

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC26050

<b>Project Name</b>	National Affordable Housing Program (P154948)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Indonesia
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P154948
<b>Borrower(s)</b>	Ministry of Finance
<b>Implementing Agency</b>	Ministry of Public Works and Housing
<b>Environmental Category</b>	B-Partial Assessment
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<b>Concept Review Decision</b>	

## I. Introduction and Context

### Country Context

1. Indonesia is undergoing a major and rapid structural transformation into an urban, manufacturing and service-based economy. Indonesia's cities are growing faster than many of their Asian peers, with the urban population increasing at an average rate of 4.1 percent per year between 2000 and 2010 (compared to 3.8 percent in China, 3.1 percent in India and 2.8 percent in Thailand). In 2012, the urban population was over 52 percent of the total population, and by 2025, an estimated 68 percent of Indonesians will live in urban areas. Approximately 18 million of the 21 million jobs created between 2001 and 2011 were in urban areas, marking a major shift of the employment base toward cities.

2. However, a large urban infrastructure deficit, slow gains in labor productivity, rising inequality and severe shortages of affordable housing threaten to limit the benefits of urbanization by stifling growth and poverty reduction. In urban areas, quality housing and access to basic services, such as water, sanitation, or transport connections, remain poor relative to Indonesia's wealth and level of income. In 2014, around 33 percent of the urban population did not have access to clean water supply facilities, while 40 percent did not have access to sanitation facilities. In

addition, the large increases in urban population, combined with a shortage of suitable urban land for housing have greatly increased housing and land prices and limited the availability of affordable housing for low-income households. This has led to overcrowding and the growth of slums characterized by substandard housing, inadequate access to basic services, poor health and vulnerability to disaster risks.

3. Going forward, as income poverty declines, vulnerability, persistent inequality, and access to services will need to be tackled more aggressively to foster shared prosperity. As more people move and work in urban areas, it will be critical to support inclusive and well-planned urbanization and increase the supply of adequate housing in well-serviced and connected neighborhoods in order to enhance living standards. Empirical evidence shows that urbanization supports growth and poverty reduction in Indonesia only in the presence of adequate infrastructure.

### **Sectoral and Institutional Context**

4. Indonesia currently has substantial unmet housing needs. There are approximately 64.1 million housing units in Indonesia, around 20 percent of which are in poor condition. While estimates of the housing backlog vary widely, all indicate substantial unmet housing needs. Based on a 2013 housing survey, BPS (the National Statistics Agency) calculates the housing backlog at 11.8 million units. Under current conditions, this number will increase as the annual demand for housing exceeds supply. An estimated 820,000 to 920,000 new units are needed in urban areas each year to respond to annual demand from population growth. However, the private sector only produces approximately 400,000 units per year. An additional 150,000 to 200,000 solutions are enabled by public sector programs (including incremental home improvement, rental housing, and social housing). This leaves a gap of an estimated 220,000 to 370,000 households that must resort to informal solutions or overcrowding in existing units each year.

5. Affordability remains a key constraint to significantly improving housing outcomes in Indonesia. Only the top 20 percent of households (deciles 9 and 10) are capable of acquiring housing in the formal commercial market. The middle 40 percent of households (deciles 5 to 8) cannot afford formal housing solutions without subsidy enhancements. The bottom 40 percent of Indonesians (deciles 1 to 4), conversely, live below or close to the poverty line (leaving little room for savings and housing). These households cannot afford even a basic starter unit valued at IDR 15-30 million. A formal housing solution is far beyond the reach of the poorest Indonesians without deep and expensive subsidies.

6. The penetration of mortgage finance is limited in Indonesia, making affordable housing less accessible for lower income households. Mortgage lending accounted for only 2.44 percent of GDP in 2012, compared to 5 percent in India, 19 percent in Thailand and 31 percent in Malaysia. The extent of mortgage lending is constrained by a complex range of factors. First, most Indonesians simply cannot afford a mortgage without subsidy enhancements and current and recent GoI mortgage-linked subsidy programs have suffered from both inadequate funding and poor design. Second, over 60 percent of Indonesians do not form part of the formal workforce and hence lack access to the financial system. Many of these households may be able to afford a mortgage but lack credit histories and are considered (unbankable) by the commercial banking sector. Unlike in comparator countries like India or Mexico, the financial sector in Indonesia has not yet developed innovative underwriting and credit risk management procedures to reach lower-income and non-salaried earners. Third, the banking sector lacks access to affordable, long-term funding from capital markets. Without the evolution of this secondary market, Indonesian banks will be limited in terms

of their ability to finance long-term mortgages from short-term deposits.

