

PERMANENT MISSION OF THE REPUBLIC OF INDONESIA
TO THE UNITED NATIONS, WTO
AND OTHER INTERNATIONAL ORGANIZATIONS
IN GENEVA

No. 113 /POL2/V/2012

The Permanent Mission of the Republic of Indonesia to the United Nations, WTO and other International Organizations in Geneva, presents its compliment to the Office of the United Nations High Commissioner for Human Rights, and with reference to the Office's letter dated 5 April 2012 has the honour to transmit the attached submission of the Indonesian Government in response to questionnaire on housing finance institutions, policies and programmes elaborated by the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, and on the right to non-discrimination in this context, pursuant to Human Rights Council resolution 15/8.

The Permanent Mission of the Republic of Indonesia to the United Nations, WTO and other International Organizations in Geneva avails itself of this opportunity to renew to the Office of the United Nations High Commissioner for Human Rights the assurances of its highest consideration.

Geneva, 28 May 2012



Office of the United Nations
High Commissioner for Human Rights (OHCHR)
Fax no. 022-917 90 06
Geneva

OHCHR REGISTRY
30 MAY 2012
Recipients: SPD.
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**RESPONSES SUBMITTED BY THE GOVERNMENT OF INDONESIA
QUESTIONNAIRE ON HOUSING FINANCING POLICIES AND PROGRAMS****Question**

1. **Is your country promoting housing finance policies or programs aiming to enable access to home ownership and/or other affordable housing by the poorest segments of society, by providing credit through financial institutions (public, private or quasi- private)?**

If the answer is positive:

- a. **Please indicate whether these policies or programs involve public subsidies, tax exemptions or other public financing**
- b. **Please indicate whether these policies or programs involve the participation of one or more of the following international finance institutions: international financial institutions (World Bank Group, International Monetary Fund, etc), Regional development banks (ADB, IDB etc), international private financial actors (commercial banks, investment funds)**
- c. **Please indicate the period of time during which these policies and programs have been implemented**
- d. **Please indicate whether these programs have been developed or implemented as part of recovery measures in the context of the global financial and economic crisis that started in 2008.**

Response**Housing Finance Policies in Indonesia**

Indonesia is promoting housing finance policies and programs aimed at enabling access to home ownership of low-income households, as well as poor households. The policies are embedded in the Long-term National Development Plan (2004-2025) and further elaborated in the Medium-Term Development Plans of 2004-2009 and 2010-2014.

The goals for housing and human settlement development (2004-2009) include: (i) improving livelihood through decent housing initiatives and (ii) accelerating low-cost sustainable vertical urban development. Specifically for housing finance, the goals include: (i) increasing capacity of financial institutions to deliver services to diverse communities, (ii) synergizing funding from various sources at different levels, and (iii) establishing secondary mortgage facilities through the establishment of PT Sarana Griya Multi Finance (PT SMF).

The development agenda in the Second Medium-Term Development Plan (2010-2014) consists of (i) enhancing economic development and social welfare, (ii) government reform and capacity building, (iii) democracy strengthening, (iv) law enforcement, (v) eradication of corruption and (vi) inclusive and equitable development.

In housing and human settlements the goals are to (i) improve livelihood security through provision of decent housing and utilization of settlements as productive centers, and (ii) extending feasible and sustainable local housing delivery systems. The housing financial system will be strengthened through: (i) developing better access to credit (especially for low-income people), (ii) mobilizing long-term capital through primary and secondary markets, (iii) developing sustainable housing assistance programs, and (iv) mobilizing investments for housing development.

