Improving Access to Safe, Adequate and Affordable Housing for Low-Income Households (MBR)

Dao Harrison, Senior Housing Specialist, World Bank
URBAN HOUSING NEEDS ARE MOST ACUTE
NEW HOUSEHOLD FORMATION, 1950-2050

ASSUMPTIONS
HH size: 3.8 urban and 4.4 rural
Pre-existing housing back-log or
of housing stock depreciation/
replacement needs not being
accounted

Source: UN population data
HOME OWNERSHIP RATE FOR MAJOR CITIES AT 57%

Home Ownership Rate

- Indonesia: 80%
- Semarang: 65%
- Surabaya: 59%
- Makassar: 58%
- Bandung: 57%
- Medan: 54%
- Jakarta: 48%

Housing Interventions: most needed in urban area where home ownership is the lowest

Urbanization rate: increasing to 68% by 2025 will exacerbate housing needs
TO ACHIEVE SATU JUTA RUMAH, GOI HAS 2 KEY INSTRUMENTS

Credit-linked Subsidy: FLPP & SSB
Quantitative Backlog: Home Ownership

Grant: BSPS
Qualitative Backlog: Home Upgrading

230,000 units per year
150,000 units per year
WHY IS INDONESIAN MORTGAGE MARKET SMALL WITH STAGNANT GROWTH?

SYSTEMIC BLOCKAGES NEED TO BE ADDRESSED TO GROW MARKET
ADJUST MAX HOME PRICE TO MEET CONSUMER NEEDS & CROWD IN PRIVATE SECTOR

**Avg Max Home Price**
- IDR 160 MM

**Proposed Increase**
- IDR 300 MM

**Subsidized Segment**
- Poorly built/located

**Non-Subsidized Segment**
- Market rate
- Non-VAT Tax Exempt

**Subsidized Segment**
- 5% Interest Rate
- VAT TAX exempt

**Commercial Segment**
- More dynamic/competitive

**Same Subsidy Level But More Market Dynamism Benefiting Consumers, Lenders & Developers**
LOCATION OF KPR SUBSIDY HOUSING BY URBAN CLASSIFICATION

57% built in Non-metro Rural & Rural periphery areas

POORLY LOCATED HOMES
is costly due to high transport cost and time
reduce livability with poor access to basic services
reduce shared prosperity. Home Appreciation likely lower than norm
FLPP COST: ~50% OF EACH HOME SUBSIDIZED

The FLPP subsidy covers ~ 85% (average) liquidity funding at an interest rate of 0.5% p.a. offered by GOI. This takes into account GOI funding to Secondary Mortgage Facility (SMF) and onward 25% financing from SMF to banks (11 out of 25 banks).

FISCAL COST

- GOI Funds IDR 136 M on day 1
- IDR 4 M Down Payment
- IDR 132 M

ECONOMIC COST

- Consumer IDR 4 M
- SBUM Assistance IDR 4 M
- Bank: 15% IDR 23 M
- GOI Funds IDR 74 M over life of loan

Liquidity funding, repaid at 0.5% rate
Present Cost, net of funds returned over life of loan discounted at 8.00%
SSB IS RISKY AND CREATES FUTURE LIABILITIES

SSB DELIVERED
76% OF VOLUME IN 2016-2019

But created IDR 30 Trillion future liabilities for GoI

![Graph showing the delivery of SSB and its impact on future liabilities]

Average ~ 90,000 units
Avg ~ 230,000 units

Indonesia Public Expenditure Review 2020
POORLY BUILT CONSTRUCTION EXPOSE MBR TO VULNERABILITY

Only 16% of KPR subsidized Housing meet minimum construction standards
THE KPR SUBSIDY PROGRAM IS NOT A GOOD DEAL FOR THE GOVERNMENT OR MBRs
PRODUCT REDESIGN CAN INCREASE VOLUME BY 50-100%

Liquidity %
75% + SMF 10%
Lower
FLPP

Tenure
Max 20 years
Lower
FLPP + SSB

Rate Step Up
5%
Step-up
FLPP + SSB

EASY TO IMPLEMENT
DELIVERING QUALITY SAFE, ADEQUATE, AND AFFORDABLE HOUSING FOR ALL

VARYING HOUSING TYPES
DELIVERING QUALITY SAFE, ADEQUATE, AND AFFORDABLE HOUSING FOR ALL

INFORMAL - INCOME EARNER   SALARIED WORKER   YOUNG FAMILY

VARYING CONSUMER TYPES
Thank You