7. Supply constraints prevent the private sector from participating in low-cost housing production. Bottlenecks in the availability of land, including complex land acquisition, permitting and servicing processes, constraints on developer finance and the rising cost of construction have made formal housing development an expensive and risky activity. This has kept annual production numbers limited overall, particularly for low margin affordable units. Developers have little incentive to build for the low-cost market, preferring to maximize profits where strong demand from higher-income families or investors exists.

8. New affordable housing supply is often poorly located, pushing the urban poor to city peripheries. Lack of finance and the high cost of land in inner city areas mean that low-income households often resort to purchasing housing at the periphery of cities. As a result, these households end up paying premiums for transportation costs, which creates a broader negative impact in terms of congestion and spatial development patterns that are neither economically efficient nor sustainable.

9. Indonesia has developed a broad set of policies and institutions to support housing provision, however these have not yet been effective at improving housing outcomes at the scale necessary. These include, but are not limited to: (i) a series of neighborhood community development programs; (ii) highly to fully subsidized public rental programs; (iii) an up-front subsidy for incremental home improvement (BSPS); and (iv) a subsidized liquidity facility (FLPP) which aims to enhance mortgage affordability for middle-income households by subsidizing interest rates for fixed rate mortgages. In addition, Indonesia has established a series of state-owned enterprises, including PT. Perumnas, SMF, Jamkrindo and Askkrindo, which are entrusted to play an active role in improving supply of and access to affordable housing through direct housing development, secondary mortgage market development and the extension of mortgage insurance. Finally, some local governments have innovated with their own programs that have achieved local results, e.g. a housing microfinance scheme in Palembang and a rental housing program administered by DKI Jakarta. However, these local initiatives often lack sustainable funding and support to be taken to scale.

10. In spite of these initiatives, government spending on housing in Indonesia remains too small to make a significant impact. In 2013, GoI committed only 0.3 percent of the total central government budget to the housing sector. This accounted for only 0.05 percent of GDP, significantly less than housing budgets of international and regional comparators, e.g. United Kingdom (1.42 percent of GDP), Thailand (2.15 percent of GDP) and the Philippines (0.31 percent of GDP). Despite overarching fiscal constraints, Indonesia will likely be unable to make a considerable push in improving housing conditions without significantly increasing public spending in the sector.

11. However, increased spending must be matched with improvements in the quality of public spending in the housing sector. The efficiency of public spending on housing has considerable room for improvement. The Ministry of Housing (which in 2015 was merged with the Ministry of Public Works to form the Ministry of Public Works and Housing, or MPWH) disbursed only 68.2 and 67.2 percent of allocated budget in 2011 and 2012 respectively, improving to 87.6 percent in 2013. Housing programs with the highest budget allocations, in particular the FLPP scheme, have struggled to disburse effectively. See Annex 3 for a more detailed assessment of the FLPP scheme.

12. Additionally, government spending on housing is not always equitable. Current housing spending is regressive in three important ways. First, the overall budget allocation in the housing sector disproportionately favors programs targeted to middle or upper-middle class households. From 2011 until 2014, 43.3 percent of Ministry of Housing budget was allocated to the FLPP program (which caters to households with base salary of up to IDR 4 million per month, and likely much higher), while the rest of the budget was divided among other programs, including the BSPS incremental home improvement subsidy program (IDR6.3 trillion, 19.3 percent of budget), the Rusunawa rental housing program (IDR4.9 trillion, 15.3 percent of annual budget), and neighborhood upgrading and titling programs, all of which target lower income households. Second, the absolute value of subsidy to households across programs is significantly higher for programs that target relatively higher income households. Higher income households accessing FLPP can benefit from an effective government subsidy of IDR 126 million, 43 percent of the maximum mortgage of IDR 300 million supported under the program. In contrast, the BSPS incremental housing improvement subsidy targeting lower income beneficiaries is only IDR 10 million to IDR 20 million. Lastly, within individual programs, subsidies are not scaled progressively to income, thus enabling households that qualify for and can afford a higher value housing solution to capture an equal or greater subsidy. Going forward, GoI initiatives in housing must significantly reorient and rebalance to focus on the bottom 40 percent.

