

# EXPANDING ACCESS TO DECENT HOUSING IN INDONESIA: LOOKING AT SOME POLICY OPTIONS

Martin Daniel Siyaranamual

SMF Research Institute

## BACKGROUND

According to Indonesian Constitution, UUD 1945, housing is considered as a basic right, on a level with food, education and health. Article 28H (1) of the Constitution 1945 as amended stipulates: "All people are entitled to a healthy life, physically and mentally, and housing, as well as a good and healthy environment, and are entitled to access to health services". The state of Indonesia is therefore responsible for providing decent and healthy housing for all citizens. Furthermore, providing Indonesian families with access to decent housing is also essential to increasing shared prosperity and reducing poverty in the country. This is however not an easy task as Indonesia is a country with the fourth biggest population in the world.

Indonesia's poverty rate had fallen to 9.4% as of March 2019, from more than 14% a decade earlier (BPS 2019). However, around one-fifth of Indonesians have expenditure levels that are only less than 50% above the poverty line (World Bank 2019). Moreover, as shown in Table 1, Indonesia's population structure is entering a demographic dividend and majority of them are residing in urban area, which give a pressure to the issue decent housing provision, especially in urban area. In regard with the household size, Indonesian household size is decreasing at an escalating pace, which means it requires smaller size of land.

Table 1. Population and Household Figures

	2015	2017	2019
Total population	254,896,652	261,090,750	267,306,564
Percentage of different cohort			
0-15	29.9	28.8	28.2
16-60	62.4	63	63.1
61+	7.6	8.2	8.7
Number of households	67,230,121	69,311,717	71,438,289
Average household size	4.6	4.6	3.7
Percentage of urban	50.4	53	55.9

source: Susenas March 2015, 2017, and 2019 (calculated by the author)

Beside demographic condition, the provision of decent housing requires macroeconomic growth (and stability). Prior to COVID-19 pandemic, Indonesia has continued its uninterrupted run of stable economic growth, recording an expansion of 5.0% in the June quarter of 2019 in year-on-year terms. Investment growth slowed to only 5.0% year on year in both the March and June quarters, down from an annual rate of 6.7% in 2018. Growth in household consumption has remained relatively stable (5.2% in the June quarter of 2019), while growth in government consumption has strengthened (Burke & Siyaranamual, 2019). The proposed budget foresees tax collections increasing by 4.2% relative to the 2019 level, which is among the lowest in the world (World Bank, 2019) and could be a key factor that limits Indonesia ability to make progress on an inclusive development agenda.

At the October 2018 ASEAN Leaders' Gathering in Bali, President Joko "Jokowi" Widodo used the phrase 'No one left behind' in referring to the need to ensure that economic development is inclusive of all. The phrase is drawn from the United Nations' 2030 Agenda for Sustainable Development, under which 17 Sustainable Development Goals (SDGs) were agreed by the international community.<sup>1</sup> One of the targets in SDGs is broad access to safe and affordable housing (Target 11.1). This brief review progress a rather current condition (namely, prior COVID-19 pandemic) in expanding access to decent housing and policy options implemented to ameliorate the access.

## ACCESS TO DECENT HOUSING

Home-ownership in Indonesia is already impressive even in urban areas is around 71.9 percent in 2019 (Table 2).

