



# Resolving Housing Finance Access for the Poor and Informal

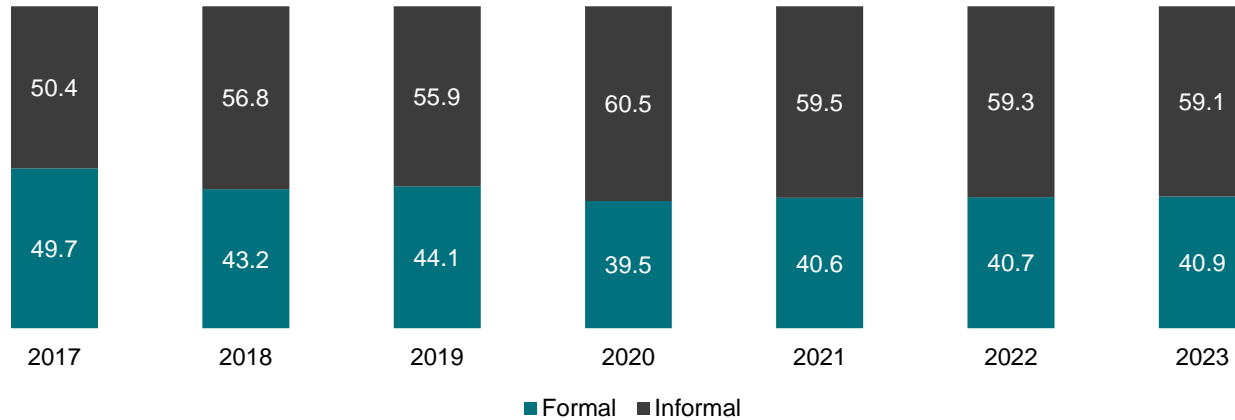
SMF Experience in Indonesia

Berlin, 19 September 2024



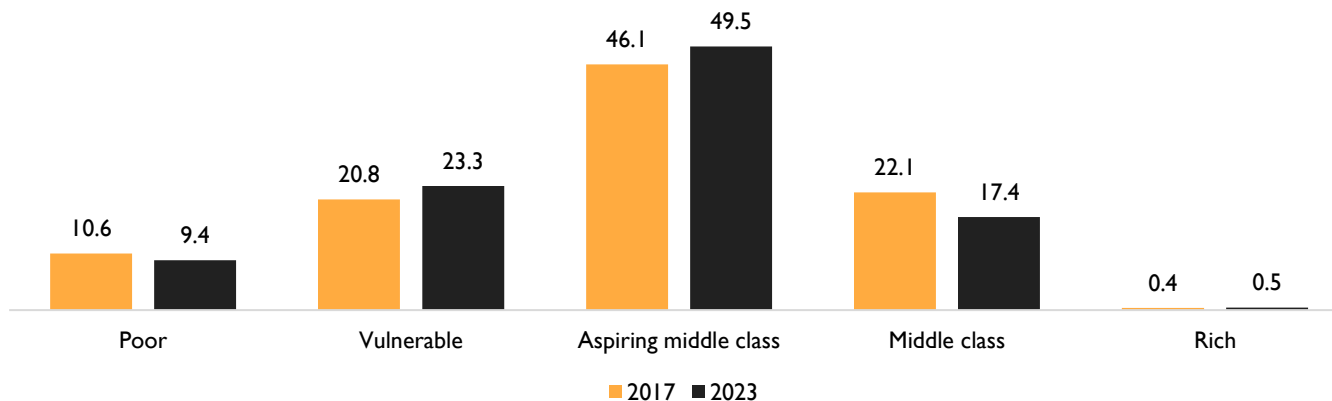
# Indonesian socio-economics is characterized by high informality and high aspiring middle income

**Workers' Status in Indonesia (%)**



Prior to the COVID-19 pandemic, Indonesia was already struggling to reduce its heavy reliance on the informal sector, which currently accounts for approximately 60% of the workforce.