13. Program targeting and sector information systems also have significant room for improvement. Housing needs in Indonesia are diverse (units in rural areas suffer disproportionately from a qualitative deficit (substandard materials and no access to basic services), while housing needs in urban areas are mainly part of the quantitative deficit and suffer particularly from overcrowding, indicating the need for new production. The housing deficit is a ratio that should reflect both quantitative deficit and qualitative deficit. The deficit figures that are frequently reported in Indonesia relate to the number of households that do not own a home, which was measured at 11.9 million households in 2010, and is estimated to have increased to 13.5 million by 2014, approximately 20 percent of the 64.1 million total units. However, this number is misleading. Analysis of BPS Susenas data reveals that home ownership is lower for higher income households: the reported deficit thus lies with upper decile households as opposed to low-income segments. The figure also fails to take into account renters or lessees who may not wish to own due to lifestyle preferences.

14. In addition, the calculation of qualitative housing deficit is challenging as there is no consensus on the definition of substandard housing used in Indonesia. BPS Susenas data captures indicators related to the lack of standard utilities (e.g. water, sanitation and electricity), substandard construction materials, and the overcrowding effect (less than 7.2m<sup>2</sup> per person). Current measures indicate that 45 percent of existing homes, or 28.9 million units are substandard in one of these areas. Using a combination of these factors can radically shift the estimate of deficit. However, as there is no consensus on minimum decent housing standards, these indicators are not incorporated into most widely-reported housing deficit estimates. Rigorous and uniform deficit estimates as part of a sector-wide targeting and information system are thus an important prerequisite to effective housing policy in Indonesia. Additionally, an improved, disaggregated (by geography, income segment and tenure status) and regularly updated housing information system is critically needed to serve as a basis for the development and monitoring of housing policies and programs.

15. Failures in the affordable housing markets and the limited effectiveness of policy

interventions have contributed to the proliferation of slums. An estimated 12.2 percent of urban residents currently live in slums, which cover approximately 38,430 hectares. If no action is taken, it is expected that the area in cities attributable to slums will continue to increase, along with the number of households. Many of these slum and squatter areas are not legally recognized and therefore not provided with basic services, becoming zones of exclusion, poverty and substandard living conditions.

16. The recently elected Jokowi administration has made reducing the housing backlog and delivering affordable housing an explicit policy priority. The administration has developed a policy goal of meeting new household demand and addressing its housing deficit by delivering one million homes annually. This initiative, called Satu Juta Rumah (One Million Homes) was officially launched on April 30, 2015. As its name suggests, the program aims to produce an average of one million housing solutions annually over the next five years. While ambitious, this target set by GoI is appropriate given the need for affordable housing created by new annual household formation and the existing housing deficit in Indonesia.

### **Relationship to CAS**

17. Alignment with the Government of Indonesia Priorities and CPS. The proposed operation aligns with the Government of Indonesia's development priorities as defined in the National Medium Term Development Plan (RPJMN) and the World Bank Group's 2013-2015 Country Partnership Strategy (CPS). The CPS emphasizes the need to reduce poverty and increase shared prosperity by improving infrastructure and local service delivery. The draft Systematic Country Diagnostic (SCD), which will serve as the basis for the upcoming 2016-2018 Country Partnership Framework (CPF) cites housing as a key factor (along with water and sanitation, waste management, and transport) for meeting the challenges presented by rapid urban growth. The SCD emphasizes that eradicating poverty and increasing shared prosperity in Indonesia will depend on the country's ability to manage its urbanization process through, among other things, the delivery of affordable, well-located, quality housing.

18. Alignment with the World Bank's Twin Goals. This initiative supports the World Bank's twin goals of reducing poverty and increasing shared prosperity by promoting inclusive urban growth, economic development and improved access to services that reduce the vulnerability of the urban poor. International experience shows that well-located housing close to jobs and public transport can enhance livelihood opportunities and help contain negative impacts of socio-economic segregation, congestion and inequality on individuals and the economy. The proposed operation will focus on housing interventions that directly benefit the bottom 40 percent of the population, which enable the urban poor to build their capital asset base, while promoting sustainable city development and other positive externalities that link to poverty reduction and shared prosperity. These positive externalities include improved public health due to safe and sanitary living environments, better education outcomes for children, and job creation.