Since 2011, Indonesia has revised the previous Law no. 4/1992 on Housing and Human Settlements and

Law no. 16/1985 on Apartments with Law no. 1/2011 on Housing and Human Settlement Areas and Law no. 20/2011 on Apartments. The new laws have acknowledged:

- Housing development as part of the urban or rural system
- More significant role of the local government
- Community participation in all phases of housing and human settlement development
- Slum upgrading and slum prevention
- Security of tenure
- Strata title

Housing Policy Implementation

Housing policy implementation is conducted through two main programs, the Housing Development Program and Housing Community Empowerment Program, targeted to improve housing for poor, low-income, and middle-income households:

- a. **The Housing Development Program** focuses on (i) improving housing regulations, (ii) providing housing infrastructure and facilities for the poor, (iii) development of healthy housing (low-rise and high-rise), (iv) exchanging experiences and (v) best practices on housing development.
- b. **The Housing Community Empowerment Program**, which focuses on (i) developing housing finance system, (ii) improving quality of slums, traditional villages, fishermen villages and resettlement areas, (iii) facilitating and stimulating community-based housing development, (iv) facilitating and stimulating post-disaster rehabilitation of human settlements, (v) simplifying procedures, (vi) improving tenure security, (vii) enhancing local housing institutions such as micro-finance institutions/cooperatives, (viii) strengthening stake-holders forum and (ix) supporting social housing development.

Housing Finance Development in Indonesia

Since 1969, Indonesia's development housing policies have been based on Five Year Development Plans (*Repelita*), focused on providing low-cost housing for low income earners; revitalizing slum areas, providing low-cost dwellings with adequate water, utilities, drainage and waste treatment. The private sector has also been encouraged to provide housing and housing finance.

Since 1974, Indonesia has established the National Savings Bank (Bank Tabungan Negara/BTN) to support home mortgage, the National Housing Corporation (Perum Perumnas) to support public housing development, and the National Board for Housing Policy (BKPN) that consists of the Minister of Housing and Minister of Public Works as chairman and co-chairman, 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. Developers under Real Estate Indonesia (REI) and Association of Housing Developers (APERSI) have flourished since the 1980s to support housing development for various levels of households. During this period, the Government introduced the Fixed-interest Home Mortgage that was supported by soft-loan from Bank Indonesia (9% interest rate).

From 1984-1989 Indonesia implemented 'tight money policy' and the Indonesian Rupiah depreciated significantly. BTN home mortgage rates rose from 9% to 15% annually. The Government worked with linked-institutions to overcome the problems. In 1997, the property sector's uncontrolled growth worried the monetary authorities. In July 1997 the Bank Indonesia Board of Directors limited property sector's lending. A main cause of the problems was the banking sector's huge loans to the property sector despite unreliable market information and low mortgage lending capacity. The market became

overheated and non-performing loans began rising.

The property sector experienced a collapse. Most developers became bankrupt and many housing/property projects were discontinued. Weak capital structures, lack of management skill and technical expertise and high construction loan interests that reached 25% to 28% per annum in 1999 contributed to their demise. Mortgage loan interest rates also rose as high as 36%.

Since 2000, the Government's role gradually changed from being a 'direct provider' to a housing 'enabler' by providing more sound regulatory and financial environments. The Government is encouraging an integrated approach by using financial, institutional, human and physical resources in public, private and the so called 'third' sector, which is the community, to deliver housing.

In 2006, the Government developed micro-finance policies to support housing development. Housing micro-finance has not been attractive to banks because it is perceived as high-risk. Through the Ministry of Finance, the government has issued regulations allowing cooperatives to participate in housing finance, especially for low-income people.

Ever since the 1998 crisis, the Indonesian financial system overhaul has provided a unique capacity to reduce the impact of the 2008 crisis to a certain degree. However, the Indonesian Government believed that extra measures should also be taken to respond to the 2008 crisis and further mitigate the adverse impacts of the crisis. In this regard, the Government took the following measures:

1. Improving market liquidity through: a) providing additional liquidity to national banking system; b) lowering statutory reserve; c) implementing Crisis Management Protocol for managing the Sovereign Bonds; d) moratorium on the implementation of the regulation on 'marked to market' requirement for securities; e) accelerating Government spending; f) conducting 'buy-back' operation for shares of State-owned companies; and g) loosening the buy-back requirements for private companies.
2. Maintaining the sustainability of foreign exchange and balance of payment through: a) encouraging FDI by improving business environment; b) seeking alternative source for financing budget deficit from non-market international sources; c) collaborating with central banks of other countries to provide swap facilities; e) realizing Asian Bond Arrangement; e) implementing reporting requirement for large-scale acquisition of US dollar to prevent speculation; establishing foreign currency "clearing house" for State-owned companies' transactions; g) implementing additional requirements for letter of credits; h) preventing the in-flow of large short-term capital; i) tightening-up of auto-rejection for capital out-flow; j) reducing imports for consumption.
3. Maintaining the sustainability of the State Budget by: a) redefining "emergency financing" as stipulated in article 23 of Law No. 41/2008 on Budget of 2009; b) increasing government spending and focusing the spending on sectors that yield greater impact on employment and poverty reduction; c) increasing the fiscal risk reserve; d) designing emergency financing from foreign loans; e) relaxation of tax rates for several economic sectors.
4. Enacting and improving rules and regulations in the financial sector to support a strong and conducive market by: a) loosening the regulation for banks, capital market and non-bank financial institutions, especially for determining the appropriate value of securities; b) implementing temporary suspension of trading in the stock market; c) enacting Government Regulation in-lieu of the Law on Bank of Indonesia to increase types of assets that can be used as collaterals to obtain short-term financing facilities; d) enacting Government Regulation in-lieu of the Law on Deposit Insurance Corporation to increase the maximum value of deposits that can be insured; e) enacting Government Regulation in-lieu of the Law on Financial System Safety, which regulates the

mechanism of prevention and handling of crisis in the financial system to maintain the stability of national financial system.

In general, steps taken by the Government have enabled the development of a more robust financial sector that provides better facilitation for others sectors of the economy, including the housing sector. At present, the Indonesian property sector is among the sectors that are expected to give important contribution to the economic growth of Indonesia, despite the crisis.

Funding and Financing Scheme

Before 2001, long-term low-income housing funds came from Bank of Indonesia Liquidity Credit (KLBI), Investment Fund Account (RDI), and the World Bank. The National Saving Bank (BTN) distributed the funds to banks or finance institutions that issued low-interest loans to low-income borrowers. Consequently, subsidized Home Mortgage (KPR) interest rates were also low. Law No. 23/1999 prohibited Bank of Indonesia from distributing housing funds to KLBI and RDI. The KLBI program was terminated in 2000 and RDI in 2001.