Table 2. Type of Dwelling by Location

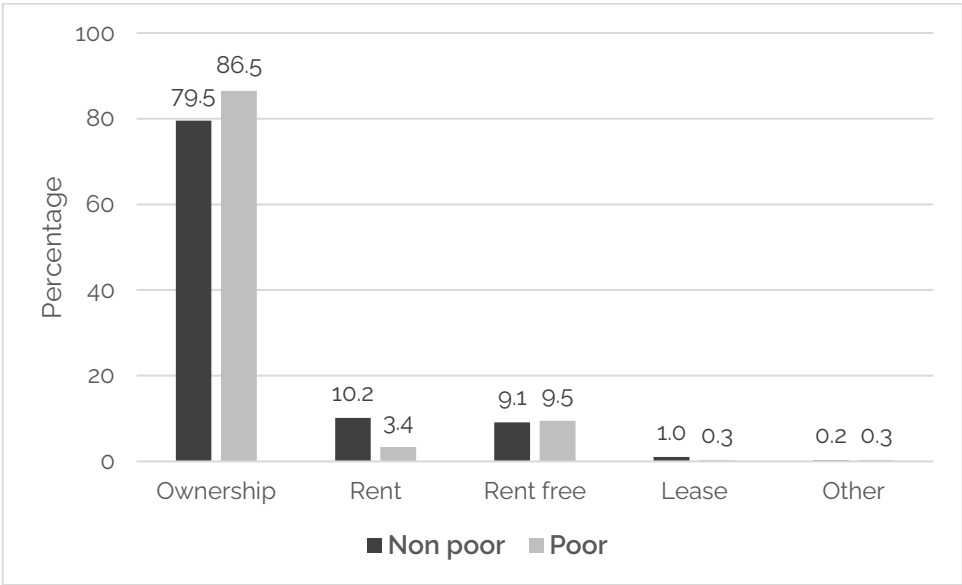
	Rural			Urban		
	2015	2017	2019	2015	2017	2019
Ownership	91.4	89.4	90.5	73.9	70.9	71.9
Rent	1.1	1.6	1.6	15	16.5	16.0
Rent free	6.2	7.4	6.6	9.9	11.2	11.1
Lease	1.1	1.4	1.1	1	1.1	0.9
Other	0.2	0.2	0.2	0.4	0.3	0.2

source: Susenas March 2015, 2017, and 2019 (calculated by the author)

<sup>1</sup> The United Nations adopted the SDGs in 2015. In Indonesia, Presidential Decree 59/2017 established a national SDG governance structure and the mechanisms for planning, budgeting and financing of strategies to achieve the SDGs, together with monitoring and reporting frameworks.

This impressive number is also valid when the home-ownership is break down into poor and non-poor households.<sup>2</sup> As shown in below figure, 86.5 percent of poor households own the house where they live in, while 79.5 percent for the non-poor households. The difference between poor and non-poor households lies in rented dwelling, where 10.2 percent of non-poor households live in a rented dwelling while the poor households only 3.4 percent.

Figure 1. Dwelling Type by Poverty Status in 2019

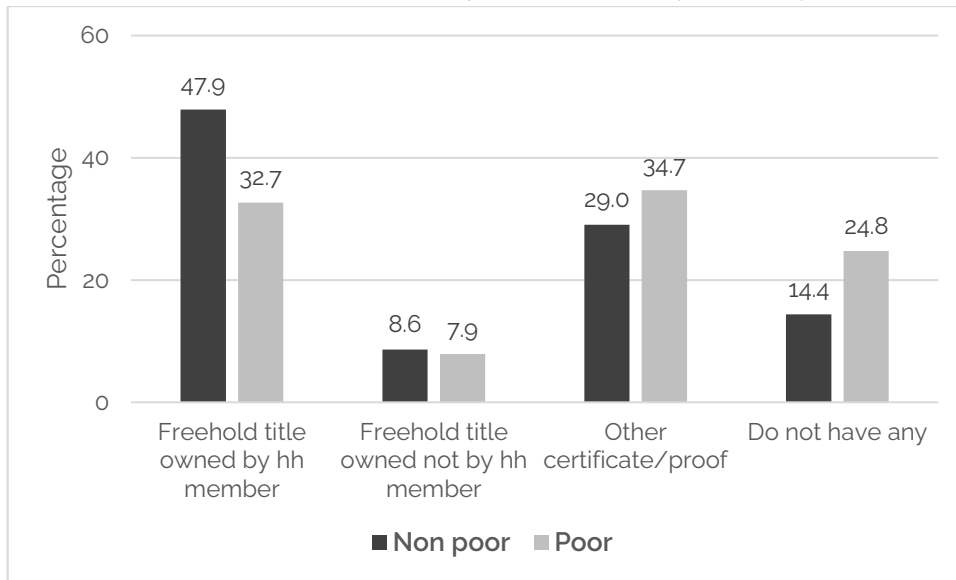


source: Susenas March 2019 (calculated by the author)

