤ I ≤ 2.500.000	Owned House • Formal • Self Help Rental Low-cost Flat Non cost recovery Owned Low-cost Flat	◆ Up front subsidy ◆ Buy-down subsidy ◆ Insurance/credit guarantee ◆ Interest Subsidy For Construction Credit	◆ Fiscal Incentives ◆ Limited Infrastructure ◆ Land Certification & building permit	

There are three major Policies Framework to provide affordable housing for middle and low income community that are i) Strengthening the primary housing market, ii) Developing Secondary Mortgage Finance, and iii) Housing Finance Assistance Programs.

### 1. Strengthening the Primary Housing Market

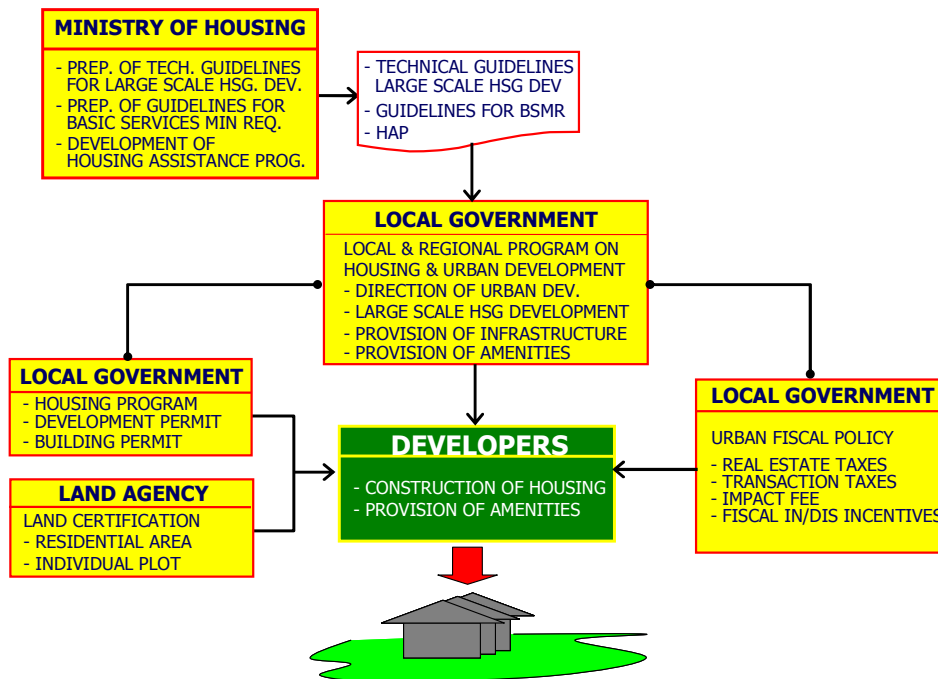
#### Improving the market efficiency: supply side

Housing is provided by the community itself and or by the developer in the context of an area development. Many parties will be involved in order to develop an area and construct complete housing. Those parties will be contributing in the cost of housing production that at the end will be beard by the consumers or end users, such as land titling, building permit, land and building tax, acquiring tax, retribution,

and other things. Therefore, to make the housing price affordable to the consumers or end users, some elements during the process of housing production should be more efficient.

In order to promote private sectors involve in housing development, some regulations are set up such as creating short bureaucracy in getting permits, preparing fiscal incentives, providing infrastructure and utilities, and introducing government-supported ready-built area development.

Figure 6: Primary Market – Supply Side

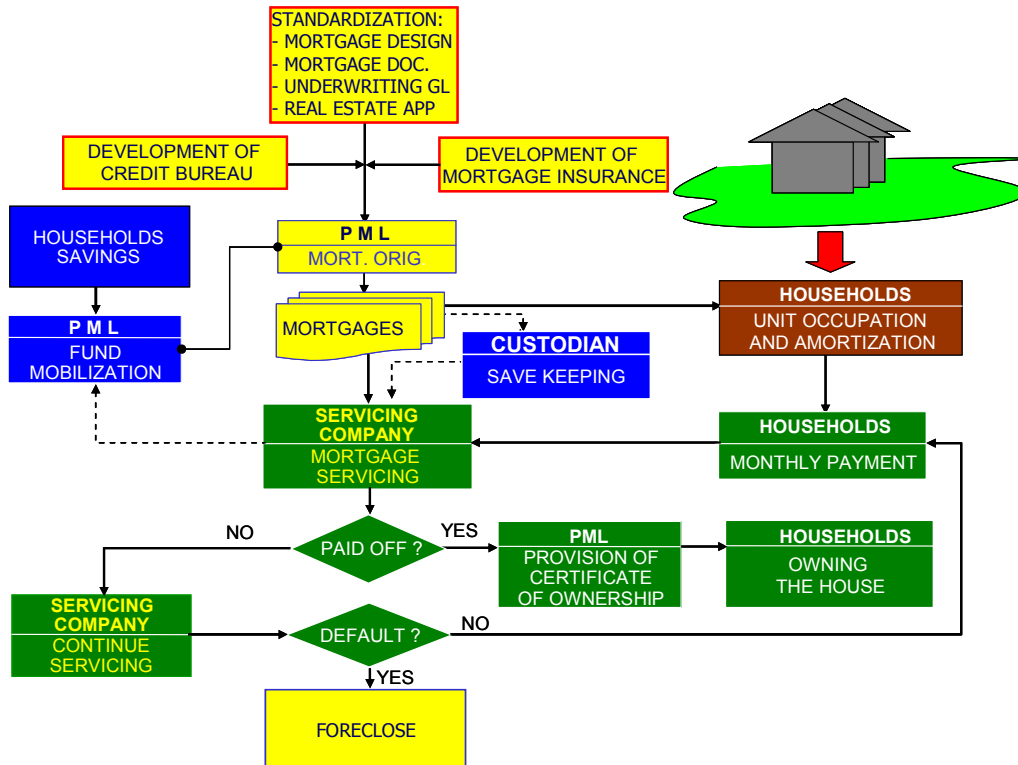


Improving the market efficiency: demand side

In the demand side, the market efficiency is improved by standardizing mortgage documents, underwriting, and real estate appraisal. Those steps are responsible of the primary mortgage lenders that issue mortgage to the consumers or end users to buy a house.

Development of Credit Bureau is one way to improve the market efficiency. This bureau will provide information of middle and low-income community who would like to apply for home mortgage. By getting information from this bureau, the lender will have advanced information to appraise his ability to pay and therefore, the mortgage default could be eliminated.

Figure 7: Primary Market – Demand Side



## 2. Developing Secondary Mortgage Financing

The issue raised in recent years is the financial mismatch in housing finance. Housing development is usually a long-term finance while source of fund is usually from short-term finance. The banking sector has a mismatch funding caused by limited lending capacity. For that reason, the Government through Presidential Regulation No. 19 in 2005 regarding Secondary Housing Finance established an institution, PT. *Sarana Multigriya Finansial* or SMF under Ministry of Finance. The purpose of establishment of PT. SMF is to provide liquidity facility to increase the lending capacity of the banking sector. In accordance to macro economy development, SMF's program is extended through Presidential Regulation No. 1 in 2008, which could give liquidity facility to the banking sector up to 15 years maturity and could place its fund in bonds, deposit, certificate of Bank Indonesia, and other financial instruments stipulated by Ministry of Finance.

## 3. Housing Finance Assistance Programs

The implementation of housing policies is conducted by two main programs, namely Housing Development Program and Housing Community Empowerment Program, which aimed to improve housing quality in particular targeted at the poor, low-income, and middle-income households:

- a. Housing Development Program, which focuses on (i) improving housing regulations, (ii) the provision of housing infrastructure and amenities for the poor, (iii) development of healthy housing (low-rise and high-rise), (iv) exchanging experiences and (v) best practices on housing development.



- b. Housing Community Empowerment Program, which focuses on (i) developing housing finance system, (ii) improving the quality of slums, traditional villages, fishermen villages and resettlement areas, (iii) facilitating and stimulating community-based housing development, (iv) facilitating and stimulating the post-disaster rehabilitation of human settlements, (v) simplifying the procedures, (vi) improving secure tenure, (vii) enhancing local housing institutions such as micro-finance institutions/cooperatives, (viii) strengthening stake-holder's forum and (ix) supporting social housing development.

In implementing the two major programs mentioned above, government has cooperated with other stakeholders such as community-based institutions, developers, investors, financial institutions/banks, and cooperatives. Government has also attempted to shape the secure investment climate so that the housing market will grow more efficient and sustainable.

In addition, to accelerate the fulfillment of housing needs especially for low-income households, government has declared the National Movement for a Million Houses (GNSPR) and National Program for 1,000 Towers. The former is focus on simple and decent housing development and the latter is focus on vertical housing development in metropolitan areas. Particularly for National Program for 1,000 Towers, the target of the program also includes middle-income household. The success of both programs definitely needs commitment from local government and participation of all stakeholders.

### **1. National Movement for a Million Houses**

One of the Government's shelter initiatives is the National Movement for One Million Houses with its objective to provide affordable housing and improving quality of living environment. Government initiated this program in 2003 to accelerate housing supply, specifically for low-income and poor households. The movement focuses on improving coordination amongst stakeholders in housing development. This involves programs for improving access to land, housing finance system developments and institution building within the sector. The program runs from 2004 to 2020. The major component devoted towards facilitating the provision of serviced land is Ready-to-Built Area/Neighborhood (KASIBA/LISIBA) program. The aim is to encourage local governments to manage urban growth, develop primary and secondary infrastructure, and facilitate the construction of low-income housing by private developers, cooperatives and communities. However, very few, such developments have taken place.

### **2. National Development for 1,000 Towers**

Government launched this program in 2007. The program aim is to increase housing supply in metropolitan areas (Jakarta) and large cities (such as Medan, Batam, Palembang, Bandung, Tangerang, Bekasi, Bogor and Surabaya), particularly rental housing in the form of walk-up flats and ownership units in high-rise low-cost apartments. The program is intended as supporting action for housing development and low cost apartment ownership for middle-lower level community. Government supports are available in form of tax incentives and permits as well as financial support for community to acquire low-cost apartment with maximum price of IDR 144 million. It is thus expected that the low-cost apartment will be affordable to the community whose income ranging of IDR 1.7 million up to IDR 4.5 million. The

program can be part of the city slum-upgrading program. The target groups are mainly low blue-collar workers, informal sector workers as well as temporary migrants who need accommodations close to their workplace. The housing will be built as a collaboration between the government and private sector, and will be supported with credit schemes to enable low-income households to apply for home ownership. To accelerate the program, the government has formed a National Coordination Team. However, the role of the local government is a key to success of the program. The major problems hindering the implementation program in metropolitan cities, such as Jakarta is the lack of land availability, while in other cities is lack of source of finance and capacity of local government officials to adopt mechanism of public-private partnerships in housing and urban development.

## CHAPTER THREE: HOUSING FINANCE SYSTEM

### A. History and Evolution of Housing Finance System

#### Year 1969-1999

Development housing policies activities in Indonesia have been structured on the basis of Five Year Development Plans (*Repelita*) since 1969, with focus on providing low-cost housing for low income earners; revitalized slum areas, low-cost dwelling units with adequate water utility, drainage, waste treatment, promoted private sector to participate both on financing and housing developers.