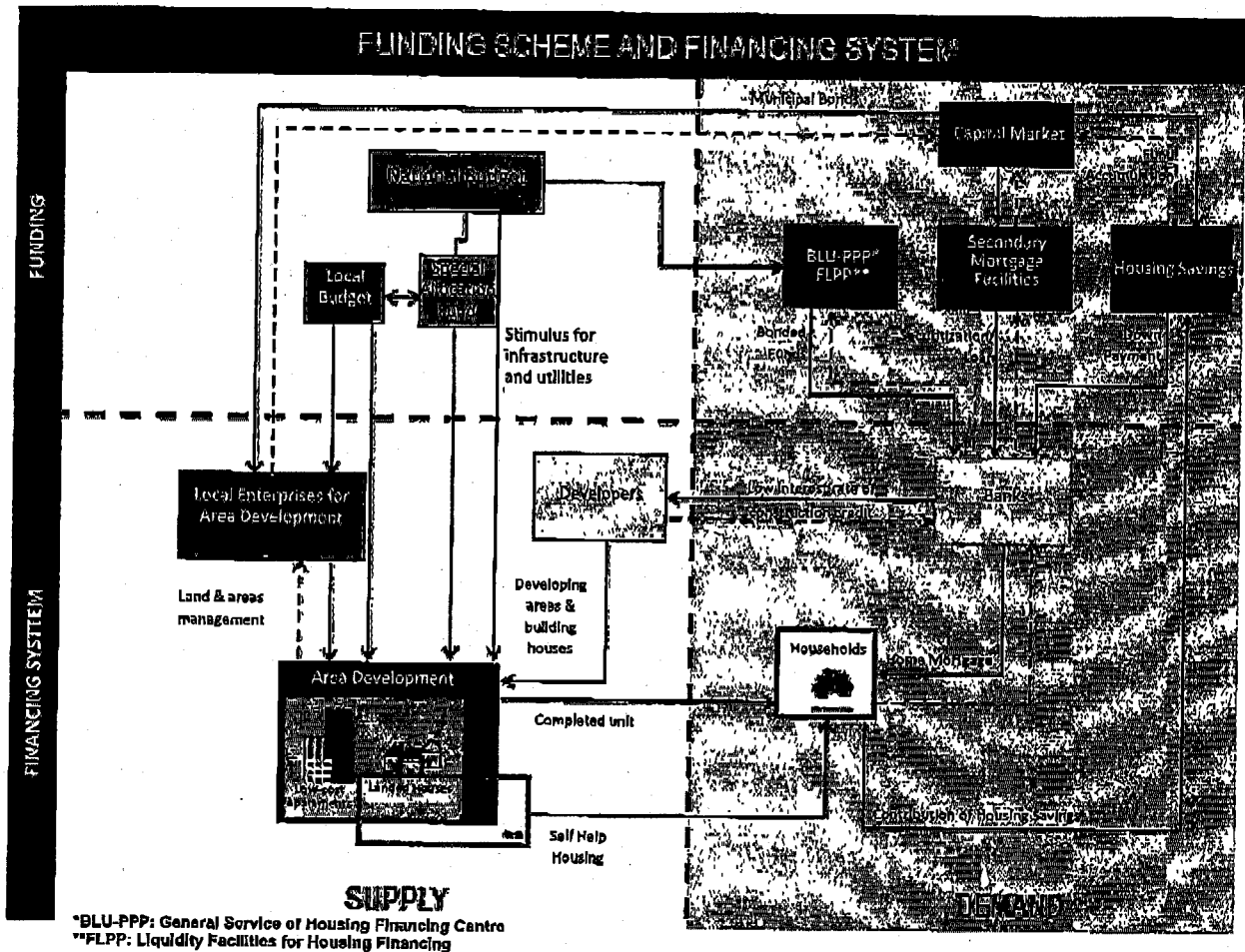
Since 2001, the Indonesia Government has changed housing policies to focus on market empowerment. The overriding objective is continuously mobilizing long-term funding sources to support low-income housing programs.

The Government of Indonesia has carried out efforts to increase the availability of financial resources for housing that supports primary mortgage facility that benefits the community better through Mortgage Liquidity Facilities (FLPP). This facility has much lower interest rate than the conventional KPR, and has been operational since the issuance of the Minister for Finance's Regulation No. 185/PML.05/2010 dated 15 October 2010 on Service Charge of Public Service Agency (BLU) on Mortgage Center. The accumulation of FLPP fund from 2010 to 2011, which amounted to Rp 6.25 trillion, is expected to support the target for People's Housing Loan in 2011 by as much as 134 thousand housing units and 50 thousand affordable housing units.

There are also the secondary mortgage facilities, enabled by the issuance of Presidential Regulation No. 19 of 2005 as amended by Presidential Regulation No. 1 of 2008 on Secondary Mortgage Facilities for Housings. To achieve the objective, the Government has established PT Sarana Multigriya Finansial (PT SMF) based on Government Regulation No. 5 of 2005 on the Inclusion of State Funding for the Establishment of Companies in the Field of Secondary Mortgage Facilities for Housings. PT SMF is tasked to develop secondary mortgage facilities and mobilize new sources of housing finance development funds.

The following figure provides information on the scheme for funding and financing housing:

Figure 1: Funding and Financing Scheme for Housing in Indonesia



Recent Housing Finance Programs

Table 1 Housing Finance Programs (duration, mode of financing, institutions, beneficiaries)

Name of Program	Duration of the program	Mode of financing	Institutions involved	Beneficiaries
Community-Based Initiatives for Local Development (CO-BILD) – pilot project in 12 cities	2000 - 2003	Loan (Netherlands)	<ul style="list-style-type: none"> - UNDP - Ministry of Human Settlements and Infrastructure/Ministry of Public Works - Local community organizations 	Local community in 12 cities
Neighborhood Upgrading and Shelter Sector Project (NUSSP)	2005 - 2009	ADB Loan Public Finance	<ul style="list-style-type: none"> - Ministry of Public Works - Asian Development Bank (ADB) 	More than 1000 households received micro-credit for home improvement through local micro-credit institutions (interest rate above commercial interest rate)