While the home-ownership relatively indistinguishable between poor and non-poor households, in terms of proof of land and building ownership, the difference between them is starting to emerge. Majority of owner non-poor households, 85.6 percent, hold legal ownership either full freehold title or a BPN certificate, while owner poor households only 75.2 percent have proof of land and building ownership (Figure 2). This extension of property right clarification and registration is a major improvement over just 30 years ago when approximately 80 percent of urban plots were not formally registered (Hoek-Smit, 2006).

<sup>2</sup> Statistical Office (BPS) differentiate the definition of household and family. Household is a person or group of people who live in part or all of a physical building, and usually live together and eat from one kitchen. Family is a relationship based on marital ties, either currently married or divorced.

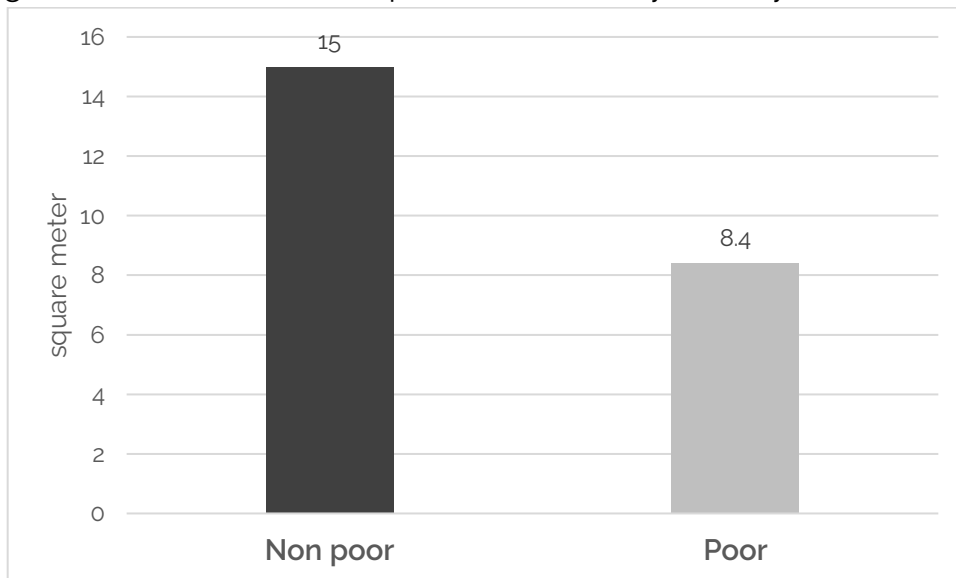
Figure 2. Proof of Land and Building Ownership by Poverty Status in 2019



source: Susenas March 2019 (calculated by the author)

While the home-ownership between poor and non-poor households is relatively indistinguishable, however, this number hides much of the story. The floor width per person occupied or the type of house wall are not deducted from the home-ownership count. As Figure 3 shows, majority of floor width per person occupied in non-poor households is close to 50 percent more than what found in the poor household. This striking living space inequality could get worse if comparing only the top 20% with the bottom 20%.