To administer housing policies, the Government in 1974 set up several entities that have been given a landmark for Indonesia housing finance development, as follows:

1. Set up national agency for housing development policy (*Badan Kebijakan Perumahan Nasional - BKPN*).
2. Set up National Urban Development Corporation (*Perusahaan Umum Pembangunan Perumahan Nasional – Perum Perumnas*) with focus on low-cost housing.
3. Directed National Saving Bank (*Bank Tabungan Negara – BTN*) to expand its function for delivering subsidized housing finance to low and moderate-income households, especially delivering mortgage loan for the house that has been built by *Perum Perumnas* or developers. BTN received low-cost fund sources for financing from the World Bank, Bank of Indonesia and Government. The long-term (up to 15 years) finance fund source is ideal in term of current housing development finance.
4. Expand and increase housing development performed by the private sectors through Indonesian Real Estates Developer Association (*Real Estate Indonesia – REI*).

In the period of 1984 - 1989 Indonesia faced a financial trouble known as “tight money policy”. IDR were significantly appreciated. Interest rate for Home Mortgage through BTN adjusted from 9% to 15% annually. The government conducted coordination with linked institutions to overcome the existing problems. It is implemented by reconstructing BKPN to include Minister of Housing as Chairman and Minister of Public Works, Minister of Social Affairs, Minister of Home Affairs, Minister of Demography and Environment, Minister of Finance, Minister of National Development Planning, Minister of Transmigration and Governor of Bank Indonesia (The Central Bank) as members.

In 1997, the unpredictable situation of the property sector made the monetary authority worried, because the uncontrollable growth in property business. The Bank Indonesia Board of Directors decree in July 1997 stated limitation on the lending to the property sector. One of the reasons of the liquidity problems in the banking sector in 1998 was the ambition of the banking sector pouring their money in property sector with no support by reliable property market information, financial

capability and skilled staff on mortgage lending. Consequently, there are over building and increasing in number of real estate problems loan.

Because by the monetary crisis, property business was totally collapse, most of developers are bankrupt and many housing/property projects were discontinued. The sector as a whole has been constrained by the weakness of developers' capital structure, lack of management skill and technical expertise and high interest rate for construction loan that reaches 25% to 28% per annum in 1999. Mortgage loan interest also rose up to 36%.

## **The Transition Era 1999 - 2004**

### The Reform processes

- The fourth amendment of 1945 basic constitution, paragraph 28 H, prominence Housing as the basic right of the people (August 2002).
- The Ministry of Housing merged with one Directorate General of Ministry of Public Work became part of the Ministry of Settlement and Regional Development to manage housing and human settlement development at central level. There was lessened and limited attention on housing institutional infrastructure including the continuity function of PERUMNAS, REI and other associations.

### Evolution of housing policies

- The introduction of the national movement of one million housing development action (2003), the slum eradication movement (2001 –2015); the basic strategy for low cost vertical housing; the standardization of basic (economical) housing.
- The upturn of financial aspect of housing policy, the establishment of Directorate of Housing Finance and housing financial policy reform, housing subsidy policy for different segment of low-income household.
- Study on sharia for housing finance, setting up PT. SMF, elaborate more on self-help housing finance.
- The 'mislaid' rural housing programs were shifted into rural-agriculture development and infrastructure support for agropolitan development.

## **Year 2004 – 2009**

In 2004, along with cabinet reshuffle again Government has split MSRI into two state institutions as Ministry of Housing and Ministry of Public Works.

In 2005 - By Presidential Regulation number 19/2005 government also established PT Sarana Multigriya Financial (Persero)/PT SMF as government agency to develop secondary mortgage facility in order to mobilize source of funds available for housing finance development.

During this period, Bank BTN as the governmental housing bank still has the major role in issuing housing finance in Indonesia.

The role of government is gradually changing from that of the 'direct provider' to that as the 'enabler' of housing via a more appropriate regulatory and financial environment. It does not imply a reduction in government responsibility in the provision of affordable housing to the low-income group, but rather encourages an integrated approach to the use of financial, institutional, human and physical

resources in public, private and the so called “third” sectors – the community to deliver the demand of housing as a team.

In 2006, government has developed micro finance policy for housing sector. As we know, the microfinance for housing is not attractive to banks because it is risky to defaulting. Therefore, government through Ministry of Finance issued the Regulation about procedure and the liability of subsidy delivery of credit for decent and simple house ownership, which opened the access for cooperatives to participate in housing finance, especially in housing subsidy program for low-income people. Furthermore, the authorized institution will make an audit to the cooperatives as the executors of subsidy delivery program. Eventually, the cooperatives are to make liability report of the subsidy delivery implementation presented to the ministry of housing.

### **Growth and Trends of Housing Finance Market**

On financing point of view, property credit grows as much as 29.7% annually in the last five years (2002-2006). Property credit's growth is higher than total credit growth on conventional banks reaching 20.7% annually. The raise of property credit is due to the policy that most banks put priority to deliver the credit to consumer credit segment particularly Home Mortgage. Within the past five years, home mortgage has been the main core for banks in expanding their credit; ratio of property credit to total credit increases from 9.6% in 2002 to 14.7% in 2006.

Bank penetration in housing finance is still focusing on upper middle class community with fixed income, with home mortgage value ranges from IDR 100-500 millions. This specific class covers 60% of housing business capitalization in Indonesia.

Generally, banks source of funds for housing loan comes from short terms fund such time deposit, current account, and saving account with term between 1-24 months. Banks are allowed to raise public fund through issuing bonds and or selling share to local and foreign investor through stock exchanges. The features of bonds mostly are floating rate, 5 years maturity, investment payment every 6 months with the principal paid at the end of the term.

### **Financial Reform**

Before the year 2001, housing finance for low-income people used long term funding sources, such as liquidity credit from Bank of Indonesia (KLBI), Investment Fund Account (RDI), and World Bank. The National Saving Bank (BTN) distributed those long-term funding sources to the banks or finance institutions. They had function as bland loan that particularly used for housing finance for low-income people with low interest rate. Hence, at that time, the interest rate determined for subsidized Home Mortgage (KPR) was also low. However, since Law No. 23/1999 was issued to resolve that Bank of Indonesia was not allowed to distribute the KLBI and that RDI could not be used as bland loan for housing finance, the long-term funding sources for housing finance was not available. For information, the KLBI program was terminated in 2000 and RDI in 2001. The aid program from World Bank terminated in 1991, along with other foreign aid programs.

Therefore, since 2001, Indonesia government has changed the orientation of housing policies in order to focus on market empowerment. The long-term purpose is to collect the long-term funding sources to mobilize continually in order to support

both housing assistance program for the poor and housing market. To endorse the sustainable housing development program, government has attempted to institutionalize the secondary mortgage facility (SMF) and that has declared on the national development program (*Propenas*) as a main activity of housing and settlement program. Nevertheless, in order to help the middle-low income people to afford decent house, the government remains to give housing subsidy from the source of National Budget until now.

### **Development of Primary and Secondary Market**

The ideal housing finance system is the system that combines the primary and secondary market. The system can eliminate the funding mismatch in mortgage finance. As we know, in general, the tenor of funding sources is short term but the tenor of mortgage finance is long term. Since the long term funding sources for loan obliterated, the banks issuing mortgage has faced problem in providing the loan for down payment.

To overcome the mismatch and implement the note of *Propenas*, government has developed the finance for secondary market of housing by establishing PT *Sarana Multigriya Finansial* (PT. SMF). It established according to the Presidential Regulation No. 19/2005 and revised by Presidential Regulation No. 1/2008 regarding Finance for Secondary Market of Housing. The purpose of PT. SMF is to give loan facility in order to increase the capacity and continuity of affordable housing finance. The development of secondary market has institutionalized through PT SMF that will implement the mechanism for securitization of mortgage assets.

Meanwhile, to provide more alternatives for low-income people, government has given chance broadly to the banks, which run their business based on Islamic law (sharia), and to the non-bank finance institution (cooperatives/BMT) to deliver the housing subsidy. Until the year 2005, the distribution of housing subsidy only facilitated through the conventional bank because the subsidy scheme known at that time is only for subsidized home mortgage. The banks, which participated in distributing the housing subsidy, are very restricted. They consist of national common bank, national private bank, and regional development bank. That condition caused low-income people become harder to get access to the finance institution and get housing subsidy because most of the low-income people is non-bankable.

To overcome those problems mentioned previously, since 2005, the Ministry of Housing has given chance for sharia bank to participate in delivering housing subsidy. The policy was legitimated by Law of Banks No. 10/1998 declaring that principally, banking system of Indonesia embraces dual banking systems that are conventional bank and sharia bank. In the meantime, in order to facilitate the low-income people who are non-bankable, since 2006, the Ministry of Housing has also given opportunity to the non-bank finance institution both conventional and sharia cooperatives to distribute the subsidized micro housing credit. The policy was endorsed by Regulation of Finance Ministry that gives opportunity for non-bank institutions and cooperatives to be the issuance institutions for housing credit/finance.

## **Development of Securitization**

The secondary market of housing will proceed if the banks of mortgage publisher do the process of mortgage asset securitization by trading the mortgage claim to the securitization facilitator as PT SMF. So far, the acceleration of securitization process of mortgage asset has not been optimal yet. PT. SMF has begun the securitization process and selling of stock collective investment contract guaranteed by asset share fund of PT SMF, with nominal 100 billion rupiahs at the Indonesia Stock Market (BEI). For the coming years, the process of the using of long-term funding sources hopefully will be able to accelerate. Besides providing the security of mortgage, PT SMF has also facilitated the Regional Development Banks to gain the funding sources for mortgage through the liquidity facility program that particularly used for mortgage finance. The purpose of this program is to enlarge the quality volume of mortgage and to raise the quantities of mortgage lenders. This program implemented through the distribution of middle-long term loan to the institution involved in delivering mortgage by using the funding sources gained from obligation selling/debt note published.

## **B. Contribution of Housing and Housing Finance in the Economy of the Country**

### **Forward and Backward Linkages**

Housing development in Indonesia has given positive impacts on social economy aspects of region of Indonesia. Following are the impacts of housing:

- The increase of household income and employment because housing development project can absorb the labor in large quantities;
- Housing development in a region usually followed by public facility and utility development, such as school, hospital, sanitation, telecommunication, bank, shopping centre, etc. Finally, it will generate the economy activities in a region and give opportunity of jobs for the unemployment ones.

Housing development has a strategic function in endorsing national economy because it has multiplier effect and that creates employment and raise Gross Domestic Product (GDP). An investment of one billion rupiahs in housing projects can create 105 vacancies directly and about 3.5 time indirect employment. Besides, we can say our national income could be raised about 1.7 times.

By using the approach of input output model through output multiplier analysis and linkage analysis, we can identify the contribution of housing and housing finance on national economy. On December 12, 2008, Coordinating Ministry for Economic Affairs held a Housing and Settlement Seminar and presented the study results of housing contribution on economic growth. Following are the results of the study:

- The output multiplier of housing and non-housing is at the level of 12<sup>th</sup> out of 40 sectors with the point of 1.819. It indicates that the increasing of final demand of housing and non-housing will result in the increasing of output of other sectors.
- The income multiplier of housing and non-housing is at the level of 25<sup>th</sup> out of 40 sectors with the point of 0.211. It indicates that the final demand of housing and non-housing will drive the increasing of household income.

- Housing and non-housing sector has index backward linkages at the point of 1.084. It indicates that housing is the key sector in economy of Indonesia because it gives contribution relative larger than the other sectors, i.e. agriculture, bank, and trade.
- The effect of final demand of housing and non-housing on the output of other sectors is significant, especially on mining, oil, and gas, building material and metal industry.