Name of Program	Duration of the Program	Mode of Financing	Institutions Involved	Beneficiaries
Subsidized Micro-Credit for Home Improvement (KPRS Mikro) for low-income households	2006 - 2010	Public finance Subsidy and micro credit through local cooperatives	<ul style="list-style-type: none"> - Ministry of Finance - Ministry of Housing - Local micro-finance institutions (cooperatives) 	The scheme has reached almost 50000 low-income households for self-help housing development throughout Indonesia
Home Mortgage supported by Liquidity Facility (KPR FLPP) for low-income first home- buyers	2010 - ongoing	Public Finance (liquidity facility) Home mortgage through financial institutions (Banks)	<ul style="list-style-type: none"> - Ministry of Finance - Ministry of Housing - <u>National banks:</u> <ol style="list-style-type: none"> 1. BTN (conventional) 2. BTN (Syariah) 3. Bukopin 4. BNI 46 5. Bank Mandiri - <u>Local banks:</u> <ol style="list-style-type: none"> 1. BPD Nagari 2. BPD Sumut (Conventional) 3. BPD Sumut (Syariah) 4. BPD Jawa Tengah 5. BPD Jawa Timur 6. BPD NTT 7. BPD Kaltim 8. BPD Kalteng 9. BPD Riau Kepri 10. BPD Sulteng 11. BPD Papua 	<p>2010-2011 Home mortgage fixed rate of 8.25-8.5% for 15 years reached 121,850 households (income less than Rp 2.5 million per month)</p> <p>2012: Home mortgage fixed rated 7.25% for 15 years reached 3.213 households (income less than Rp 3.5 million per month)</p> <p>1 USD = Rp 9000</p>

Question

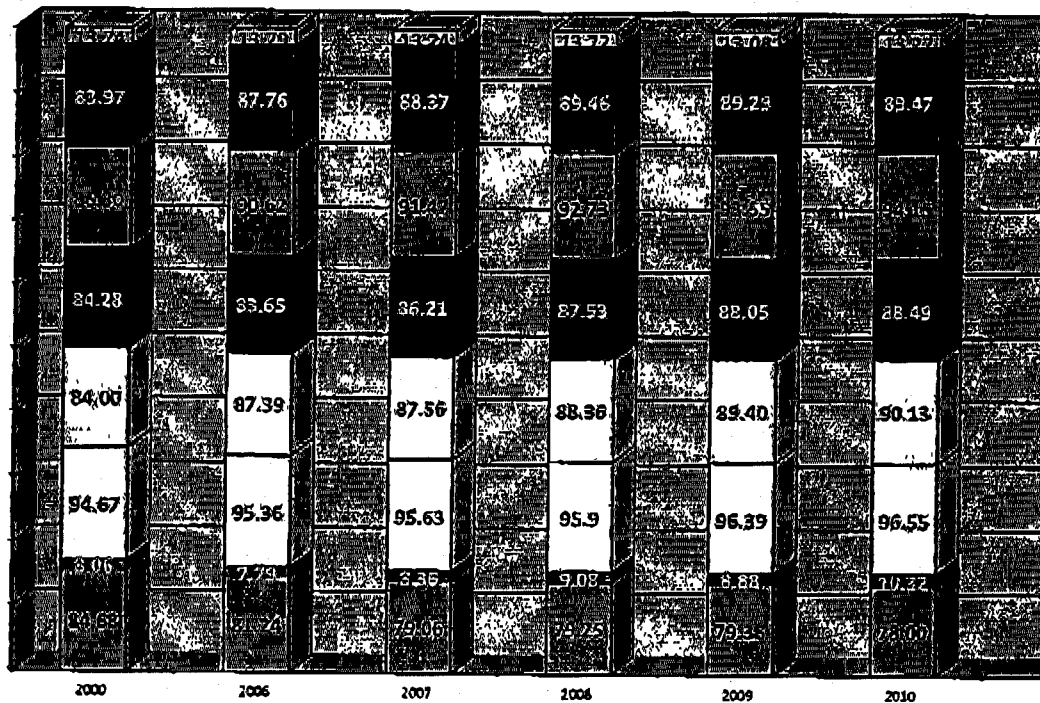
2. Please provide any available assessment of the impact of such policies and programs on the housing situation of the poor or other categories of beneficiaries. Specifically please provide the following data:
 - a. The percentage of the population living in informal settlements before and after the implementation of these policies
 - b. The percentage of households with access to improved sanitation including in rural areas before and after the implementation of these policies
 - c. The percentage of population with access to electricity including in rural areas before and after the implementation of these policies
 - d. The percentage of houses with ownership or clear title on their dwelling before and after the implementation of these policies