19. Alignment with other World Bank Engagements. The proposed National Affordable Housing Program is part of a series of complementary ongoing and proposed lending engagements in the immediate pipeline including the National Slum Upgrading Project, National Urban Water Supply Program, the Regional Infrastructure Development Fund and PAMSIMAS that aim to support Indonesia as it strives to close its infrastructure gap, reduce its housing deficit, and meet the critical development challenges created by a structural transition to a heavily urbanized economy. The proposed National Affordable Housing Program is also complemented by a suite of

umbrella advisory engagements including, most immediately, the PAAA on Land, Housing and Urban Settlements as well as the PAAA on Sustainable Urbanization, which similarly aim to extend deep technical assistance and policy advisory support to GoI on managing the challenge of sustainable urbanization and access to affordable housing.

#### D. Rationale for Bank Engagement and Choice of Financing Instrument

20. GoI commitment and rationale for WBG engagement. The proposed Program has been requested by the Government of Indonesia and has the support of relevant counterparts including the Ministry of Public Works and Housing (MPWH), Bappenas, and the Inter-Ministerial Working Group on Housing and Settlements (POKJA PKP). Additionally, the program benefits from strong political and technical support in the Office of the Vice President, the champion of the Satu Juta Rumah initiative. The rationale behind a Bank operation is to mobilize a suite of financial and advisory services to support GoI efforts to significantly improve access to affordable housing for the bottom 40 percent of Indonesian households.

21. WBG Experience in the housing sector. The Bank has longstanding global experience in supporting national governments (including most recently in Mexico, Brazil, India, Vietnam, Egypt and Morocco) to improve housing outcomes through a range of advisory, policy-based and investment lending instruments. Key characteristics of successful Bank engagements on housing include leveraging of the private sector, well-targeted and transparent use of public resources, and enabling a transparent regulatory environment. As part of the National Affordable Housing Program, the World Bank would draw on this deep global experience to support Indonesia to design and implement effective housing solutions for low-income households.

22. Evolution of WBG engagement in the housing sector in Indonesia. The World Bank Group has a history of providing advisory support to GoI on housing policy. In 2002, the Bank-supported Policy Development for Enabling the Housing Market to Work in Indonesia (HOMI) technical assistance project significantly advanced the understanding of GoI policy-makers on housing policy and laid the foundation for the introduction of down payment and buy-down subsidy programs. More recently, the 2012 Bank report on (Expanding Access, Improving Efficiency in the Housing Sector) advanced and updated the understanding of housing sector challenges in a rapidly urbanizing and decentralizing Indonesia, with a particular focus on land market failures. Additionally, in 2014, the Bank-supported advisory engagement on slums and informal settlements (SAPOLA) delivered a final analytical report and policy recommendations for addressing the growth in slums. The SAPOLA work served as the basis for the proposed National Slum Upgrading Program and included important analytical insights into issues related to informal urban land.

23. Most recently, since 2014, the World Bank has supported GoI through the Programmatic AAA on Land, Housing and Urban Settlements. The first phase of the PAAA culminated in the delivery of the Indonesia: A Roadmap for Housing Policy Reform, which provided a thorough review of formal housing demand, affordability and backlog estimations, as well as an overview of housing policy, land administration, housing finance and housing supply issues in Indonesia. The report outlined a detailed roadmap for policy reform and investment, which served as a key input to GoI's Medium Term Development Plan (RPJMN 2015-2019). The recommendations of the Roadmap document have strongly influenced the design and content of this proposed National Affordable Housing Program.

24. Participation of IFC in the housing sector. The IFC has increasingly provided support in the area of affordable housing in Indonesia. IFC advisory has in recent years sought to increase awareness and work directly with the private sector on expanding the provision of housing microfinance. This support has included a detailed market assessment, training and workshops on the design of financial products for incremental housing and home improvement, as well as advisory services. More recently, the IFC, as part of its support to the Satu Juta Rumah initiative, is also evaluating investment opportunities with commercial banks aiming to increase exposure in the lower-income mortgage segment.