For comparative analysis, below some findings based on Bank Indonesia research in 2005 (Property Industry and Finance Behavior) by implementing Input-Output/I-O in 2000 and 2003, the property's industry I-O correlation is as follows:

Backward Linkage in Property Industry:

- Bank as financial service supplier in form of property production finance covers the segment as much as 5.9%.
- There are 19 sectors utilized in housing construction production as well as in non housing like timber products, metal, mining material and iron for either residential or non-residential building covering the segment as much as 93.7%.

Forward Linkage in Property Industry:

- Final consumption for as much as 90.5% shows that most of property production within the sector directly self-consumed by the households.
- There are eight sectors applying input of residential building sectors and non-residential covering the segment as much as 8.6% (trading services, leasing, educational services, etc.).

## **C. Impacts of Crisis on Housing Finance Sectors**

### **Impacts of Crisis**

With regard to economic growth, global growth forecasted to decline from 4.7% to 3.7% during the 2007 to 2009 period. Over the same period, growth among emerging economies expected to decline from 7.9% to 6.6%. The Indonesian economy expected to stabilize at a growth rate of approximately 6.1%- 6.3%.

Generally, Indonesia is reasonably well positioned to withstand moderate slowdowns in the Western economies. Its strengths include strong domestic demand, greater financial integration with other Asian countries, and expanding trade with regional partners. Its challenges involve rising inflation, burdensome energy subsidies and sagging consumer confidence. On the bright side, the current account is in surplus at 2% of GDP and monetary reserves have increased accordingly. Loan volumes are growing on a broad base. Despite the above positive factors, many observers believe that Indonesia has underperformed its potential. Bond yields along with core inflation have increased. Real interest rates are approaching zero and the Rupiah has been weakening since 2007.

The credit crunch, declining exports and other negative outcomes that followed the global financial crisis has resulted in an increase in unemployment growth. The International Labor Organization (ILO) has recently estimated that unemployment in Indonesia will rise by 8.5 to 9% in 2009. The worsening credit conditions and foreign capital flight have also influenced the exchange rate and with rupiah depreciation, it



has inflated the price of many business expenditures and the cost of imported goods. The global financial crisis coupled with proceeding crisis of energy and food has placed a burden on household spending. This forces households to make choices about what can and cannot purchase. Sadly, this might also include decisions of low income households on whether to remain dwell at indecent house or make an effort to dwell at the decent house.

Global financial crisis happened since October 2008 has put tremendous strain on both household's and government's capacity to meet base needs. The global crisis has forced the government to allocate additional funding to meet society safety net requirements, to provide direct assistance and to establish contingency funds. The current global financial crisis has affected the growth of different business sectors in Indonesia, including the property sector, although it was less severe compared with other Asian countries. In the housing sector or real estate, starting from the impact the purchase of building materials and housing accessories but the advertising sector is not affected much. The increasing of 'BI rate' determined by Bank of Indonesia will automatically force the increasing of interest rate of banks so that the low- income people will bear the rise of credit for house ownership (KPR).

The upsurge of KPR will cause the consumers become more difficult to afford the house so that the real estate and housing market will be weakening. Consequently, the sentiment of investors and prospective buyers of real estate and housing became weak and the sales at a number of residential projects declined significantly late 2008. Besides, developers will need much more capital needed for housing development project than previous year. According to 2008 Residential Property survey by the Bank of Indonesia, residential property development projects were financed internally (54.4%), through bank loans (31.6%), and by consumer payments or pre-selling (10.9%).

Because of the global crisis, banks now have been cautious about housing loans. The decrease of financial asset from derivative product developed will reduce the confidence of investors so that they draw out their money from the capital market. Therefore, the developers of a number of housing projects need to change their strategy finance. Moreover, a number of companies have obstacle in enlarging their projects because the equity limitation and debt restructuring.

Demand for housing is still huge because the number of households needed decent house is quite large. Although consumer confidence declined and the household spending stumbled at the beginning of global crisis, people are still interested in the housing project. Customers tend to wait and see the economy enhancement. Many real estate companies are continuing their apartment and commercial projects in 2009. They are confident that when the crisis is over, the purchasing power of people will increase. Most real estate companies expect the people to make priority to buy house in spending their money in order to fulfill their basic needs or to expand their investment. Furthermore, government has planned to accelerate the release of development projects to pump-prime the economy and real estate sector. Through the housing subsidy program, government also keeps supporting the growth of real estate and housing market in the midst of global crisis.

### **Stimulus Program**

In order to reduce the global financial crisis impact on the housing sector, the Government through the State Ministry of Housing in 2009 has prepared proposals

regarding stimulus policies in the real sector to the Coordinating Minister for Economic Affairs. The objective of the policy is to promote implementation of public housing program pursuant to Seven Primary Economy Agenda in 2009 announced by the President. The proposed stimulus ideas consist of:

1. Program of Free-Input Value Added Tax, the VAT will be beard by the Government; the program is for subsidized apartment development;
2. Facility liquidity for Lease-Purchase of Subsidized Vertical Housing to maintain purchasing power of third target group of Low Income Community to fulfill housing needs;
3. Facility Liquidity for mortgage principle of Subsidized Home Mortgage issued by Banks to maintain real sector through issuing Subsidized Home Mortgage;
4. Infrastructure development for Housing and settlements such as:
  - a. Development of Low-cost Rental Apartments for Army, Indonesian Police Officers, Employee and students;
  - b. Development of Infrastructure and Utility;
  - c. Stimulant support for Area-based Infrastructure and Utility Development;
  - d. Stimulant support for self-help housing; and
  - e. Development of houses in fishermen villages, sites of processing of natural resources, cultural heritage, and border areas.
5. Program of Moratorium for subsidized home mortgage installments in order to avoid default of debtor and to maintain the health of subsidy-implemented Bank on their Non Performing Loan level

In 2009, the proposal approved by the Parliament is only Low-cost Rental Apartment development, with target up to 40 twin blocks or about 3.440 unit. This program targeted will be finished by the end of 2009. Up to September 2009, physical progress has reached 43%. These apartments targeted for the low-income community, students, and workers. At the national level, total allocation of housing sector only granted 3.57% of the total government budget on resolving the financial crisis. Focus on stabilizing the crisis is in infrastructure development (54.10%) and transportation (18.03%).

## **D. Housing Finance Institutions Structures and Functions**

### **Ministry of Housing**

After cabinet reshuffle in 2004, Ministry of Housing has set up a new vision: "Every Indonesian family occupies a decent home". The vision should be understood as a political commitment in a certain period and taking into consideration the complexity of housing issues and huge number of population that still requires decent housing. The role of State Ministry of Housing is the executing institution led by a State Minister under responsible to the President. State Ministry of Housing has the main assignment to assist in formulating policies and coordination in housing affairs.

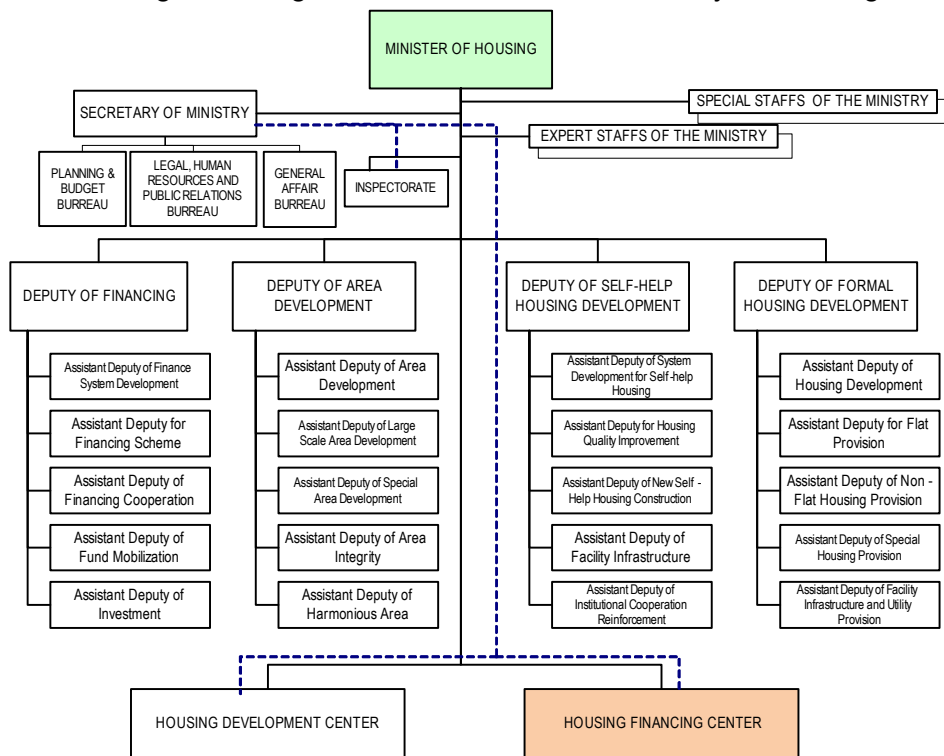
In undertaking above assignment, the State Ministry of Housing has the following functions:

1. Formulation of national policies in the housing sector
2. Coordination of the implementation of policies in housing sector
3. Management of national assets as designated to Ministry of Housing
4. Supervision of implementation of assignments
5. Resemble the evaluation report, recommendation, and consideration of role and function of Ministry of Housing.

In addition to abovementioned function, State Ministry of Housing, pursuant to Presidential Regulation No. 62/2005, also undertakes the policy on housing and environment as part of settlement area including providing flat and facilities, which executed by central work unit.

To undertake role and function, as mandated by the Presidential Regulation No. 10/2005, State Ministry of Housing is supported by 1 (one) Secretary of State Ministry, 4 (four) Deputies, and 5 (five) Expert Staffs. The supervisory unit is the Inspectorate. In addition, the State Ministry of Housing is supported by the Housing Development Center and Housing Finance Center, and also supported by 3 (three) Special Staffs to the Minister responsible for providing advice and recommendations to the Minister. The organizational structure of the State Ministry of Housing is shown in Figure 8.

Figure 8: Organizational Structure of Ministry of Housing



### **National Urban Development Corporation (*Perusahaan Umum Pembangunan Perumahan Nasional - PERUM PERUMNAS*)**

PERUMNAS as National Urban Development Corporation was established based on the Government Decree No. 29/1974 dated 18 July 1974, with responsibility to deliver housing especially for the middle to low income people. As the only housing and urban development corporation, belong to the Government, PERUMNAS directly report to the Ministry of State Owned Enterprise and State Ministry of Housing. PERUMNAS is providing and developing housing and human settlement in 29 provinces, 170 cities in around 360 locations in Indonesia.

Line of businesses of PERUMNAS includes:

1. Housing design and development:
  - Housing development;
  - Facilities development (school, public hall, etc);
  - Public facilities (road, water, sewer system, etc)
2. Urban development:
  - Large-scale area development;
  - Human settlement development;
  - Land development
3. Urban renewal:
  - Urban renewal projects;
  - Comprehensive renewal
4. Estate Management:
  - Management of rental housing units;
  - Management of facilities

### **National Housing Bank (*Bank Tabungan Negara - BTN*)**

As mentioned earlier, in the year 1974 Government specify policy for the BTN in housing development for the low and moderate-income households. To support the policy BTN pointed as place of defrayal of Credit for Home Ownership (KPR). BTN began to expand its function for delivering subsidized housing finance to low and moderate-income households, especially delivering mortgage loan for the house built by *Perumnas* or developers. BTN received low-cost fund sources for financing from the World Bank, Bank of Indonesia and Government. The long-term (up to 15 years) finance fund source is ideal in term of current housing development finance.