Response

Impacts of policies and programs on the housing situation

Although there is not yet a recent assessment on the impact of those programs on housing, in general the housing conditions have improved (based on 2000-2010 data).

Figure 2: Indicators of Housing 2000-2010



Percentage of Households with large area per-capita <=7.2 m2
 Percentage of Households with source of energy from electricity of State-Owned Company (PLN)
 Percentage of Households with source of energy from electricity
 Percentage of Households with permanent floor
 Percentage of Households with permanent/cement wall
 Percentage of Households with roof tile
 Percentage of Household with rental status
 Percentage of Household with own status
 Source: BPS-Statistics Indonesia, Indicators of Housing 1993-2010

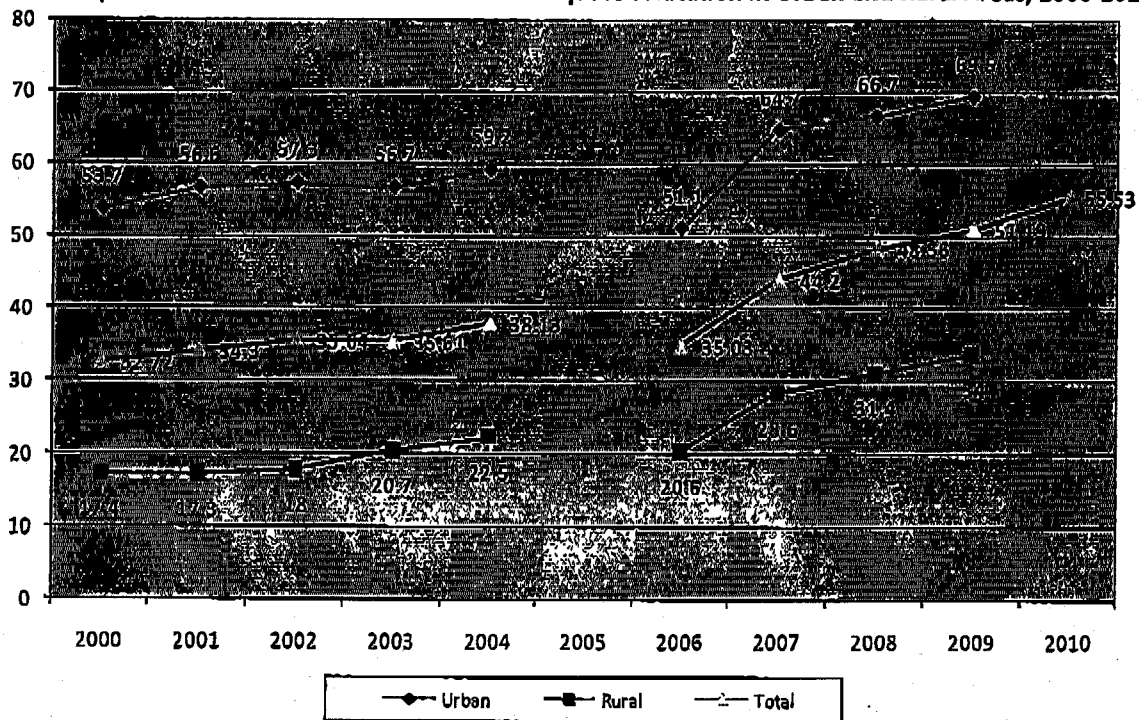
The improvement of access to financing has, to a certain degree, contributed to the empowerment of the community to independently fulfill the demand for new housing. Currently, almost 80% of the fulfillment of the demand for new housing has been met by the people's own effort. However, despite the improvement of access to housing financing facilities, Indonesia still experiences a backlog in housing development, which can be observed from the decreasing percentage of household with ownership status from Figure 2. This is partly due to the increasing rate of population growth and the considerable addition of number of households every year that further add to the backlog. In 2010, Indonesia's population stood at 237.6 million with a growth rate of 1.49%. The population growth rate tends to slightly increase from 2000 to 2010. The population is expected to grow to 250 million by 2020.