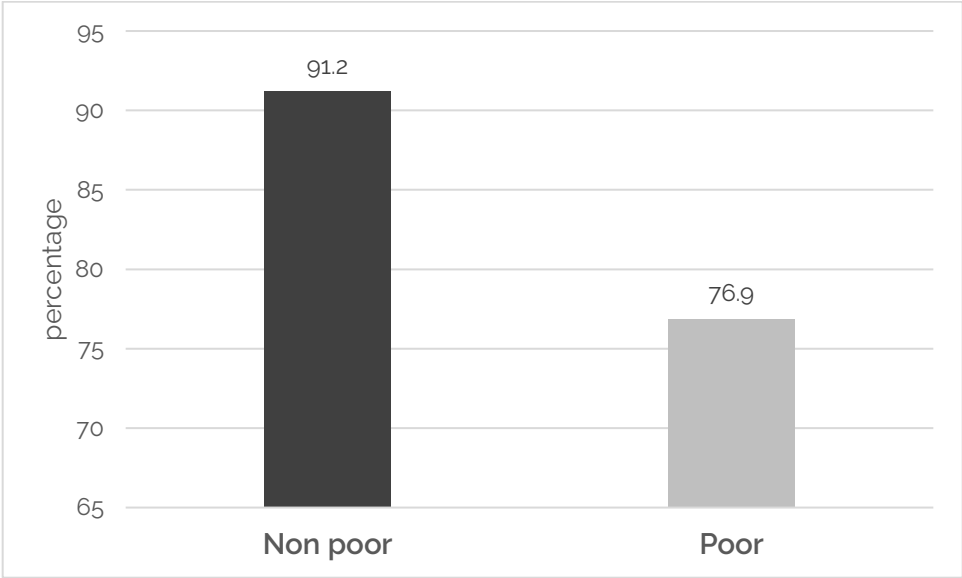
Figure 3. Mode Floor Width per Person (m2) by Poverty Status in 2019



source: Susenas March 2019 (calculated by the author)

Access to toilet is another important aspect to investigate the inequality between the poor and the non-poor in the context of decent housing. With remarkable economic development, issue regarding sustainable access to sanitation is still need special attention in Indonesia. As shown in Figure 4, only 76.9 percent of poor households (91.2 percent for non-poor households) who have toilet within the house, while the rest is use communal toilet facility or unimproved sanitation/open defecation. The urgency of access to improved sanitation should not be underestimated, since such accesses are key to prevent the second leading cause of death in children under 5 years old: diarrhoeal disease.

Figure 4. Toilet within the House by Poverty Status in 2019



source: Susenas March 2019 (calculated by the author)

Clearly home-ownership cannot be used as a sole indicator of expanding access to housing problem. The use of inappropriate materials, limited basic services in the house, and lack of personal space occupied pose health and safety risks to poor households. Hence, with near-universal home-ownership close to being achieved, the facts that are presented in this brief suggest that much of the challenge is to now move to a 'beyond expanding ownership' focus, prioritising improvements in the quantity and quality of available house. It would be useful for data on the number of households that meet a raised threshold of 'basic housing access' to be recorded, and for targets to be set for moving to universal housing access according to this measure.

**AVAILABLE POLICY OPTIONS**

Indonesia has made impressive progress in broadening decent housing access. Number of policies and institutions to support affordable housing have been

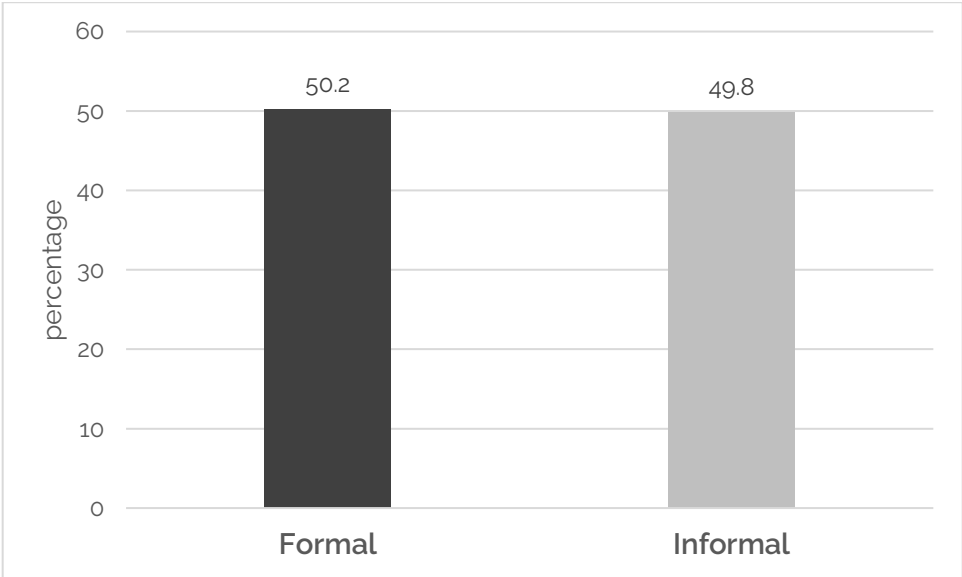
developed, however, the current brief only focus on two schemes, a subsidised mortgage liquidity facility — known as the FLPP scheme — and housing saving plan.