In 1989, BTN began to operate as commercial bank and start issuing bonds. In 1992, as a derivative effect of Banking Law No. 7/1992, BTN changed the legal status as Company, which allowed BTN to expand its line of businesses to become public bank. In the year 1994, BTN get licensed to operate as foreign exchange bank. Economic crisis in 1997 has made BTN management to re-focus on housing, which had escaped BTN in recapitalization program. With this recapitalization, BTN management specified new paradigm as beneficial and notable bank in defrayal of housing. In 2002, BTN began to focus on non-subsidy mortgage.

Year 2003 up to 2007, BTN implemented business-restructuring program. Nowadays, in 2009, BTN has launched its first Residential Mortgages Backed Securities in Indonesia and become a Public Listed Company.

BTN performance in core business focused on Mortgage Financing is as follows:

1. Since 1976 up to date, Bank BTN has disbursed mortgage-financing loan especially for middle to low income group with subsidy scheme for more than 2.04 million units equal to IDR 25.31 trillion. Whereas disbursement on commercial mortgage has reached 665.000 unit or IDR 20.61 trillion;
2. During 2008, Bank BTN has disbursed 105.077 units of houses equal to IDR 4.63 trillion of subsidized mortgages and 42.031 units of houses equal to IDR 4.17 trillion of commercial mortgages;
3. Based on 2002-2006 data, BTN trend analysis predicts the growth of total house and apartment financing (subsidized and commercial mortgage) national base will reach IDR 212.5 trillion by end of 2012;
4. By end of 2008, Bank BTN has reached market share of 20.12% and confident this figure will improve until end of 2012.

### **Secondary Mortgage Company (PT *Sarana Multigriya Finansial* - PT. SMF)**

PT. SMF is a government owned company, which established in order to provide affordable homes for all Indonesians by facilitating funding through securitization mechanism. It will synergize primary, secondary, and capital market. At the end, the market mechanism will decrease interest rate gradually to an affordable rate. This funding mechanism will be rolling on bigger amount and shorter interval, and it will make the mortgage interest rate becoming competitive.

PT. SMF established after a long journey, starting in 1984, which then followed by a series of feasibility study between the year 1993 and the first semester of 2005. Finally, based on the Government Regulation No.5/2005, concerning Country capital investment by the Republic of Indonesia on establishing secondary mortgage company, and the Presidential Regulation No.19/2005, concerning the secondary mortgage financing, PT *Sarana Multigriya Finansial*/SMF or the Company established on July 22, 2005. In 2008, there is an amendment on President Regulation No. 19/2005 on secondary housing funding facilities by President Regulation No. 01/2008.

The mission of PT. SMF is to introduce and develop secondary mortgage financing system that can boost the availability of medium-/long- term funds for the housing sector, which in turn will make owning a home for every Indonesian family possible. Its objectives are:

1. Becoming pioneer on creating efficiency and effectiveness in housing primary market.
2. Developing standardization on housing mortgage documents, guides and education to increase housing mortgage efficiency.
3. Providing sustained middle/long term funding for housing to help banks to overcome funding problems and increasing CAR.
4. Helping on capital market development by diversifying financial product.

## **Microfinance Institutions**

Microfinance institutions (MFIs) in Indonesia divided into two types, banking and non-banking institutions. Banking institutions scopes Rural Banks and BRI Units, while non-banking institutions includes Cooperatives, Rural Fund and Credit Institutions, Rural Credit Agencies, Pawnshops, and Credit Unions. There are more than 50.000 MFIs identified in 2007.

Government policies to support housing micro finance development in Indonesia:

1. Encourage MFIs to provide housing loans as an integral part of their financial services business.
2. Make available credit for housing loans through Non-Bank Financial Institutions.
3. Allocate budgetary support for micro-credit guarantee scheme and credit insurance schemes.
4. Allocate budgetary support for capitalizing MFIs who participate in community-based housing finance schemes.
5. Strengthen local governments in supporting housing programs for the poor.
6. Provide capacity-building programs for MFI field workers.
7. Encourage private and state-owned companies to allocated CSR funds for housing programs.

## **Community-based Organizations (CBOs)**

CBO is a private non-profit organization which is representative of a community or significant segments of a community and which provides educational or related services to individuals in the community. Most of CBOs in Indonesia formed on project-based, as program catalysts to the community. Usually CBO organized by prominent or respected person among the communities.

In housing development, sometimes CBOs institutionalize the functions of “development consultants” who serve as intermediaries, partners, and catalysts for community-based housing projects. CBOs must have the commitment to enable community to develop or renovate their own housing and they must have the skills to work in a team.

## **E. Legal Provisions and Regulations relating to Housing Finance**

### **Financial Regulations**

Operation reference for banking system legalized in the Banking Law no 10 of 1998. This Law regulates substances concerning banking which includes institutions, business activities, and the mechanisms in executing the banking business. Through this Law, banking access to sharia system is widely opened because Indonesia recognizes the dual banking system.

For informal/micro finance institutions such as cooperatives, the execution of business activities regulated by Cooperatives Law no 25 of 1992. This law has become one of basis laws for involving the cooperatives in financing housing development.

## Land Title

The Basic Agrarian Law no 5 of 1960 established the kind of title to real property and determined which kinds of title are entitled to be registered and mortgaged. Under Law no 4 of 1996 regarding Power of Attorney, only a few of the rights mentioned in the Basic Agrarian Law accepted in mortgage business.

Under the Basic Agrarian Law, land titles divided in two categories:

- Primary Titles which is directly derived from the state, which consist of; *Hak Milik* (freehold), *Hak Guna Usaha* (right to cultivate), *Hak Guna Bangunan* (right to build), *Hak Pakai* (right to use) and *Hak Pengelolaan* (right to manage)
- Secondary Title: titles granted by other titleholders based on mutual agreement such as *Hak Sewa* (Right to lease), *Hak gadai* (right of land pledge) and *Hak Menumpang* (right of lodging).

Based on Government Regulation no 41 of 1996, foreign persons whose present benefit the development of Indonesia are able to possess a house under *Hak Pakai* (right to use) to state land or based on agreement with the holder of the right of the land. The time limited for maximum of 25 years and can be extending for another 25 years as long as the foreign person still located in Indonesia.

Freehold Land Title is one of requirements that have to be fulfilled by the debtor for applying housing credit to the banks. However, for non-bank finance institutions, the requirements are usually simpler. The debtor can apply housing credit with only the land ownership note, which has lower law force than Freehold Land Title.

## Securitization Law

Before the crisis, there has been a serious interest from the Banking sector to sell their portfolios through off shore Trustee. This effort has been done to address their liquidity problem and their predicted future Capital Adequacy problem that will be faced by the banking sector.

To accommodate the needs to develop a Secondary Mortgage Market in the future, Department of Justice has the initiative to adopt a draft of the Securitization Law made by some experts on a voluntary basis. Currently this draft is being prepared to be submitted to the Parliament.

## Foreclosure Mechanism

Based on article 6 Law no 4 of 1996 that the creditors as the holder of the mortgage rights can reserve the right to sell the collateralized land at public auction when the debtor default. This right takes precedence over other creditor's rights.

Default or delinquency can lead to foreclosure and auction of collateral, but there are several intervening steps. Most banks have standard procedures, including legal action, for dealing with delinquencies. Usually they send out warning letters and make visits before taking legal action. This warning period can be as short as three months or as long as 12 months.

Indonesian Law No. 4/1996 prescribes the following procedure for banks that decide to seek relief through court proceedings: (i) file a request for foreclosure; (ii) send the defaulting borrower up to three warning letters; (iii) seek a court injunction to foreclose the collateral; (iv) carry out the foreclosure; (v) obtain a tax liability statement from the Tax Office; (vi) issue newspaper advertisements announcing the

auction; and (vii) hold the public auction. If the bank itself wishes to buy the auctioned collateral, then it must obtain property clearance before holding the auction. The bank first issues warning letters, seeks a court order for property clearance, and finally holds the auction.

The whole foreclosure process is time consuming and costly. On the average, it takes about two months to obtain a court order to foreclose collateral, and up to 12 months until the auction takes place.

Based on Government Regulation No. 44/2003, auction collection tariff are:

- Seller auction cost is 1% and Buyer auction cost is 1% which is to be considered based on auction price.
- The auction object as land or land and building to the Seller will be applied Income Tax as much as 5% of the auction cost and will be subjected to tax of Cost of Right Acquisition for Land and Building (BPHTB) as much as 5% from the auction price, subjected to the buyer.

All cost excluding Lawyer cost (if any).

Therefore, instead of going through this legal proceeding, many banks would rather use the services of law firms or debt collectors, which can normally provide a simpler way out in a relatively shorter time. These agencies approach debtors with a proposal for the joint sale of the collateral, with the proceeds to be divided between the bank and the debtor according to a predetermined ratio.

## **F. Terms and Conditions of Lending for Housing**

### **Loan Conditions**

Most mortgages are made for 8, 10 or 15 year terms with an average LTV of 75 to 80 percent. LTV ratios range between 90 and 50 percent and are often negotiated on the bases of the perceived risk of the property. If a consumer needs a higher than average LTV ratio because of savings constraints, the interest rate on the loan is increased.

### **Mortgage Interest Rates**

From 2000 to 2005, the interest rate trend in Indonesia was on downward trend with interest rates on 15-year loan reached 11%. This interest rate trend was continuing in 2006 and 2007 since all banks use Bank Indonesia/Central Bank rates (BI rates) as a benchmark for their mortgage loans. Movements in the BI rate are nationally used to guide mortgage rate adjustments. Some banks use the BI rate as a true index for the pricing and adjustment of short-term consumer loans. As mentioned earlier on major economy indicator, Bank Indonesia can maintain BI rates decreased, so it implies to mortgage loan interest loan in range 10% - 12%.

### **Transaction Costs for Housing Units Purchased With a Mortgage Loan**

The transaction costs incurred by a residential buyer of a property are high in Indonesia. In most new moderate housing sales the bank and developer are the only parties involved with the customer and they coordinate title transfer and insurance with outside agencies. Whether this increases efficiency or, on the contrary increases costs, is not clear. It does facilitate the property transfer and loan origination process for the customer. Upfront transaction cost to be paid by the



borrower usually consists of administration fee, notary fee, fire and life insurance, appraisal fee, land titling fee, and dedicated savings account.

The total upfront amount is in the order of Rp2.5 to 3 million in fees and required savings. For a median income household these transaction costs alone are 2 to 3 times the monthly income. On top of these upfront costs, a down payment of 10 or 20 percent is required (e.g., Rp 3 million for a subsidized house and Rp10 million for a median priced house of Rp 50 million).

### **General Housing Credit Policies in Formal Finance Institutions**

In summary, a typical general credit policy of housing loan is as follows:

1. The average maturity of housing loans is 15 years, although certain banks, can lend for up to 20 years.
2. Most banks, including BTN, demand a fixed monthly installment with floating interest rates.
3. Most banks set a Rp300 million limit for mortgage financing, but certain upscale banks are willing to lend up to Rp1 billion. Generally, the monthly installment payment should not exceed 30–35 percent of the borrower's monthly income.
4. Five of the six banks surveyed allow prepayment before maturity, normally with a penalty of 1–2.5 percent of the balance of the loans.
5. All banks require at least 100% collateral. The average collateral value is 125-150% of the total amount of the loan.
6. Some banks also require recourse to developers in the form of a second-tier guarantee from developers, and most banks require property casualty insurance, particularly against fire.

For detailed description, Table 14 showed some terms and conditions from 3 banks in Indonesia.