**Population Share by Class**

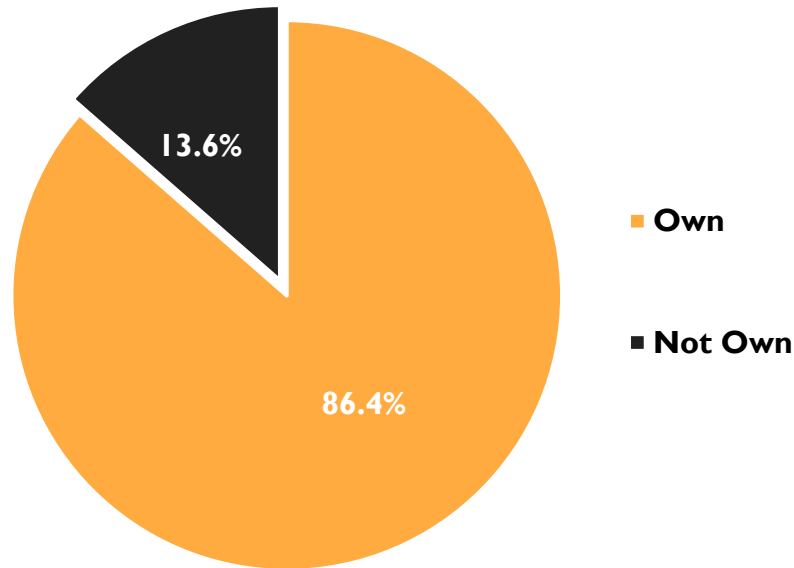


In addition to high informality, Indonesia also faces challenges in expanding its middle-income population. One of the pandemic's scarring effects has been the shrinking of the middle-income group in Indonesia.

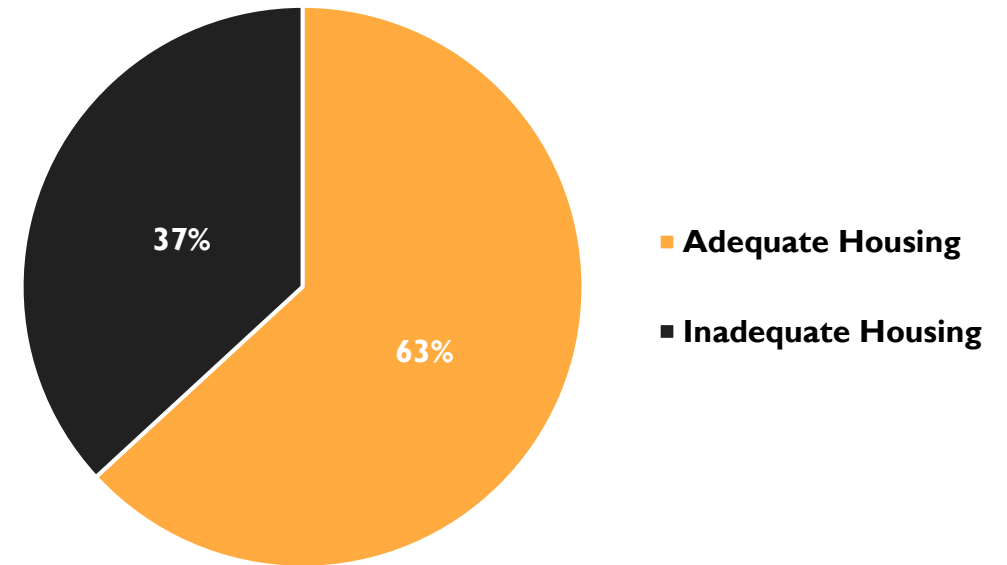
The combination of high informality and a declining middle-income population presents additional challenges, particularly in terms of financial inclusion and access to essential services, such as housing finance.