Approximately, 12.12 percent of households in Indonesia still live in slum areas. However, the proportion of households living in urban slums in Indonesia has declined by 8.63 percentage points from 20.75 percent in 1993, despite the significant increase in urban population in the past decades – from 19.3% in 1975 to 48% in 2005 and 58% in 2010.

There are signs of positive improvements with regard to access to electricity, which has increased from 90.62% in 2006 to 94.15% in 2010, as well as the general condition of the house (floor, wall and roof). Positive developments can also be observed in terms of access to decent drinking water resources. The proportion of total households in the urban and rural areas which have access to decent drinking water resources in Indonesia has increased from 37.51% in 2000 to 44.19% in 2010. In urban areas, the proportion has increased from 46% to 49.82%, while in rural areas the increase is from 31.3% to 45.72%. Decent drinking water resources consist of household water tap, public water tap, drill or pump water well, protected water well, protected spring water, and rain water. Bottled water, water from unprotected well and springs are not included as resources.

The proportion of households that have access to improved sanitation facilities has also increased. It increased from 32.73% in 2000, to 35.03% in 2006 and to 55.53% in 2010.

Figure 3: Proportion of Households with Access to Adequate Sanitation in Urban and Rural Areas, 2000-2010



Source: The Roadmap to Accelerate Achievement of the MDGs In Indonesia, 2010; and BPS-Statistics Indonesia, Indicators of Housing 1993-2010

Question

3. Please also provide information on programs or policies concerning construction or provision of public housing for sale or rental in the country, including privatization of public housing. Please describe any significant reforms or developments in this sector over the last thirty years. Please provide (in annex) any relevant documents, laws, regulations and policies.

Response**A. Public Housing Reforms**

The Law no. 16/1985 on Apartments has been revised with the new Law no. 20/2011 on Apartments (*Undang-undang tentang Rumah Susun*). The major difference is that the new Law no. 20/2011 acknowledges security of tenure, strata title, the role of local government (provincial and regency/city level), the role of tenant and owner associations, and encourages the establishment of the Management Agency for Public Housing.

Indonesia is also preparing a draft for the National Housing Savings Act (*RUU Tabungan Perumahan*) and a draft for a Government Regulation on Housing Finance System (*RPP Sistem Pembiayaan Perumahan*).

Legislation on housing and settlements include:

1. Republic of Indonesia's Basic Constitution 1945, Article 28 H, Sub Section (1): *"Every person has the right to lead a prosperous life, home and healthy environment as well as the right to obtain health care."*
2. Law Number 39 Year 1999 Regarding Human Rights, Article 40: *"Every person has the right to a place to live and adequate standard of living."*
3. Law Number 32 Year 2004 regarding Local Government.
4. Law Number 17 Year 2007 regarding The National Long-Term Development Plan Years 2005-2025 states that *"the main targets of housing and settlement development are to: provide housing that is supported with infrastructure and common facilities for the whole community, supported by long-term housing finance system that is sustainable, efficient, and accountable to realize the city without slums."*
5. Law Number 1 Year 2011 regarding Housing And Residential Area, article 50 (1): *"Every person has the right to reside and occupy a home", and 2) the right to occupy a home can be in the form of (a) ownership rights, (b) rental rights or not rent."*
6. Law Number 20 Year 2011 on Apartments, article 3: *"The delivery of apartments aims to assure decent and affordable supply of apartments in a neighborhood that is healthy, safe, harmonious, and sustainable, and create integrated settlements to support economic, social and cultural endurance."*