**Subsidised Mortgage**

On 1 April 2020, Gol has rolled out new housing loan subsidies and opened the door for more citizens to access the facility amid the COVID-19 pandemic. It launched Rp 1.5 trillion (US\$89.7 million) in mortgage subsidies for 175,000 low-income families nationwide and increased the salary ceiling for eligible recipients to Rp 8 million for all types of housing from the previous Rp 4 million for landed houses and Rp 7 million for low-cost apartments (*Jakarta Post*, 3/4/2020 ). The stimulus would be in the form of interest rate subsidies for loan instalments (SSB) and down payment subsidies (SBUM). The new mortgage subsidies allow low-income households to pay a mortgage interest rate of just 5 percent per year, much lower than the 9 to 10 percent in the current housing loan market, with a tenure of up to 10 years. The government will then pay up any remaining interest rate differences.

Without any doubt, the stimulus could prop up the property sector, which half of the industry's revenue coming from subsidized housing programs (*Jakarta Post*, 3/4/2020 ). However, could this program expands access to decent housing for all, especially, informal and lower-income workers? According to the Sakernas survey of February 2019, the unemployment rate was down to 5.0%, with around 6.8 million unemployed, and of the 129 million employed people, nearly 50 percent of them were working in the informal sector (Figure 5). Moreover, only 9 percent of employed people in Indonesia were on permanent contracts and in addition to this, the median wage in Indonesia was only IDR 1,700,000 per month.

Figure 5. Size of Formal-Informal Sectors in 2019



source: Sakernas February 2019 (calculated by the author)

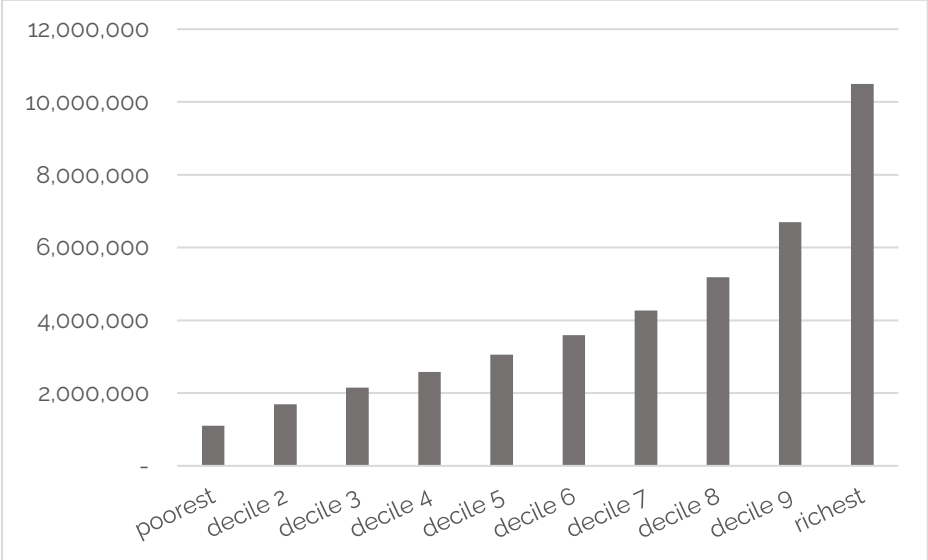
Hence, despite the growing use of mortgages, many Indonesians remain shut out of the housing market because of their work status, which gives them a non-creditworthy status at most banks. In other words, the subsidised mortgage liquidity facility design can lead to benefit only middle-income, salaried households, while crowding out the private sector, rendering the government fully accountable and keeping the mortgage market small.