# Ownership Backlog and Inadequate Housing In 2023

### Homeownership Status



### Housing Quality



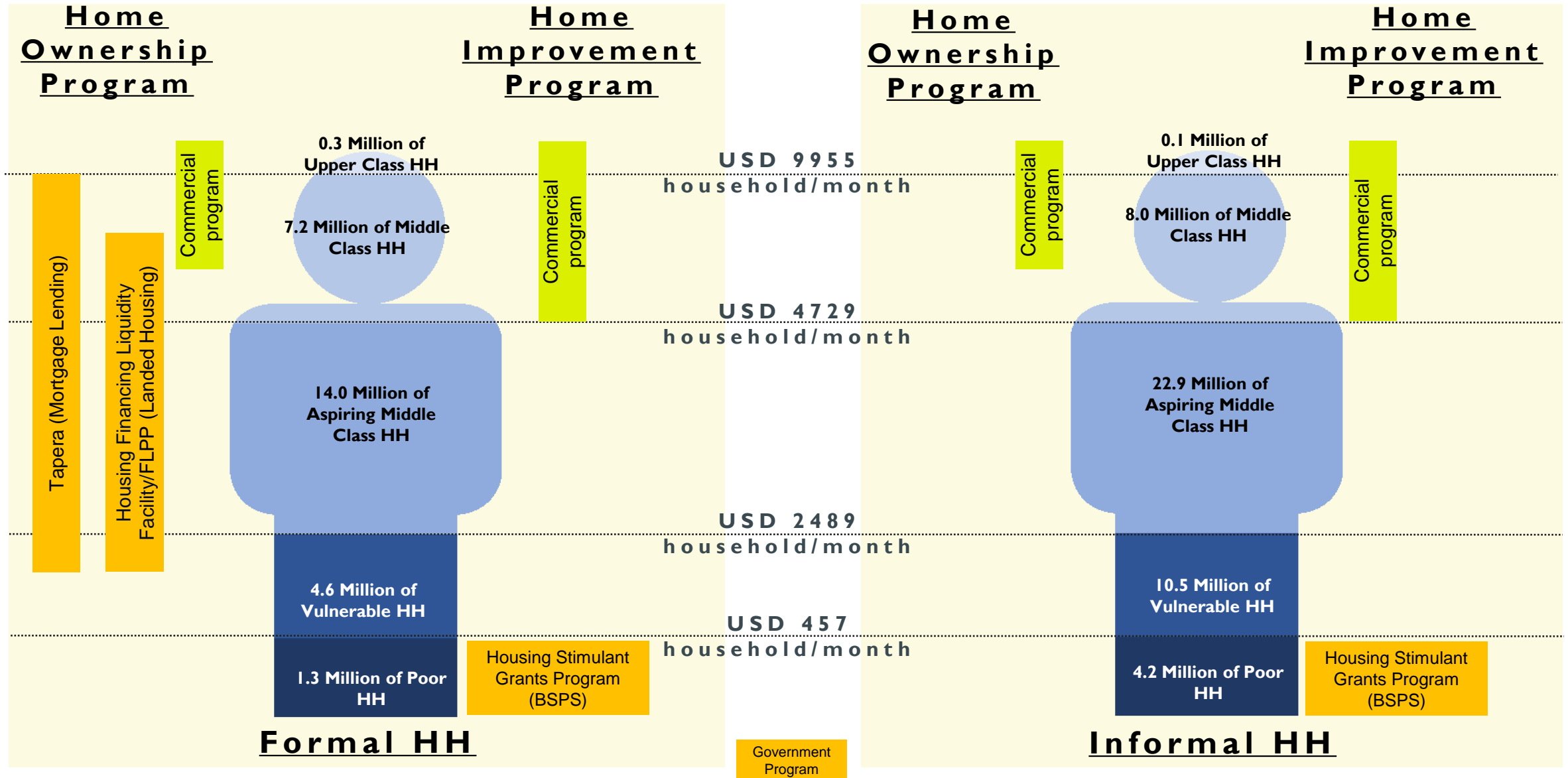
## Homeownership

In 2023, Indonesia had 73.1 million households, but 9.9 million (13.6%) households still lack homeownership, indicating a substantial backlog in housing access.

## Housing Quality

Out of 73.1 million households, only 46.2 million live in homes that meet adequacy standards, leaving 26.9 million households (37%) in inadequate housing conditions, often characterized by poor infrastructure and overcrowding.