Table 14: Bank Product Competitive by 2007

Terms and Conditions	Name of Banks		
	Bank Tabungan Negara (BTN)	Bank BRI	Bank BNI
<b>Product Name</b>	KPR Griya Utama	KPR BRI	BNI KPR
<b>Purpose</b>	Purchase new or used house	Purchase new or used house, also for home renovation	Purchase new or used house, also for home renovation, shop-house, apartment, or land.
<b>Limit / plafond</b>	IDR 50 – 150 mio	IDR 10 mio – 500 mio	IDR 10 mio – 5 bio
<b>Tenor</b>	15 years	1 - 20 years	1 - 20 years
<b>L.T.V</b>	80%	75%	80%
<b>Down Payment</b>	20%	25%	Min 20% of land price
<b>Collateral</b>	Land & house	Land & house	Land & house
<b>Interest Rate</b>	12.75%		11%
<b>Insurance Cover:</b>			
- Credit Life Insurance	Covered	Covered	
- Fire Insurance	Covered	Covered	
<b>Repayment type</b>	Installment	Installment	Installment
<b>Average time loan application processing</b>	5 days		

Source: Various Banks Reference

### General Housing Credit Policies in Micro Finance Institutions

Micro finance institutions typically grow in small-medium enterprise activities for the members that are community of informal sectors with low-to-medium incomes. Later on those institutions started their activities by facilitating housing financing in term of self supporting with business productive guarantees owned by the borrowers.

Common housing condition of the members are such as: (i) no houses and live in cart (very small stall) or both of which they use as business space; (ii) renting small houses; (iii) already own a land but with no capability to build a house; (iv) already own a house but not decent one. The use of credit in micro finance institutions varies on land purchase financing, housing construction financing, and housing renovation loan.

In summary, a typical general credit policy of housing loan is as follows

1. Maximum total loan is Rp10-20million for land purchase and housing construction and Rp2–5million for housing renovation loan.
2. Maximum tenor is 1-3 years.
3. Daily installment (most prioritized), weekly and monthly.
4. Land certificate as guarantee or productive activity owned by member, or collateral is proved by vehicles, motorcycles, productive activity owned by member.

## CHAPTER FOUR: PRO-POOR HOUSING PROGRAMMES

### A. Pro-poor Government Programs

#### National Housing Finance Assistance Programs

Housing Assistance Program for Low Income Community is formulated to support existing housing policy. The policy consists of National Movement of One Million Housing Development and National Program for 1000 Tower Apartments. For the later, program is also targeted for the middle-income community.

##### a. Financing of Area-based Housing Development

To handle rapid growth housing needs in order to compromise the backlog, The Government through The Housing and Human Settlements Law no 4/1992 introduced the concept of *Kawasan Siap Bangun (Kasiba)* or “Ready-to-Built Area”. In chapter 18 of the Law, it is stipulated that the development of housing and settlements conducted in the “Large Scale” principle through the development of “Ready-to-Built Area”, each of which comprises of *Lingkungan Siap Bangun (Lisiba)* or “Ready-to-Built Neighborhood” and controlled and managed by a Local Owned Enterprise. The Government also issued Government Regulation no. 80/1999 regarding *Kasiba* and *Lisiba BS*. That regulation consists of: (i) *Kasiba* and *Lisiba BS* philosophy; (ii) regulation in determining location and land provision; (iii) giving ownership right for land and its registration procedure; and (iv) rules of supervision. According to the Regulation, *Kasiba* is a land that is prepared for a large-scale housing and settlements development which divided in one ready to build neighborhood or more. Meanwhile *Lisiba* is a piece of land that is part of *Kasiba* that has been prepared and provided with public facilities, and also pursuant to standard of housing and living environment.

The advantages of the application of Large Scale concept: (i) Discourage land speculation; allows for the construction of large amount of houses; (ii) Provides efficiency; allows for the continuing the development of housing estates; and (iii) The objective of the Law is to bring urban land development under government control in order to achieve well-planned and serviced urban area.

In implementing the area-based housing development, government has established the concept of harmonized living environment that supports and facilitates shelter for low-income people. It is intended to accommodate the concept of cross subsidy and make the house more affordable for low-income people. Based on the concept of harmonized living environment, the dwelling will be built with composition 1:3:6 (one luxurious house, three moderate houses, and six simple houses) agreed with the spatial planning of the particular area. The purpose of the concept implementation is to shape the harmonious environment embracing the economy, ecology, and socio-cultural aspect.

The policy of composition 1:3:6 is implemented to the developer who proposes the permit for luxury house development, but in the implementation depends on local government's policy. In fact, this policy is not effectively implemented, because in some regions, the compulsion in developing simple houses can be recompensed by

providing the green space (garden, public facility, or cemetery). In some cases, the obliged simple houses are not built in the same area with the luxury house, but it is built in another area, which is less strategic or further from the city center compared with the area where the luxury house is built. The development of ready-to-built area in big scale expected to be able to support the more effective policy implementation of composition 1:3:6.

#### b. Housing Subsidy Program

Housing Subsidy Program is a housing assistance program carried out since 1976 for Low Income Community. In the beginning, subsidized scheme, known as Subsidized Home Mortgage (KPR), was distributed only through conventional Banking Institution. It caused limited financial access for most of lower income community to get subsidy. Not all of subsidized housing can be facilitated by banking institutions.

To broaden the distribution of credit for low-income households, since 2005 the Ministry of Housing launched the Subsidized Home Mortgage with Sharia Scheme, which are based on Islamic principles. For non-bankable households, the Ministry of Housing also opened the opportunity for non-banking institutions and sharia-based cooperatives to participate in channeling housing subsidies through the Self-Help Housing Credit and Self-Help Housing Micro Credit Sharia Program.

Table 15: Source of Subsidy Funds

Period		Type of Subsidized Mortgage	Source of Funds					
Dev't Plan	Year		Gov't Equity	World Bank	BI Soft Loan	Investment Acc	Banking Sector	Gov't Budget
II/III	1976-1986	NUDC & Non NUDC	√		√		√	
III/IV/V	1986-1991	NUDC & Non NUDC	√	√	√		√	
V/VI	1991-1999	RS/RSS			√		√	
Yr 99/00	1999-2000	RS/RSS			√	√	√	
Yr 00/01	2000-2001	RS/RSS				√	√	
Yr 02	2002	RS/RSS					√	√
Yr 03 – onward	2003-onward	RSH					√	√

Note: NUDC = National Urban Development Corporation (Perum Perumnas)

RS/RSS = Simple/Very Simple Houses; RSH = Simple and Healthy Houses

The Subsidized Home Mortgage Program facilitates low-income community to increase their purchasing power to acquire a house from developers. The Subsidized Self-Help Housing Credit Program gives low-income community opportunities to build or to renovate their houses by self-help methods with relatively big amount of loan and relatively long tenor. Subsidized Self-Help Housing Micro Credit enables low-income community to construct or renovate their houses by self-help methods with a small amount of loan and relatively short tenor and possibly conducted in

stages. Those subsidy programs are targeted for the community with monthly income up to Rp2.500.000.

The Subsidized Home Mortgage for Low-Cost Apartment facilitates low-income community to increase their purchasing power to acquire a unit of low-cost apartment from developers. Especially for this subsidy scheme, the target of the community is for those who have monthly revenue up to Rp4.500.000.

Issuance of low-income housing finance program is intended to provide low-income community with widely choices to access housing finance institutions.

Several changes to improve housing subsidy program are:

1. Extending limit of the housing price that are liable financed through Subsidized Home Mortgage (Conventional and Sharia);
2. Increasing the subsidy value in accordance to target groups liable for financing through Subsidized Home Mortgage (Conventional and Sharia);
3. Broadening options of subsidy scheme;
4. Adjustment of subsidized interest rate to accommodate economy changes;
5. Taking into account the fairness principles: lower group can get higher subsidy comparing to higher group.

#### *Schemes of Housing Subsidy Program*

All of the schemes are granted for the family/households that have not yet benefited housing subsidy in previous time, and intended to be their first house. Types of housing are all type options of healthy-simple houses pursuant to regulation and in accordance to limit of maximum housing price.

Options of subsidy scheme are: (i) Interest Only-Balloon Payment, (ii) Upfront subsidy, (iii) Buy down Subsidy, and (iv) Subsidy for housing construction/renovation.

Some requirements that have to be fulfilled in those schemes are: (i) Minimum down payment or minimum amount of savings of the debtor, (ii) Minimum and maximum amount of loan/financing, (iii) Subsidy scheme, and (iv) Tenor of loan. Especially for self-help housing development, there are additional requirements, such as: (i) Owning certificate of land ownership or other related documents, and (ii) Building permit issued by Sub-District Office or higher level institution.

#### *Delivery System of Housing Subsidy Program*

1. According to Regulation of Minister for Finance, housing subsidy is also open for Non-Bank Financing Institution and Cooperatives, instead of banking institution, to participate in the programs.
2. The institutions must first sign Memorandum of Understanding (MoU) and or Operational Agreement with the Ministry of Housing in order to participate in the programs.
3. The participating institutions are fully responsible for the principle mortgage loan.
4. Subsidy will be liquidated through reimbursement process.

5. Reimbursement is conducted following the Administrative Verification performed by Ministry of Housing and Ministry of Finance upon the validity of the subsidy claim proposed.
6. The participating institutions are obliged to provide implementation reports to the Minister of Housing.
7. State Audit Authority has the right to conduct audit on the participating institutions of subsidy delivery.

#### *Achievement in Housing Subsidy Program*

Healthy Simple Houses (RSH) supplied through Housing Subsidy Program (including sharia financing and housing micro financing) in fiscal year 2005 reached 100.02% (63,713 units) from target of 63.700 units which absorbed subsidy as much as IDR 110.03 billions. In fiscal year 2006, it reached 56.94% (78,174 units) from target of 137.300 units which absorbed subsidy amounting IDR 251.85 billions. Whilst in 2007, it achieved 84.64% (122.811 unit) from target of 145.100 units with absorbed subsidy of IDR 299.99 billion.

If we breakdown any further, the realization of subsidy delivery from Year 2005 – Year 2009 is as follows:

Table 16: Realization of Housing Subsidy Delivery in 2005-2009

No.	Credit/Financing Scheme	Year 2005 (units)	Year 2006 (units)	Year 2007 (units)	Year 2008 (units)	Year 2009* (units)
1.	Subsidized Home Mortgage	63.711	77.468	100.741	116.042	41.901
2.	Subsidized Sharia Home Mortgage	2	195	1.650	4.176	1.064
3.	Subsidized Self-Help Housing Credit/Self-Help Housing Micro Credit (including sharia financing)	-	511	20.420	45.454	11.639
4.	Subsidized Low-cost Apartment Mortgage	-	-	-	1532	-
<b>Total</b>		<b>63.713</b>	<b>78.174</b>	<b>122.811</b>	<b>167.204</b>	<b>54.604</b>

Note: \* updated until June 30, 2009

Source: Ministry of Housing, 2009

Based on the table shown above, it is clear that the increase is quite significant in term of realization of subsidy delivery through subsidized sharia home mortgage as well as Subsidized Self-Help Housing Credit and Housing Micro Credit (including Sharia financing) from year 2005 to 2009.

#### c. Stimulants for Self-help Housing Development

Facilitation and stimulation of self-help housing development consists of two activities: Stimulant Assistance for Self-Help Housing Development (BSP2S) and Housing Quality Upgrading (PKP). Each of these activities are stimulant for self-help housing in selected regency/municipality and used to physical activity for building new housing and housing improvement (BSP2S) and also upgrading houses and infrastructure (PKP).

BSP2S has been carried out since 2006 and PKP just started in 2008. BSP2S activities is aim to increase new houses development and upgrading quality of damaged houses, meanwhile PKP activities is aim to improve the quality of housing

and its neighborhood to reduce slums area. These two activities have to be considered as leverage for wider development not as a project.