25. Instrument Choice and Alternatives. The Bank team evaluated with GoI officials the benefits of different financing instruments including development policy financing (DPL), investment lending or financial intermediary financing (IPF) and program-for-results (PforR). Stakeholders noted that the housing sector in Indonesia faces broad issues related to both policy reform and implementation. A consensus view amongst stakeholders from MPWH, Bappenas and the Office of the Vice President has emerged around the use of a PforR instrument, which would best enable GoI to concurrently address key regulatory and policy issues, build institutional capacity, and design and deliver efficient and equitable housing solutions through appropriate interventions on both the supply and demand side. The Bank will leverage lessons and global best practices from PforR operations currently under implementation as the National Affordable Housing Program progresses to the QER and Appraisal phases.

## II. Program Development Objective(s)

### A. Proposed Development Objective(s)

26. The development objective of the proposed operation is to improve access to housing for lower-income households.

27. The Program will fulfill this objective by supporting the Government of Indonesia in the design and implementation of the National Affordable Housing Program. Specifically the Program will:

(i) Strengthen housing sector governance and the enabling environment for affordable housing through the development of a Targeting System and a Housing and Real Estate Information System.

(ii) Improve access to affordable housing finance with the design and implementation of specialized financial products for informal and low-income households, including a Savings-Linked Mortgage Subsidy Product and a Savings-Linked Housing Microfinance Subsidy Product.

(iii) Expand supply of affordable housing with assistance for the design and implementation of supply-side programs, specifically scaling up the existing home improvement subsidy (BSPS) to urban areas, developing a Core Starter Home Product, and facilitating access to urban land for housing.

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### Proposed Development Objective(s) (From PCN)

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- (iii) Expand supply of affordable housing with assistance for the design and implementation of supply-side programs, specifically scaling up the existing home improvement subsidy (BSPS) to urban areas, developing a Core Starter Home Product, and facilitating access to urban land for housing.

#### Key Results (From PCN)

The proposed key results areas and corresponding DLIs (provisional) are presented below in Table 2. These will be further refined during preparation:

Table 2: Results Area and Preliminary DLIs

Results Area	Preliminary DLIs
Strengthened Environment for Affordable Housing	<ul style="list-style-type: none"> <li>▶ (¢) Operational Targeting System</li> <li>▶ (¢) Operational Housing and Real Estate Information System</li> </ul>
Improved Access to Housing Finance	<ul style="list-style-type: none"> <li>▶ (¢) Number of households receiving Savings-Linked Mortgage Subsidy (SSM) Product</li> <li>▶ (¢) Number of households receiving Savings-Linked Microfinance Subsidy (SSHMF) Product</li> </ul>
Increased Supply of Affordable Housing	<ul style="list-style-type: none"> <li>▶ (¢) Number of units improved by expanded BSPS home improvement subsidy</li> <li>▶ (¢) Number of Core Starter Homes Product occupied by low-income households</li> <li>▶ (¢) Hectares of urban land released for low-income housing</li> </ul>

During Program preparation, a complete Results Framework containing Performance and Disbursement Indicators will be developed. Intermediate indicators of good practice (such as efficient procurement processes), and outcome indicators will also be developed to measure achievement against the PDO, in addition to the DLIs outlined above. The Bank will further refine these results areas and DLIs at the QER and Appraisal stage with an eye towards creating administrative simplicity and sustainability and incorporating relevant international experience to the Indonesian context.

### III. Preliminary Description

#### Concept Description



## A. Program Description

30. The Ministry of Public Works and Housing has been entrusted with a mandate to enable the provision of one million homes per year over the next five years as part of the Satu Juta Rumah initiative, officially launched on April 30, 2015. GoI considers Satu Juta Rumah to be a broad umbrella initiative that encompasses a suite of programs and interventions.

31. A core instrument launched under the initiative is a revised FLPP scheme (referred to in this document as FLPP 2.0) which aims to deepen concessional liquidity provision for housing loans to provide an immediate stimulus for home production targeting the lower-middle class. Under FLPP 2.0, the scheme has been recalibrated to incorporate the following incentives: (i) reduced cost of concessional funds for banks from the FLPP liquidity facility (from 0.5 percent to 0.3 percent); (ii) increase in the ratio of FLPP to bank own funding for each mortgage (from 75:25 to 90:10); (iii) provision of a IDR 4.0m down payment subsidy; (iv) reduction in the cost of mortgage insurance (from 30 basis points to 25 basis points); and, enabled by the above, (v) a reduced interest rate of 5 percent (from 7.25 percent) to the consumer for a fixed rate mortgage. These changes to the FLPP scheme will enhance the affordability of mortgages for lower-income households and provide an immediate stimulus to home production. However, the FLPP 2.0 scheme also will prove more expensive to GoI on a per unit basis, raising questions as to the long-term sustainability of the scheme. Additionally, the FLPP 2.0 scheme would only serve formal-income and bankable households that are able to qualify for mortgages.