**Housing Saving Plan (Tapera Program)**

Another policy that aims to boost homeownership in Indonesia through its public housing savings program (Tapera), which requires employers and workers to contribute to a mortgage loan scheme similar to universal healthcare insurance. President Jokowi signed Government Regulation (PP) No. 25/2020 on Tapera on May 20, 2020 which provides instructions for fund management body BP Tapera and makes membership compulsory for all workers (*Jakarta Post*, 10/6/2020). The regulation requires participants to make a monthly deposit equal to 3 percent of the employee's monthly salary, which is split between the employer and employee for private sector workers, with the employee paying 2.5 percent and the employer paying 0.5 percent. However, some employers and workers have said the program will be an added burden.

Again, this scheme tends to benefit the middle-income households. There are 60 percent of households in Indonesia who have monthly household expenditure level is less than IDR 4,000,000 (Figure 6). If these households consumes 80 percent of their income, then they can only save less than IDR 900,000 per month in the Tapera scheme, assuming they do not have any other plan for the future.

Figure 6. Median Monthly Household Expenditure by Economic Class in 2019



source: Sakernas February 2019 (calculated by the author)

Since Tapera scheme is designed following healthcare insurance, hence the standard practice in expanding such scheme is using a three-tiered scheme. The first tiered is non-contributory housing scheme in which the government provides a free/small rented public housing. The second tiered is for those who already have ability to save, and the government provide incentive for them to save, such as matching the level of their saving by a certain number. The third tiered is private housing scheme.

This type of scheme requires two fundamental aspects. First, affordable premium/contributions and decent rate of return needs to be considered to attract more individuals to join housing saving plans, and second, database to prioritise government aid for those who need them most.

## **CONCLUSIONS**

Considerable progress has been made in moving to near-universal home-ownership in Indonesia, although decent housing access challenges remain. A subsidised mortgage liquidity facility — known as the FLPP scheme — and housing saving plan are the two examples of the first steps to tackle the housing issue. Unfortunately, however, these policies have a tendency to benefit middle income class and formal workers. In addition to issue of policies that missing the important picture of Indonesia's employment condition, Indonesia's fiscal capacity remains small, and scarce resources are proposed to be diverted to an expensive plan to mitigate from the negative impacts of COVID-19 pandemic. While the political measures to boost housing make the low-cost market more attractive for developers, investors still lament low margins, as construction costs have risen quickly along with wages and the price of building materials. The rising price and scarce availability of land in reasonable proximity to city centres, obviously, is another major hurdle for private-sector developers.

There is considerable scope for research into what is and is not working in broadening the housing access of Indonesia's economic development. For example, future evaluations of the current housing provision policies will be useful for informing policy design that can prioritise subsidies for those who need them most, while crowding in the private sector. Issues of particular interest are how to present adequate housing alternatives for those without access to the formal housing market and the use of microfinance institution aimed at self-help housing, with microfinance being particularly successful in rural communities in recent years.



## REFERENCES

BPS (Badan Pusat Statistik). 2019. 'Percentage of Poor People 2007 - 2019', available at <<https://www.bps.go.id/dynamic/table/2016/08/18/1219/persentase-penduduk-miskin-menurut-provinsi-2007---2018.html>>.

Burke, Paul. and Martin Siyaranamual 2019. 'No One Left Behind in Indonesia?', *Bulletin of Indonesian Economic Studies* 55 (3): 269–293.

Hoek-Smit, Marja C. 2006. 'Expanding Housing Finance for Low-Income Housing in Indonesia.' UN Habitat, Nairobi, draft manuscript.

World Bank. 2019. *Indonesia Economic Quarterly: Oceans of Opportunity*, June, Jakarta.