B. Current Public Housing Programs**1. National Movement for a Million Houses**

The National Movement for One Million Houses is a government initiative to provide affordable housing and improving quality of living. Initiated in 2003 to accelerate housing supply, specifically for low-income and poor households, the movement focuses on improving coordination amongst housing development stakeholders. It involves programs for improving land access, housing finance system developments and institution building within the sector.

A major component is providing serviced-land (large-scale and neighborhood scale, known as *Kawasan Siap Bangun (Kasiba)* and *Lingkungan Siap Bangun (Lisiba)*). The aim of this program 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.

The program currently is aimed to support a) civil servant housing, b) workers housing, and c) informal sector workers housing. The Ministry of Housing facilitates these housing developments, working closely with local governments, the Ministry of Home Affairs (for land and assistance in permits), Ministry of Public Works (for infrastructure provision), industrial companies, PT Jamsostek (Workers Social Security Company) and financial institutions (for home mortgage).

2. National Program for 1000 Towers

The government launched this program in 2007 to increase adequate housing supply in metropolitan cities 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 government provides tax incentives, ease of permits and infrastructure to reduce the housing price/rent. The target groups for rental apartments are mainly blue-collar workers, informal sector workers, students, as well as temporary migrants who need accommodations close to their workplace. The ownership apartments are targeted at the middle-income groups. The government provides credit through the KPR FLPP (Home Mortgage).

The housing is built collaboratively by government and private sector, and will be supported with credit schemes to enable low-income households to apply for home ownership. Till date there have been 45 completed towers – the majority in Jakarta. The major problems hindering the implementation of this program is mostly due to lack of finance and building management.

3. Other programs in support of the national housing program

To support the national housing program, the Government is also promoting land certification through the National Land Agency to improve land ownership, including for housing. The programs include: National Program for Land Certification (Prona), *Layanan Rakyat untuk Sertifikasi Tanah (Larasita)*, a mobile on-line process to support land certification for rural land-owners. The National Land Agency works closely with the Ministry of Housing to support land certificates for poor households, with the target of facilitating certificates for 30,000 poor land owners until 2014.

In addition, many initiatives have been carried out to improve the welfare of urban households, such as the *Kampung Improvement Program (KIP)*, urban renewal, the Urban Poverty Project (UPP), the Community-Based Initiatives for Housing and Local Development (CoBILD), and the Neighborhood Upgrading and Shelter Sector Program (NUSSP). Furthermore, several initiatives to empower those who live in urban slums are being implemented, including through the National Program for Community Empowerment (PNPM Mandiri).

Current programs to enhance access to clean water and sanitation are the Community-based Water Program (PAMSIMAS) and Community-based Sanitation Program (SANIMAS), while programs for slum upgrading and infrastructure development include the Neighborhood Upgrading and Shelter Sector Project (NUSSP), neighborhood infrastructure assistance (PSU), area-based slum upgrading program (P2LBK).

References:

1. Law no. 39/1999 on Human Rights
2. Law no. 32/2004 on Local Government
3. Law no. 17/2005 on the National Long-term Development Plan
4. Law no. 1/ 2011 on Housing and Settlement Area
5. Law no. 11/2011 on Apartments
6. National Medium Term Development Plan 2004-2009
7. National Medium Term Development Plan 2010-2014
8. Ministry of Housing Strategic Plan (2010-2014)
9. Ministry of Public Works Strategic Plan (2010-2014)
10. Ministry of Public Works, ADB and NUSSP, Best Practices – Towards Cities without Slums
11. Central Board of Statistics (Badan Pusat Statistik) website
12. Ministry of National Development Planning/National Development Planning Agency of the Republic of Indonesia, The Roadmap to Accelerate Achievement of the MDGs in Indonesia, 2010