32. The Government of Indonesia has recognized that it will need to do more under the Satu Juta Rumah initiative to target low-income households. In this regard, GoI has requested World Bank assistance on delivering affordable housing through a broader suite of instruments that reorient support towards the bottom 40 percent of Indonesian households. These activities would be structured as components under the umbrella of the overall Affordable Housing Program, with a specific focus on targeting low-income and informal-earning households. Figure 1 shows the way in which the proposed operation fits into the larger government housing program.

33. The specific components of the proposed operation are organized around the key results areas, including: (i) strengthening the environment for effective affordable housing policy by developing key prerequisites, (ii) the development of demand-side financing products capable of reaching informal and low-income households, and (iii) the reform and introduction of supply-side social housing products. Each of these components is described below in more detail.

Figure 1. Satu Juta Rumah Schematic Overview

### Results Area 1: Enabling Environment for Affordable Housing

34. This component is focused on development of key systems essential to the effective implementation of affordable housing policy: specifically (i) developing a functioning Targeting System for identifying and selecting beneficiaries, and (ii) investing in a Housing and Real Estate Information System (HREIS).

35. Program Component 1.1: Targeting Systems. Create an effective and common targeting system across housing programs to inform the design of subsidies, eligibility criteria and selection of beneficiaries. The Targeting System will use existing consumer surveys and census data collected by BPS and TNP2K as a starting point to:

- (i) develop a more concrete understanding of consumer segmentation and housing need by a range of socio-economic factors;
- (ii) put in place a clear process to allow easy calculation and updating of the housing backlog deficit (both quantitative and qualitative);
- (iii) determine eligibility guidelines and extent of subsidy needed in different geographic locations, on a program-by-program basis, to allow MPWH to improve the design and targeting of housing programs and subsidies; and
- (iv) rank order the housing needs by district and province to help the MPWH prioritize its housing program support, subsidy budget as well as capacity building efforts towards those districts and provinces with highest needs.

36. Additional consumer surveys may be conducted as necessary to complete the understanding of the consumer segmentation.

37. Program Component 1.2: Housing and Real Estate Information System. Build out a Housing and Real Estate Information System (HREIS). The HREIS will serve as a depository of housing and real estate related data, with indicators collected from areas of housing supply and housing finance, as well as tracking of home price movements and the implementation of public housing programs. The process starts with the collection of data from local governments, relevant ministries and public agencies, developers, and financial institutions. This data would be aggregated for trend analysis and key indicators will be developed for ongoing reporting. MPWH will work in close cooperation with the Bank of Indonesia to further extend the quality and geographical coverage of the quarterly Residential Home Price Index. Over time, once the HREIS has achieved the necessary depth, quality, consistency and reliability of information, regulators can use the database for forecasting and stress-testing of the market, allowing them to put in place early warning indicators and address potentially negative trends that could impact the stability in the market.

38. Processes for administering and maintaining the targeting system and HREIS (including the precise institutional set up and data management responsibilities) will be developed in collaboration with MPWH stakeholders at the QER and Appraisal stage

## Results Area 2: Access to Housing Finance

39. This component focuses on improving access to finance for low-income and informal-earning households, with the design and implementation of two savings-linked subsidy and financing products: (i) a Savings and Subsidy-Linked Mortgage (SSM) product targeting the informal middle-income sector, and (ii) a Savings and Subsidy-Linked Housing Microfinance (SSHMF) product targeting the low-income sector.

40. Program Component 2.1: Savings and Subsidy-Linked Mortgage (SSM) Product. The SSM product would be targeted to informal-earning households from mid to low-income who may be able to afford a mortgage to purchase or self-construct a home with formal land title but lack access

to finance. Successful lending to the informal income sector requires lenders to assess income despite the lack of income documentation. Income proxies for informal households may be established through a minimum period of savings (e.g., 12 months) or a pre-existing savings or lending history. The savings amount is then linked to a subsidy to increase the borrower's total equity for a mortgage loan to be provided by a participating commercial bank priced for the relevant risk at the prevailing market rate. Eligibility criteria and relevant subsidy levels would be developed with a progressive scale with more support for the lower-income segments. This product design allows the government to maximize subsidy effectiveness and reach an underserved market segment while attracting private sector participation and funding.