BSP2S and PKP programs are implemented using following concept:

1. Promoting secure tenure for community supported by regulation of Head of Local Government.
2. Community Empowerment approach, therefore they can involve from planning to implementation.
3. Stimulant for infrastructure and housing improvement for low income community supported by Local Budget and other non-binding resources of fund.
4. Increase the Local Government capacity to facilitate self-help housing development, for instance through preparation of “exit strategy” document.

The support is needed from Provincial and Local Government, and also from other stakeholders such as: data collection, housing condition mapping, institution strengthening, Sharing of Local Budget, Standard Operating Procedures for implementing housing management and development, increasing transparency, information and technology, management system and other supporting items.

The Program during period 2006 – 2008 has been implemented in many provinces in Indonesia with total amount of housing unit developed were 18.280 units as specified in table 18.

Other achievements besides housing units developed in this program are:

1. Some provincial and local governments utilized local budget for housing sector.
2. Some provincial and local governments restructured their administrative organization taking into account the responsible institution for housing development.
3. Other stakeholders have been participated in housing development (private sectors: CSR, universities: studies, community: role and contribution).

Table 17: Achievement of Self-Help Housing Development 2006 – 2008

Year	Program	Number of housing unit
2006	BSP2S	4,362
2007	BSP2S	4,068
2008	BSP2S	4,850
	PKP	5,000
Total		18,280

Source: Ministry of Housing

The 3 programs mentioned, Area-based Housing Development, Subsidized Home Mortgage Program, and Stimulants for Self-help Housing Development has been the part of national program known as National Program of Community Empowerment (PNPM) for Housing and Settlements which coordinated nation-wide by Coordinating Ministry of Social Welfare.

## Local Housing Program

### a. Housing Development in Asahan Regency

Asahan Regency, which is situated in the province of North Sumatera, has an area of 3702.21 square kilometers. It has 688,521 inhabitants in 2008. Most residents in that area make a living as fishermen and laborers, which live below the poverty line with inadequate infrastructure condition. The number of indecent houses is about 20,755 units (13.67%). The size of slum area is about 13.64 square kilometers (0.37%).

To improve the quality of housing and settlement condition in Asahan, local government promotes the program of “*bedah kampung*” (kampong surgery). The program integrates mental and spiritual development, small business development, and revitalization of settlement and environment. The activity of *Bedah Kampung* contains several things as follow:

- The establishment of community groups living in the village area;
- The renovation of indecent house, including the house with type of 36 square meters;
- The improvement of settlement and environment quality to be clean, orderly, and adequate in sanitation system;
- Dissemination and service procurement for agricultural society and small-middle business.

The implementation of *Bedah Kampung* program synchronizes program and finance sources for poverty reduction. It is executed through the improvement of housing quality by using the system of *Bedah Kampung* locally known as “*Rambate Raya*”. The program optimizes the local budget, central budget, private sector, social organization, and community, with total budget of 9.765.892.000 Rupiahs.

Local government obviously faces challenges in the implementation of *Bedah Kampung* program, some are 1) the difficulty in land acquisition of housing for the poor, 2) the difficulty in altering the culture/lifestyle and habit of the people to accept prearranged condition, 3) the limitation of finance sources owned by local government to stimulate the activities of housing development and *Bedah Kampung* for the poor. Through the program of *Bedah Kampung*, the number of newly built houses can achieve the target as many as 300 units, of renovated house as many as 653 units, and of constructed drilled-well as many as 1 unit. Through the program, local government has also provided basic infrastructure and revitalized settlement for people.

### b. Housing Development in Pekalongan City

The City of Pekalongan is located in the province of Central Java. Local government has determined the target to be achieved for housing and settlement program until 2010. It is the city of Pekalongan free from slum area by implementing the system called “*sapu lidi*” (wooden-stick broom) and synergizes programs among the level of state, province, and city, with targeted for poor people. *Sapu Lidi* means each element of the city cooperates, works together, and unites in implementing the housing development program, especially in reducing the slum area. Local government makes effort to reduce poverty through the improvement of housing



quality, including provides soft loan for productive poor households and grants for unproductive poor households. Productive household means the household that has occupation with adequate wage, and unproductive household means the household that has occupation with inadequate wage or does not have any occupation.

In effort to solve housing problems in the City of Pekalongan, government applies the concept of community empowerment in the system of *Sapu Lidi*. Government tries to enable and improve the capacity of people by involving them in development programs in order to achieve the target of society ability enhancement. Intervention that government has done includes giving motivation, facilitation, and stimulant to increase civil society participation. Moreover, the application of community empowerment concept is intended to shape the creation, activities, and initiatives of people to build the core house, renovate house, and arrange the environment.

Through the system of *Sapu Lidi* in housing development programs, income generating for poor people increases as many as 35.33%. Significantly, the application of *Sapu Lidi* System in housing development programs can decrease the poverty in 2005/2006 until 2006/2007 as much as 27.9 % and increase the human development index of Pekalongan from the level of 6 in 2006 up to the level of 5 in 2007 among the cities in the province of Central Java. Chief of districts/villages, supporting institutions, civil society, and local government have become the four main pillars that have taken role as facilitator in effort to reduce the poverty.

### **Assistance Program for the Victims of Earthquake and Tsunami Disaster in the Province of Nangroe Aceh Darussalam (NAD) and North Sumatera**

Concerning the tsunami disaster happened in the province of NAD and North Sumatera at the end of December 2004, government established special agency to rehabilitate and reconstruct the impact of the tsunami disaster. The party was declared as Rehabilitation and Reconstruction Board (BRR). The duties of the board are to coordinate and execute the implementation of rehabilitation and reconstruction in the province of NAD and Nias Island (part of North Sumatera province that badly hit by the tsunami). Regarding the housing sector, BRR implements 4 programs of rehabilitation and reconstruction as following:

#### 1. Assistance for Housing Reconstruction

This fund is given to the recipient through the banking institution or other finance institution to help the disaster victims to finance the housing reconstruction. The grant is used to reconstruct the damaged houses so that the people can dwell the houses again. The grant recipient is the head of a family or the heir whose house is damaged by the disaster but it is still feasible to be reconstructed. The grant delivered is as much as 15 million rupiahs (without tax burden) as preliminary fund for the grant recipient who deserves to reconstruct his house so that he can stay at the house again as soon as possible.

#### 2. Assistance for New House Construction

This grant is for new main-housing development with type of 36 m<sup>2</sup>. The new developed house is decent house built on the land of the disaster victim as the replacement of his damaged house. The recipient is the victim or the heir who still has his land but his house cannot be reconstructed. The new house was constructed

based on the viability standard development cost determined by Executor Board. The grant recipient can use the fund to build house bigger than the house with type of 36 and obtain the wider land with additional amount from his own money as far as he can meet the requirement of viability standard.

### 3. Assistance for Rehabilitation of Settlements at New Location

This grant is for new and decent main housing developed at new location. The house was provided with the basic infrastructure. The recipient is the victims who lost his house and land drowned by the disaster or the location of his past dwelling is dangerous to live. The shape and the value of grant or funding compensation are as following:

- a. Core house with type of 36 built based on the viability standard and cost development determined by Executor Board, or funding compensation equal to the value of the core house determined;
- b. Land compartment that has width minimum 40m<sup>2</sup> and the ownership right is given to the grant recipient with land price maximum is one third from the highest value of one unit core house with type of 36 in Banda Aceh;
- c. Adequate basic infrastructure for new settlement environment.

### 4. Social Assistance of Shelter for Disaster Victims

This fund is designed for the disaster victims who have lived in dangerous disaster area before the tsunami disaster happened but do not have house and land ownership and has lived there for certain period at least 6 months. The disaster victims can use the grant based on the prerequisite as follows:

- a. The head family who owns land legally will obtain the grant enveloping the development of one unit core house from BRR NAD - Nias or Empowering Partner;
- b. The head family who does not have land but have commitment to develop house with Empowering Partner or from other parties will obtain one land compartment ready to be built from BRR NAD-Nias;
- c. The head family who does not have land and commitment to develop house with Empowering Partner or other parties will obtain one land compartment ready to be built at the determined location and one unit house with type of 21 from BRR NAD-Nias.

To facilitate the participation of recipient community in the implementation of the four programs mentioned before, it is important to establish the recipient association at the rural community level if there is not social organization that has the same function.

The implementation of rehabilitation and reconstruction was supported by various funding sources, by either government or non-government organization (domestic or global) with total of 150 donor institutions.

Some institutions that have participated particularly in housing sector are:

- Asian Development Bank (ADB), World Bank, KfW, GTZ, JICS;
- Board of United Nations such as UNDP, UNHCR, UN HABITAT, UNORC;

- Red Cross from various countries, such as American Red Cross, Canadian Red Cross, British Red Cross, Turkiye Red Crescent;
- National and international non-government organization, such as Crescent Moon of Turkey, World Vision, International Organizations of Migration (IOM).

Until BRR accomplished its task on March 2009, performance achievement for housing rehabilitation and reconstruction has covered 120,000 units.

## **B. Pro-poor Programs of Formal Housing Finance Institutions**

### **The Aid Program for the Natural Disaster Victims through the Credit Scheme of Rebuilt House and Store Building (KPR-TU)**

On August 23, 2006, Ministry of Housing signed the Memorandum of Understanding (MoU) with Bank of Indonesia. It was intended to abate the burden of the victims in province of Daerah Istimewa Yogyakarta (DIY) and Central Java who have willingness to rebuild or repair their house by self-help. In order to expand the target groups for victims of natural disaster spread all over Indonesia, the scheme of self-help housing development and renovation, and the purchase of simple house from the developer, the MoU was revised and turned into the second MoU that was signed on August 28, 2007.

This aid program used source funding from liquidity credit from Bank of Indonesia (KLB) as much as Rp 239 billion and it has been delivered from August 2006 to December 2007 through the National Saving Bank (BTN). According to the resolved mechanism, BTN obtains the fund without interest from Bank of Indonesia. Then, BTN will deliver the fund to the debtors with interest of 5.5% during the loan period of ten years. BTN will deliver the loan to the people who have particular income and credit maximum. The Ministry of Housing regulates the conditionality of loan delivery. Until December 2007, the aid delivered has reached to the amount of 2,687 units with credit total as many as Rp. 78,228,900,000.00. The credit total was distributed in the province of DI Yogyakarta (78.26%), Central Java (20.43%), and the county of Sidoarjo (1.3%).

## **C. Pro-poor Programs of CSOs/NGOs/MFIs/CBOs/Co-operatives**

### **Slum Upgrading Facility (SUF)**

Slum Upgrading Facility program in Indonesia is founded and operating under a MoU signed on 3rd October 2005 by Government of Indonesia represented by Minister of Public Works, State Minister of Housing and Chairman of Provincial Governments Association and the Executive Director of Human Settlement Programme of The United Nations. The Facility is funded by Sweden, Norway and the United Kingdom. SUF also operates in Ghana, Tanzania and Sri Lanka.

SUF aims to mobilize domestic capital to finance affordable houses for low income communities and slum upgrading. It is not only limited to housing finance but also settlement infrastructure investment and to some extent include livelihood improvement through savings and loan activities.

SUF's comprehensive methodology organizes communities to improve their settlements, secures land tenure, explores low cost technology for building and environment, and opens access of low income communities to financial institutions or innovative and affordable financial packages.