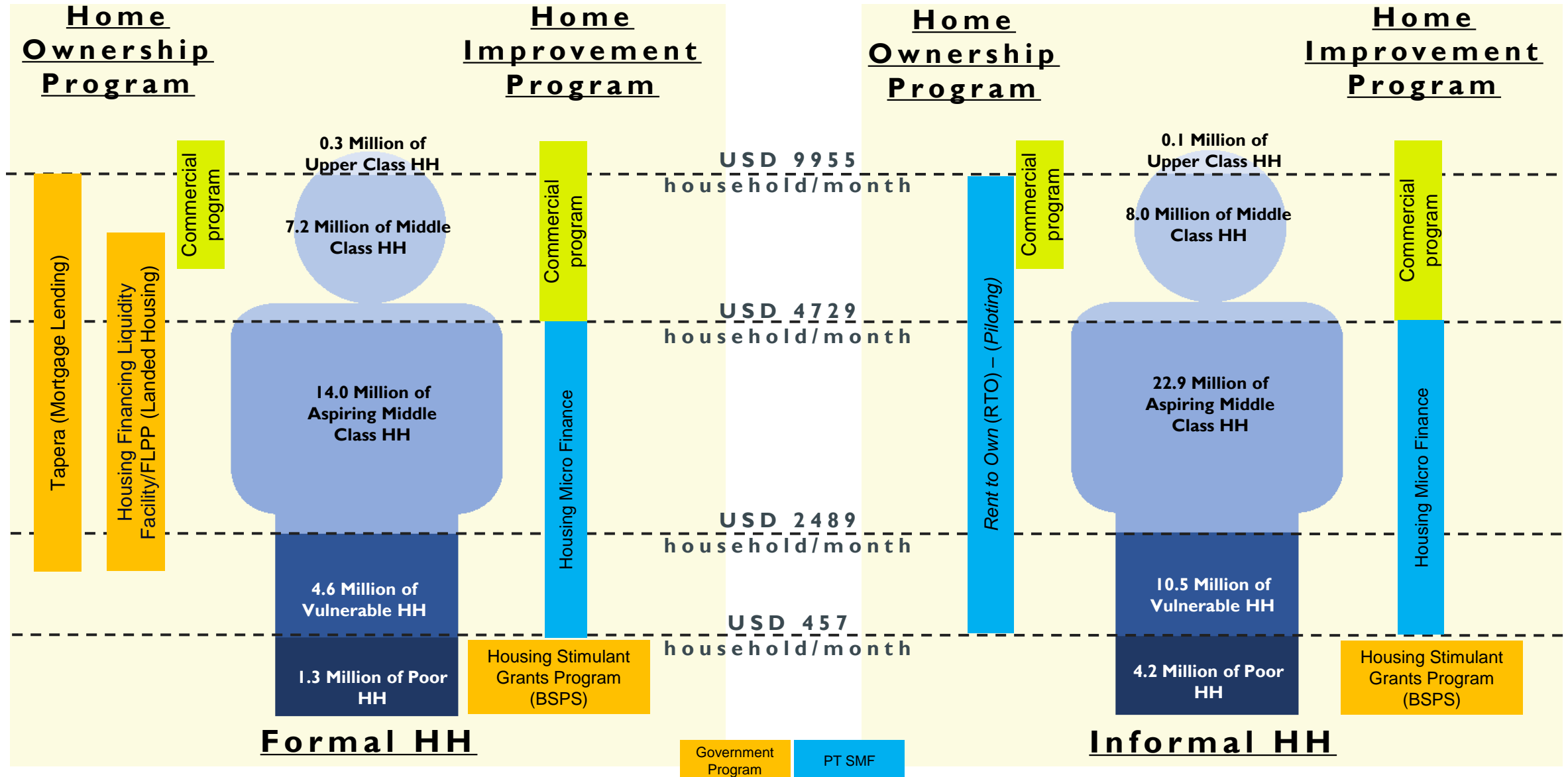
# Existing Housing Finance Program in Indonesia