41. MPWH is currently designing a savings-for-housing scheme that may form the basis for the proposed product. The government KUR guarantee schemes for small businesses could be assessed to draw best practices for adoption if deemed applicable. Finally, housing finance companies in India have brought the underwriting of informal income borrowers to a high level of expertise and standards that can inform the development of this product.

42. Program Component 2.2: Savings and Subsidy-Linked Housing Microfinance (SSHMF) Product. The second housing finance product, tentatively called SSHMF (Savings, Subsidy, Housing Microfinance) follows the same principle as the SSM product, but would link the government subsidy to housing microfinance instead of a mortgage to support the incremental expansion or upgrade of a home with informal tenure. The target market segment would be low-income households in the bottom 40 percent. Given that the loans are uncollateralized and that both household income and tenure are informal, loan amounts would be smaller and interest rates relatively higher than other housing finance products. Larger construction projects may require successive loan cycles, possibly increasing in size as the household proves more credit-worthy.

43. Payment capacity is established through a period of savings if pre-existing savings or lending history does not exist. The savings would be accompanied by a subsidy enhancement as well as construction technical assistance to ensure quality of construction. This technical assistance could include construction techniques, advisory from professionals and/or access to lower-cost construction materials. Successful models include Patrimonio Hoy in Mexico, where the cement maker CEMEX provides construction materials at a competitive price point to households. This model has since been expanded to other Latin American countries. In addition, a Habitat for Humanity-led pilot bundling construction technical assistance with HMF has proved successful in Nigeria and the Philippines. The development of the SSHMF has some unique advantages in Indonesia as the SME micro-lending market is robust both in volume and geographical footprint and large commercial banks such as BRI, Mandiri and Danamon are key players in the sector. Converting micro-lending to housing micro-finance has been done successfully in many countries and good practices exist for replication.

### Results Area 3: Supply of Affordable Housing

44. This component focuses on increasing supply of affordable housing through the reform and expansion of the existing BPS Home Improvement program, technical assistance to the Government's public rental (Rusunawa) program, the design and delivery of a Core Starter House program, as well as development of a Land for Housing initiative that facilitates supply of urban land for affordable housing.

45. Sub-Component 3.1: BSPS Home Improvement Subsidy. The BSPS home improvement subsidy product enables low-income households to purchase construction materials and undertake self-help (swadaya) construction. The subsidy is currently IDR 10 million for incremental home improvements, such as upgrading of materials or addition of floor space, and IDR 20 million for complete reconstruction of preexisting but structurally insufficient homes. The BSPS program primarily targets rural areas but it is increasingly expanding to peri-urban zones. The GoI intends to address the acute housing need in cities in part by scaling up BSPS in urban areas and is working on adapting the swadaya program for cities.

46. The BSPS product will be developed to utilize improved targeting characteristics, more efficient delivery systems, output-based approach and the provision of construction technical assistance to support sound home improvement and expansion in urban areas. Specifically, the product will involve:

- (€ Improved targeting by linking with the Targeting System (developed under Program subcomponent 1.1 above) as well as the triangulation of targeting system results with community-based systems under the PNPM program and the proposed National Slum Upgrading Program;
- (€ Enhanced delivery systems, by focusing the product in urban areas on clusters of substandard houses and aligning with slum upgrading initiatives under the proposed National Slum Upgrading Program;
- (€ Use of an output-based mechanism, by which subsidy disbursement will be linked to physical improvements;
- (€ Improved construction quality through the provision of technical assistance. This allows for: (i) reduction in project cost through up-front technical support; and (ii) construction supervision during the project.

47. Program Component 3.2: Core Starter Homes Product. The Program includes a Core Starter Homes Product that would deliver basic or ➤( core ➤( units to low-income households in rural, peri-urban and urban areas in smaller agglomerations where land supply constraints are less acute. This program would provide a cost-effective option for government to target very low income households who cannot afford to purchase a formal completed unit. Core units are typically one-floor with a minimum floor area of approximately 25m<sup>2</sup>, are move-in ready and can be extended incrementally over time by households on a self-help basis according to their changing needs and preferences. The core starter home component ➤( s main principles are: (i) affordability to enable replication and scale without exhausting public resources; (ii) access to basic infrastructure and amenities to eliminate negative externalities; and (iii) land tenure security to enable private investment. The World Bank will provide support to GoI to structure and implement this product during preparation.