In Indonesia, SUF assists communities in the several cities. In its daily activities SUF is led by a country advisor and its team and working together with its local leading partners such as multi-stakeholder Local Public Service Agency/Badan Layanan Umum Daerah (BLUD) or non-profit foundation. These local partners receive SUF's technical assistance to improve their capacity and credit enhancement funds that aim to mobilize local investors and financial institutions to finance housing, settlement infrastructures and slum upgrading. Through SUF local and national partners' knowledge accumulation and proven methodology, this initiative will be up-scaled nation-wide.

### **Community-based Initiatives for Housing and Local Development (CoBILD)**

The CoBILD Project was designed to pilot the viability of a low-income housing-finance mechanism based on market rates of interest. The project aimed to meet the needs of low-income households by lowering the costs of housing provision through incrementally built, sequentially financed housing. It successfully utilized community-based initiatives to further reduce the costs of housing through the collective acquisition of land and development of infrastructure. Its overall objectives were to develop community-based housing finance models and governance structures so they could be up-scaled in the pilot cities, along with supporting institutional arrangements at the national level so that the lessons learned and good practices would be integrated in and replicated through national policy. CoBILD Project was joint program from Government of Indonesia and the Netherlands along with UNDP and UN-HABITAT, which cost approximately USD4.9 mio.

The 12 pilot cities were selected in early 2000 according to criteria that included the interest of the city governments to participate, the availability and interest of CBOs, as well as the availability and skills of community facilitators to empower the communities and build partnerships with the city administrations. An empowerment strategy and dissemination campaign was developed and implemented during 2000 to promote understanding of the project's objectives, expected outputs, as well as the revolving loan arrangements. City Forums, comprising representatives of civil society, NGOs, CBO, academics, professionals and local governments, were established in all 12 cities, each electing a Management Board to interact with CBOs and manage the revolving loans. Loan funds were disbursed to all Boards, which, in turn, disbursed the loans to neighborhood groups who would then implement their housing projects.

Twelve City Forums and Management Boards were established, along with a support system linking communities and neighborhoods through to the city-level. Over Rp. 19 billion (US\$1.5 million) were disbursed to Boards for the improvement of almost 5000 houses, 215 new houses and the purchase of more than 2,800 plots of land. The revolving funds have grown by US\$554,120 in the two years of operation through 9,607 community-managed loans, demonstrating the financial viability of the loan mechanism where adequate sensitization, partnership building, capacity building and operational mechanisms were established. The loans are popular and accessible to the intended target group and the community-based approach has managed to evolve a responsive organized client system for the loans. The mechanism is in place and will continue its evolution and consolidation. It evolved and developed the essential features for an effective housing strategy. The project closed in July 2003.

## CHAPTER FIVE: EXPANDING HOUSING FINANCE

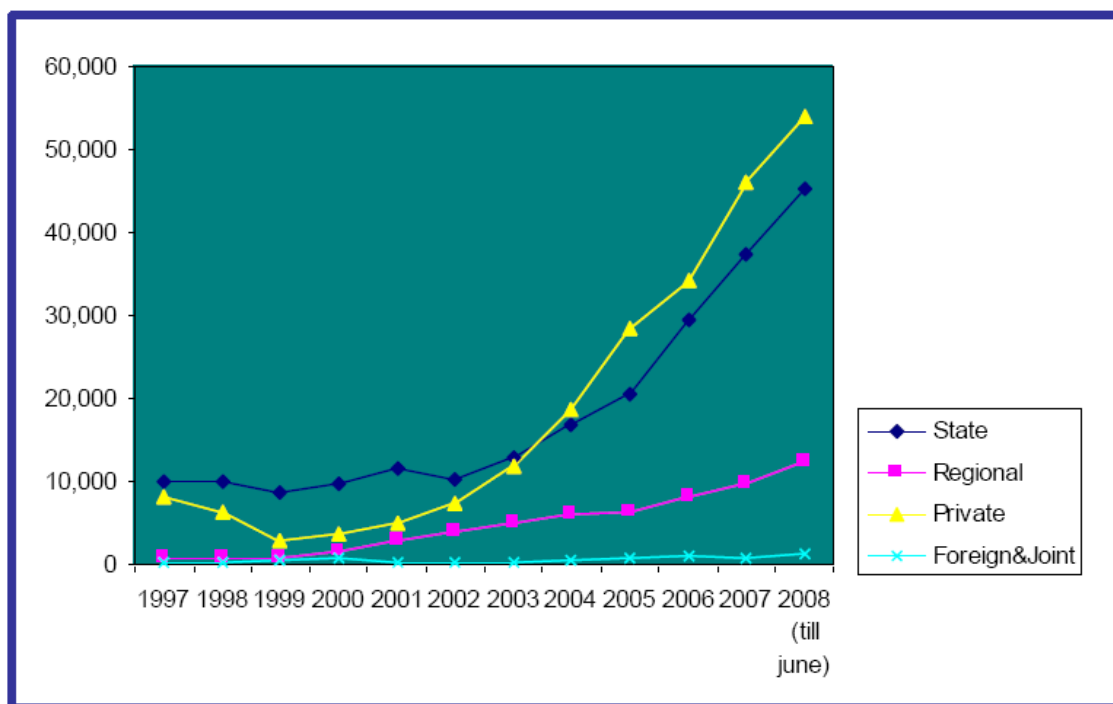
### A. Potential Housing Finance Market

Concerning the rapid growth of population and urbanization and housing need growth more than 800.000 units per year, substantially the potential of housing finance market was huge. However, the current housing mortgages could only finance 200.000 units and most of them are for middle-up income earners.

The housing demand still influenced among others through affordable price of housing, transportation infrastructure access, serviced land availability, and source of fund for construction loan as well as for housing loan.

Housing finance market is still dominated by private sector. Most of banks expand into mortgage finance, on rates, products, services, and cross selling made mortgage portfolio are growing of 33.4% from 2002 – 2008 as shown by graphic in figure 10. Yet mortgage loans outstanding are still only 2.4% of GDP compared to Hong Kong 44%, China 10%, and Thailand 15%.

Figure 9: Mortgage Finance Growth



Source: Calculated by author from Bank of Indonesia data 2008

Bank Indonesia study reported that most of developers have confidence that most promising business opportunities in properties are: 1) middle-to-lower class housing with prices below IDR 200 millions; 2) simple houses with prices ranging from IDR 45 millions to IDR 75 millions; 3) middle class apartment with prices starting from IDR 200 millions to IDR 300 million per unit; 4) commercial centers in big cities or town houses which are becoming a new welcome trend.

The tendency is estimated to keep on increasing in coming years as the government policy has been released such as National Program for Constructing 1,000 Towers for owned low-cost apartment, policy of tax incentive for developers building the simple housing and also value added tax incentive for customers of mortgage housing credit (KPR) for owned low-cost apartments.

Based on the exposition, it can be seen how great the housing finance potential either by regular mortgage or by subsidized mortgage in Indonesia. It can be concluded that prospect and opportunity of housing finance in Indonesia is still huge, particularly for low-income community. In order to meet this demand; not only central government policy is needed but also cooperation with related institutions like local government, banks, non-bank finance institutions and other supporting policies.

Apart from that, besides providing housing subsidized for fixed low income earners, State Ministry of Housing continuously put efforts providing housing finance for informal sector (non fixed low income earners) by develop subsidized micro housing finance trough Microfinance Institution. This program is still going well and increased significantly.

However, despite the positive opportunities, there are still remaining serious weaknesses in the mortgage system need to be addressed for it to continue to deepen and expanding the market, among others are:

1. Credit risk remains high partly as a because of the lack of credit risk management mechanisms.
2. The source for long term funding is not adequate to finance the availability of mortgage loan.
3. The lack of supply of serviced land and tedious permitting procedures make it unprofitable for developers to use available land resources for middle and lower-middle income houses.
4. The lack of construction financing provided by banks made developers develop financing from their own capital, consumer down payment, and housing indent (advanced mortgage loan disbursement while the housing is still under construction).
5. There are no underwriting standard, banks have their own standard to underwrite their housing loan. Despite, SMF have started to introduce the Guidance for Standard Document. This guidance can be use in all or a part in banks underwriting standards.

## **B. Expanding Housing Finance – Formal Sector**

### **The Distribution of Housing Finance Authority/Service**

The Law No. 32 of 2004 regarding Local Government and Government Regulation No. 38 of 2007 regarding Authority Distribution Among Central Government, Provincial Government and Local Government (regency/city) instruct that housing development is one of subjects to be agreed together among the central and local government level.

As guidance for the local government in executing their duty and responsibilities according to Government Regulation No. 38 of 2007, the central government developed a Minimum Service Standard (MSS). MSS is a standard of category and

quality of basic services, which are responsibility of Local Government and become the minimum rights of the citizen. The essential of local autonomy is to give rights and responsibilities to the local government in form of task and duties. The MSS must be applied appropriately because it will have a significant impact to the planning, financing, evaluation and the support from the central government.

Regarding the MSS for the housing finance affair that is an integral part of the MSS of the Ministry of Housing currently is under formulation. The scenario of the MSS for housing finance is “to increase the citizen’s access to the housing finance in order to get a decent and affordable housing.” The affordability aspect is essential as it is mandated in the law No. 17 of 2007 regarding Long Term Development Plan 2005-2025 and also in Habitat Agenda in Istanbul in 1996.

The MSS consist of achievement indicators or indexes. Currently, the Ministry of Housing is examining several indicators or indexes of affordability from experience of other countries and literatures that is suitable to be implemented in Indonesia. For Indonesian case, the affordability indexes that need to be developed are at least comprised of (i) Citizens who buy house through housing mortgage, (ii) Citizens who rent house, and (iii) Citizens who build their own house.

### **The Utilization of Potential Fund Resources for Housing Finance**

As the funding demand of housing finance for low-income group increase, a big financing support becomes urgent. If all of the demands become responsibility of the Government, it will burden the National Budget. In addition, the National Budget must also consider other priority sectors. Thus, the Government is currently seeking alternatives non-National Budget funding sources to finance housing for the low-income groups.

#### **1. Promote Corporate Social Responsibility (CSR) to serve pro-poor housing finance**

One of the potential fund sources is the CSR fund, particularly from National Company and other big Companies. The CSR fund is taken from some of company’s profit as a business commitment to contribute in sustainable economic development and to work for employee, employee’s family, and surrounding community in order to increase the quality of life. In Indonesia, it is enforced by the Law No. 40 of 2007 regarding Private Company (Perseroan Terbatas). As for the CSR of the National Company is enforced under the Law No. 19 of 2003 regarding National Company and The Minister of State-owned Enterprise Decree No. Kep-236/Mbu/2003 regarding Partnership of State-owned Enterprise and Small Business and Environment Development, which is revised by the Regulation of the Minister of State-owned Enterprise No. PER-05/MBU/2007.

According to the above Regulation, funds from National Company can be used to finance Partnership Program and Environment Development Program which is known as the Corporate Social Responsibility (CSR). Partnership program is a revolving fund program and Environment Development Program is a grant. Currently, the use of CSR fund has not been optimized, especially for housing finance. Under the regulation in Indonesia, CSR fund from the National Company is not more than 2% of the net profit for the partnership program and not more than 2% of the net profit for the environment development program.

In view of the program's characteristic, housing finance for low-income group from CSR fund will be included in Partnership Program. On the other hand, the environment development program will finance the settlement's environment upgrading program. In the future, the CSR fund is expected to be a supplement for the housing subsidy from the Government especially to develop housing micro finance program.