Source: Susenas March 2023, calculated by PT SMF



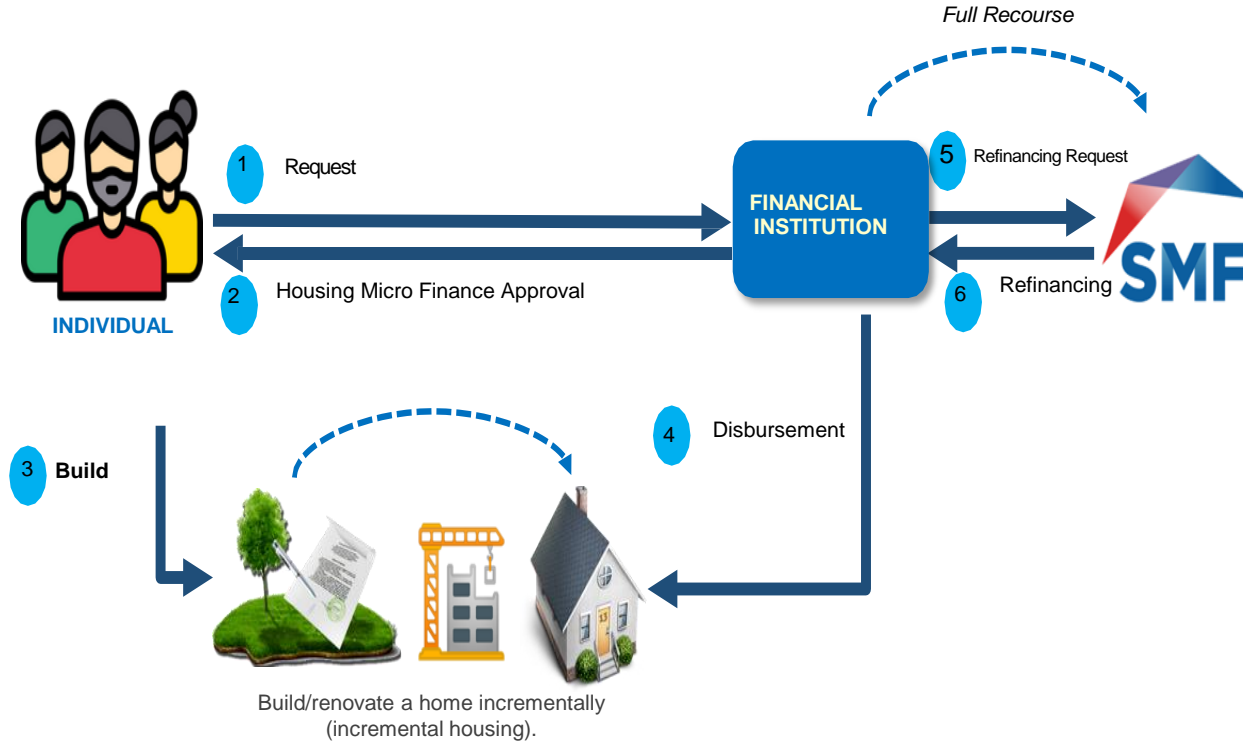
# Existing Housing Finance Program in Indonesia



Source: Susenas March 2023, calculated by PT SMF

# Housing Micro Finance

## Scheme



## Features



### Purpose

Build/renovate a home incrementally (incremental housing) which targeted to **fixed and non-fixed** income segment