48. Program Component 3.3: Urban Land for Housing. GoI is also focused on the challenge of urban land and finding solutions to access land for the successful implementation of the Satu Juta Rumah program. This component is focused on an Urban Land for Housing intervention that sets up a special unit and framework for identifying and mobilizing publically-controlled land assets for affordable housing, in particular, unused or under-utilized, state-owned and waqaf land. The special executing unit would work with local governments, MPWH, and BPN to identify land needs, ascertain the location of developable public lands, and put in place a clear process to negotiate with the land-owning entities in order to prepare land for release, under certain protocols. The

preparation of the Urban Land for Housing framework may require regulatory changes to clarify land release regimes or to ensure that the conditions of land release are transparent and that land prices are fairly set between the agencies involved in each case. This approach will simplify the release of urban land for housing, without requiring complex and costly acquisition of land by one central agency. The Roadmap for Housing Policy Reform contained a detailed but preliminary analysis of the key issues related to land supply, land demand for housing, the legal framework, urban land administration/management, and current and proposed policies and programs to improve urban land supply for housing. The Bank will study these issues in depth at the QER and Appraisal stage in order to confront the complexity inherent in releasing land for affordable housing in an environment of high land values and overall land shortages in urban areas.

### Program Costs and Targets

49. The proposed results of the Affordable Housing Program linked to each of the seven DLIs are summarized in Table 3. The table also includes a preliminary indication of the PforR disbursements under each DLI. An estimated one million affordable housing solutions will be produced under the Program over four GoI fiscal years (FY16-FY19). Implementation is expected to starting between July and October 2016, with the first partial fiscal year (GoI FY16) serving as a piloting and rollout period. The overall estimated value of the GoI Affordable Housing Program is USD 1.5bn. The Program will scale up over the implementation period to support the production of an estimated 350,000 housing solutions per year by GoI FY19. The annual targets for housing solutions reflected in Table 3 below constitute the estimated contribution of the Affordable Housing Program to the overarching Satu Jutah Rumah target of one million housing solutions per year. These estimates are preliminary and the costs, targets, and product mix are subject to revision in consultation with GoI counterparts during preparation.

Table 3: Indicative Program Costs and Results

Project Components	Overall GoI Program					
Costs (USD m)	PforR Disbursements for DLIs					
(USD m)	Results/Housing Solutions					
	Year 1	Year 2	Year 3	Year 4	Total	
DLI 1: Targeting System	TBD	10.0	1			1
DLI 2: Housing and Real Estate Information System	TBD	10.0	1			1
DLI 3: Housing solutions enabled through Savings-Subsidy Mortgage Program (SSM)	380.0	125.0	5,000	55,000	65,000	190,000
DLI 4 - Number of micro-loans disbursed under Savings Subsidy Housing Microfinance (SSHMF)	120.0	70.0	30,000	45,000	45,000	120,000
DLI 5: Housing solutions enabled through BSPS	725.0	175.0	40,000	160,000	180,000	200,000
DLI 6 - Number of Core Starter Units delivered	275.0	100.0	5,000	30,000	35,000	40,000
DLI 7: TBD Hectares of Urban Land Released for Low Income Housing	TBD	TBD	10.0			
Total	1,500.0	500.0	50,000	275,000	325,000	350,000

**IV. Safeguard Policies that might apply**

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

**V. Financing (in USD Million)**

Total Project Cost:	450.00	Total Bank Financing:	450.00
Financing Gap:	-757.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			757.00
International Bank for Reconstruction and Development			450.00
Total			1207.00

**VI. Contact point****World Bank**

Contact: Taimur Samad  
 Title: Program Leader  
 Tel: 5781+3037 /  
 Email: tsamad@worldbank.org

**Borrower/Client/Recipient**

Name: Ministry of Finance  
 Contact: Robert Pakpahan  
 Title: Director General of Budget Financing and Risk Management  
 Tel: 62213500841  
 Email:

**Implementing Agencies**

Name: Ministry of Public Works and Housing  
 Contact: Maurin Sitorus  
 Title: Director General for Housing Finance  
 Tel: 62217245751  
 Email: maurin\_sitorus@yahoo.com

**VII. For more information contact:**

Public Disclosure Copy

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

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