## **2. Promote National Housing Savings**

With regards attempting to extent source of fund for financing pro-poor housing loan, there are possibilities to utilized long term funding sources, such as insurance fund, health security as well as pension fund. Recently, there are 4 focal State-Owned Enterprises that have function in insurance sector/social security in Indonesia. They are: 1) PT. Jamsostek, which is being active in social security for worker/labor company; 2) PT. Taspen, that is being active in social insurance savings for Government Employees; 3) PT. ASKES, which is being active in insurance health for Government Employees, members of National Armed Forces and Police; and 4) PT. ASABRI, which is being active in social security sector for member of National Armed Forces and Police. With limited portion, from these four companies there are only PT. Jamsostek and PT. ASABRI that have related program with housing supply for low-income community, which is Housing Down Payment Loan for private worker as well as Housing Down payment Subsidy for members of National Armed Forces and Police.

In order to optimize utilization of this potential fund, nowadays Government is developing a housing finance mechanism. This mechanism will expand the utilization of long-term fund in form of National Housing Savings, especially for fund resourced from PT. Jamsostek for workers/labors. This mechanism is expected to utilize Pension Fund for housing down payment for workers/labors as well as funding resources in long-term period for housing finance.

## **3. Secondary Mortgage Facility**

Successful operation of the PT. SMF could be one option source of fund to the banks by securitization their existing mortgage loan assets. Currently Pt. SMF was issued Collective Investment Contract – Mortgage Backed Security (CIC-MBS) scheme, the first Indonesia Residential Mortgage Securitization which is a guideline promulgated by Bapepam-LK (Board of Capital Market Supervisory). Originator is Bank BTN with issuance amount is IDR 100 billion. Moody's rating agency has assigned an Aaa.id national scale rating to the Asset Backed Securities. This issuance hope could be triggered other banks to securitize their mortgage loan assets as source of fund for their mortgage financing.

## **C. Expanding Housing Finance – CSOs/ NGOs/ MFIs/ CBOs/ Co-operatives Sector**

There is a lack of solid data and studies providing in depth and accurate information about housing finance provided by CSOs/NGOs/MFIs/CBOs and Co-operatives Sector. Hence, currently Ministry of Housing co-operated with Ministry of Finance and Bank Indonesia start to provide study for evaluation the existing policy to promote new regulation for support development of housing finance especially pro-poor housing finance.



## **D. Recent Initiatives and Innovation in Housing Finance**

### **Promote establishment of Public Service Agency (BLU) for Housing**

Related to the governmental housing subsidy, Housing Finance Center presently acts as the operator of policy implementation. In the future, the Housing Finance Center will be promoted to be Public Service Agency (BLU). The goal is to change the spending approach paradigm into financing approach paradigm for the future housing subsidy financing. It is essential since the National Development Budget would no longer afford to finance the increasing housing subsidy demand. In addition, the National Development Budget will be needed for other sectors. The Housing Finance Center will take part to mobilize and manage financial sources for housing development.

Flexibility to manage national fund has been opened through Government Regulation Number 23/2005 regarding Financial Management in Public Service Agency (BLU) that will be implemented by responsible unit within government institution. The unit can be in either National or Local Government.

Public service agency is one of government institution to provide goods and services for the citizen, which is not profit oriented and based on effectiveness and productivity. Public Service Agency goals are:

1. To increase the service delivered by government institution in order to enhance the community welfare and to educate people.
2. The government institution will get more flexibility in their financial management based on the economic principles and productivity by implementing a healthy business practice.
3. To secure national assets of any related institution.

Unit of Financial Management System of the Public Service Agency is a part of instruments to achieve the goals of State Ministries. Because the legal status of the unit is a part of State Ministry, it acts as the agent of the minister or head of department under working contract.

Flexibility of Financial Management with the public service agency:

1. Operational income can be use directly according to the business and budget plan with no need to be put in the national account. However, all of the income is included in non-taxable national income so it must be reported in the budget report.
2. The public service agency expenditure budget is a flexible budget based on balance between the volume of services and expenses. In other word, the expenditure is adjustable proportionally to the income level.
3. The management of Public Service Agency account consists of:
  - To plan the income and expenditure;
  - To collect income or bills;
  - To deposit and manage bank accounts;
  - To do any related payment;
  - To meet funding sources in order to compensate short term deficit;
  - To utilize short-term idle cash in order to receive additional income

The financial management system under the Public Service Agency is expected to provide flexibility in implementing healthy business practices in order to achieve efficiency and productivity.

The status of approval of Housing Finance Center to become Public Service Agency is still under evaluation process in Ministry of Finance. For the meantime in Solo City, similar institution has been established in the beginning year of 2009. The Local Public Service Agency (BLUD Griya Layak Huni) which aims to mobilize local resources to finance upgrading of substandard houses, settlement infrastructures, and slum areas (see Box 1).

### **Promote of Low-cost Apartment Rent-to-Buy Scheme**

Low-cost Apartment rent-to-buy scheme is an ownership of low-cost apartment unit for the low to middle-income group that cannot afford the down payment. The down payment will be paid by installments under a certain rental period and be followed by subsidized low-cost apartment mortgage agreement (conventional or sharia). The target group to be facilitated by the rent-to-buy scheme is households or person with fixed or non-fixed income not more than IDR 3,5 million/month, that has not own apartment unit and has not receive apartment unit subsidy. The price of apartment unit that can be used in the rent-to-buy scheme by the target group is not more than IDR 110 million.

This scheme is facilitated by Rent-to-Buy Executing Agency which responsible to provide apartment units and to manage the payment of rental to become the down payment for apartment mortgage. The scheme is available under a certain period until the target group can afford the down payment and meet the other requirement to get the subsidized apartment mortgage. The maximum period for the rent is 5 years.

The requirements of the rent-to-buy scheme are:

- a. The target group is responsible to pay the rent to the Executing Agency periodically along the rent-to-buy period.
- b. The amount of the rental fee is based on the required down payment and the initial rental fee, which is determined by the executing agency.
- c. The executing agency held the responsibility to collect the payment of installment for the down payment transparently and accountable.
- d. Other expense outside the rent fee that occurs during the rent period becomes the responsibility of the target group.
- e. When the target group failed or decide to discontinue the rent-to-buy scheme, the down payment of installment that has been paid will be possessed by the executing agency.
- f. Rent-to-buy scheme can be continued by a mortgage agreement after the down payment requirement has been completed.

The requirements of subsidized apartment mortgage agreement after the rental period are:

- a. The price of apartment unit during the apartment mortgage agreement is similar to the price on the initial rent-to-buy agreement.

- b. The installment of down payment during the apartment rent-to-buy scheme will be used as a down payment for the apartment mortgage.

This concept of initiatives now still on progress to be finalized.

**Box 1. BLUD GRIYA LAYAK HUNI: A LOCAL GOVERNMENT AGENCY FOR HOUSING IN SOLO CITY**

Good governance has long been recognized by the Indonesian national and local governments as a key driver of creating wealth fare for its people within the era of decentralization that in line with Government directive no 38/2007 on the division of national and local government in roles, responsibilities, and authorities. For that an innovative governance mechanism has been introduced by a Minister of Internal Affairs' directive no.61 year 2007 by which within a local government unit (LGU) a special entity called Badan Layanan Umum Daerah (BLUD) will manage housing and economic development funds.

The nature of BLUD is that legally registered as part of an LGU but managed just like a corporation such as adopting flexible and lean systems and procedures, governed by a multi-stakeholders board, run by professionals with an entrepreneurial working attitude for better and efficient public service and financial and operational sustainability.

Taking advantage of BLUD's innovative features, in April 2009 Solo municipality establishes a BLUD Griya Layak Huni (hereinafter: BLUD GLH). BLUD GLH aims to mobilize local resources to finance upgrading of substandard houses, settlement infrastructures, and slum areas. It serves and facilitates communities, private sectors, and other public agencies to deal comprehensively with the issues of secure land tenure, community's consensus & commitment, technical solutions, and affordable financial packages such as affordable micro housing loan, credit guarantee, bridging finance, pro-poor housing & settlement investment trust, and direct financing of housing & its basic infrastructure projects.

Within weeks of its early operation, BLUD GLH is/has been developing and implementing successfully a portfolio of innovative projects to serve low income communities to have affordable and healthy houses while simultaneously accumulating best practices and lesson learnt under its knowledge management system. Together with its beneficiaries such as poor families, migrants, and marginal communities, BLUD GLH enables people to implement on-site upgrading and secure land tenure such as in Kratonan I & II, settlement infrastructure improvement in Stabelan and Ketelan, relocation of river-based settlements in Mojosongo, transit houses for migrant workers and area development in two locations (work in progress).

BLUD GLH works together with Slum Upgrading Facility (SUF) Indonesia to develop the projects and expand its organizational capacity. SUF, that is funded by Norway, the UK, and Sweden provides not only technical assistance and but also initial earmarked capitalization of BLUD GLH in a scheme that BLUD could be a sustainable organization operationally and financially by the end of 2010.

BLUD GLH's projects have been visited by foreign ambassadors, arm forces, and embassy staffs, ministers, city mayors, senior government officers, university students, NGOs and CSOs, other LGUs around Indonesia, and most importantly by other poor communities that vision to have secure and healthy houses and environments. BLUD GLH's board members and management claim that their ultimate contentment is when their efforts could inspire other communities and cities to create a healthy, affordable and productive environment to live in.

## CHAPTER SIX: CONCLUSIONS AND REMARKS

Housing and settlement development has become the part of the agenda of infrastructure development acceleration for second medium term development plan (RPJM 2005-2009). The objective of the housing development based on the RPJM is to fulfill the needs of housing for people through the shaping of primary market of housing, which is wholesome, efficient, accountable, and affordable for all people. To endorse the objective achievement, government needs to develop the system of long-term housing finance, which is market friendly, efficient, and accountable.

Regarding the increasing needs of decent housing in urban area due to the rapid growth of urban population in Indonesia, government has tried to accelerate housing development through National Movement for a Million Houses and National Program for 1000 Towers. Besides, to assist the poor to be able to access decent housing, government has implemented program, such as housing community empowerment program and the improvement of settlement quality. Government has also concerned on facilitating, stimulating, and funding the rehabilitation and reconstruction housing and settlements for the victims of natural disaster.

Considering the significant contribution of housing sector on the economy, government is supposed to reduce the negative impact of global financial crisis on the housing sector. Government also continues to implement the housing subsidy program to keep supporting the growth of real estate and housing market in the midst of global crisis.

In effort to make house more affordable and accessible for low-income households, government has designed three major policy frameworks. They are strengthening the primary housing market, developing secondary mortgage finance, and implementing housing finance assistance program. To improve the housing market efficiency on supply side, some regulations are set up, particularly in creating short bureaucracy to promote private sectors participation in housing development for low-income households. On demand side, market efficiency has been improved by standardizing mortgage documents, underwriting, and real estate appraisal. The housing finance assistance programs that have been implemented include financing the area-based housing development, subsidized home mortgage program, and stimulant program for self-help housing development.

The implementation of area-based housing development is expected to be synchronized with development of other sectors, such as services, industries, and trades as well as to support the shaping of harmonious living environment with concept of 1:3:6. To implement the stimulant program for self-help housing, it is important to involve the component of society, either individual or groups, beginning from planning process up to monitoring and evaluation process. Low-cost apartment development is also supposed to be more focus on pro-poor community program, for example through rented low-cost-apartment.

Housing subsidy program for the coming years will be concerned on the priority mechanism replenishment for determination target group of subsidy recipient and realization of cautionary principles in determining the financial institution to deliver the housing subsidy. The other steps to support the housing finance is the development of National Housing Savings concept as one of funding sources, which

is supposed to be able to endorse the housing finance for community of informal sector, and the development of Public Service Agency, at national as well as local level, as new paradigm in housing finance.