### Tenor

Max. 5 years



### Rate

In accordance with the policies of the financial institution



### Limit

Rp50 Million



### LTV

In accordance with the policies of the financial institution



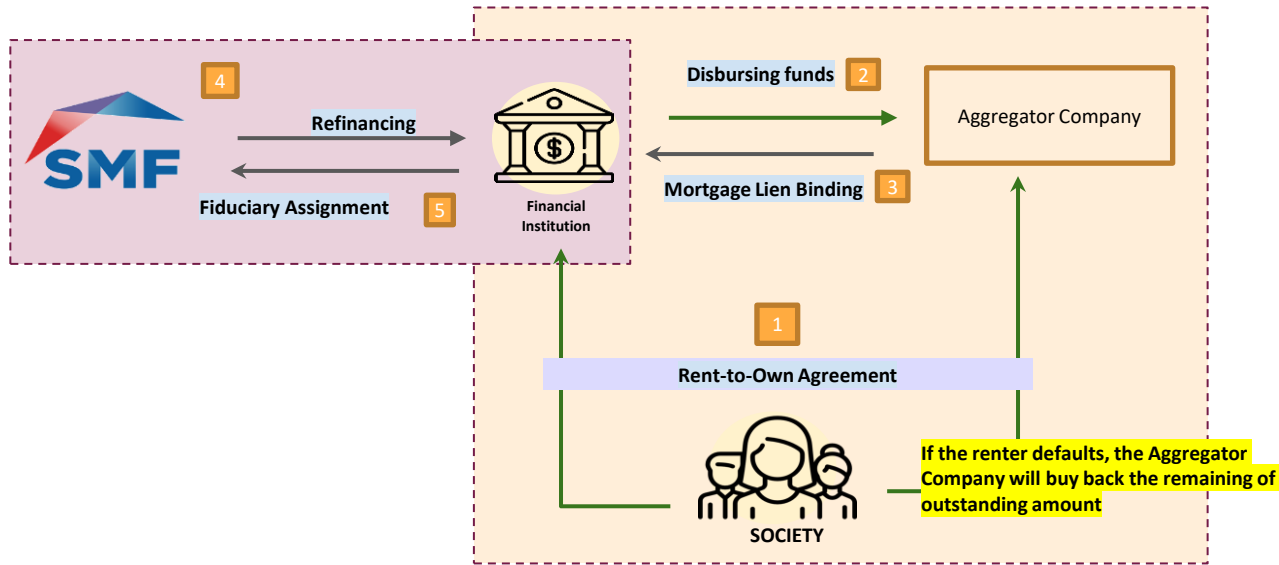
### Insurance

Life Insurance

At present, the demand for residential renovations is crucial. According to the Susenas March 2023 survey, 26.9 million of households reside in inadequate housing. Consequently, there is a need for alternative product to bolster the housing finance market."

# Rent To Own (RTO)

## Scheme



**\*Aggregator Company:**  
"The company as the owner of the asset and guarantor in the event of default"

## Features



### Purpose

Loans/Financing for Home Ownership Services, prioritizing non-fixed income segment.



### Tenor

Max. 20 years



### Limit

Rp1 Billion



### Rental fee

Fixed monthly for a certain period as agreed



### Insurance

Insurance for loss of residential assets (fire insurance) - (the cost will be borne by the Aggregator Company as the owner of the Asset)

## Target Segments

1 Low Income (MBR)      2 Unserved or rejected non-fixed income MBRs for subsidized housing facilities

3 Single individuals or newly formed families seeking housing close to activity centers

# Challenges in HMF and RTO Implementation



In Indonesia, microfinance products are designed as productive loans for low-income households and are heavily subsidized by the government, making them both accessible and affordable, particularly for poor and vulnerable families.

In the case of housing microfinance, SMF has improved accessibility by creating the product, but since it operates with commercial interest rates, affordability remains a significant challenge.



Regarding the RTO program, the Financial Services Authority (OJK) has raised concerns about the sustainability of the aggregator company. Due to these concerns, OJK is not yet convinced that the RTO program is safe for consumers.

The main issue is ensuring that the aggregator company can continue to operate and manage assets for the entire duration of the RTO agreement, which can last up to 20 years.



# Conclusion and Path Forward



## Addressing the Housing Finance Gap

- Current FLPP effectively serve formal, middle-income workers.
- Informal workers, comprising 60% of the workforce, are underserved.
- While BPSP can serve the poor households, however its coverage is limited
- SMF's Housing Microfinance (HMF) and Rent-to-Own (RTO) programs are key solutions for underserved segmentations



## Challenges Ahead

- **Affordability:** HMF's commercial interest rates limit accessibility for low-income households.
- **Sustainability:** Ensuring the long-term viability of the RTO aggregator company remains crucial.



## The Role of International Collaboration

- Learning from countries with similar housing finance challenges is essential.
- Opportunities to adapt successful models for regulatory frameworks, financial strategies, and sustainability.



## We invite insights and collaboration on:

- Adapting regulatory frameworks to better support RTO and HMF.
- Improving financial models to make housing more affordable.
- Ensuring sustainability of key institutions like the RTO aggregator company.



# Thank You



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