



# The Role Of Micro Credit in Promoting Decent Housing For The Urban Poor In Indonesia

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Noer Soetrisno

**Secretary of the State Ministry for Housing  
Republic of Indonesia**

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# Housing issues in Indonesia

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- ❑ Population: 219.893.000 (Central Bureau of Statistics, 2005)
- ❑ Population in urban areas: 48%
- ❑ Housing backlog estimated 5.8 million units (2004)
- ❑ Land scarcity and increase of slum areas in major cities (Jakarta, Bogor, Bandung, Surabaya)
- ❑ Difficulty for low-income population of the informal sector economy to gain access to credit from formal finance institutions
- ❑ Sub-standard housing construction and infrastructure
- ❑ Many human settlements vulnerable to natural disasters (flood, earthquakes, landslides, etc)
- ❑ Almost 25% houses are also used for income-generating activities

# National Development Plan 2005-2009

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Two major programs:

- 1) Housing development
- 2) Capacity building of housing community

Objectives include among others:

1. Facilitate access to micro-credit for the improvement and new housing construction of 3,600,000 housing units (self-help/ community based)
2. Enhance role of Micro-Finance Institutions in self-help housing development
3. Facilitate development of new 1,350,000 housing units through formal professional builders
4. Improve quality of housing environment

# Housing delivery system in Indonesia

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- Formal development (by Perumnas and professional developers): 20%.
  - Major problem for low-income community: affordability and location
- Popular or self-help housing: about 80% (of which 68% construct their own house – CBS 2004). Low-income housing characterized by:
  - Incremental development
  - Low quality building material
  - Unclear land status
  - Irregular settlements

# State Ministry for Housing

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Vision: All families should occupy adequate housing

Mission:

1. Support conducive environment for housing development
2. Capacity building of housing community
3. Promote efficiency of resources for housing development
4. Enhance the fulfillment of adequate housing and housing environment quality

# Policies for Self-help Housing Development

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- ❑ Capacity building of local governments in housing delivery system
- ❑ Facilitate process of self-help housing development, including in post-disaster areas
- ❑ Improve access to information and resources for housing development
- ❑ Improve secure tenure (eg large-scale integrated area management, land certification)
- ❑ Improve access to micro credit for construction of new houses and/or home improvement through the strengthening of Micro-Finance Institutions
- ❑ Provide guarantee for deposits and develop schemes for alternative funding through Corporate Social Responsibility Funds

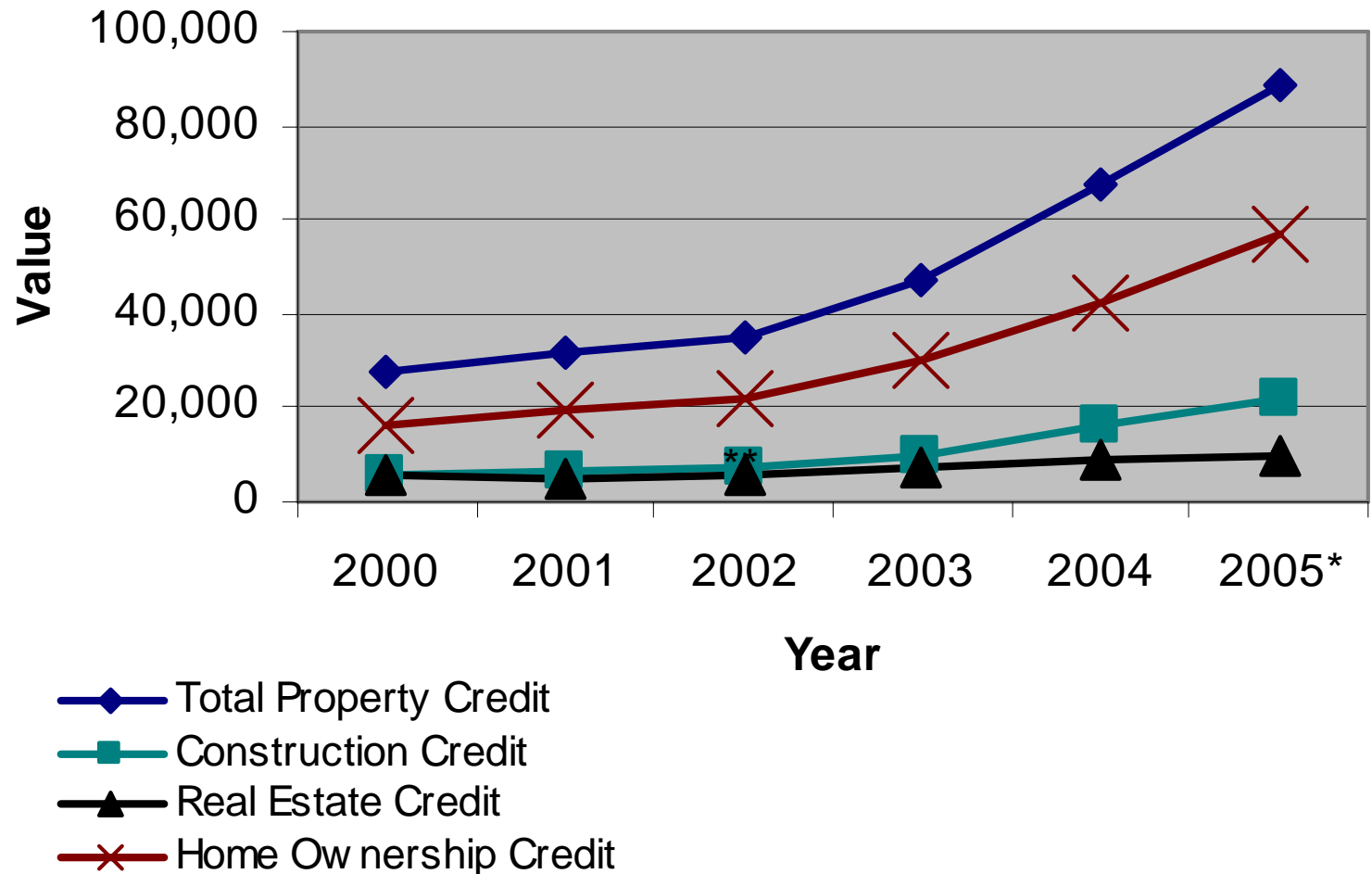
# Property Credit 2000-2005 (1)

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TYPE OF CREDIT	2000	2001	2002	2003	2004	2005*
Construction	5,866	6,898	7,500	9,483	15,864	22,118
Real Estate	5,872	5,239	5,727	7,395	9,324	10,076
Home Ownership	15,976	19,912	21,773	30,108	42,099	56,731
Total Property	27,714	32,049	35,000	46,986	67,287	88,925

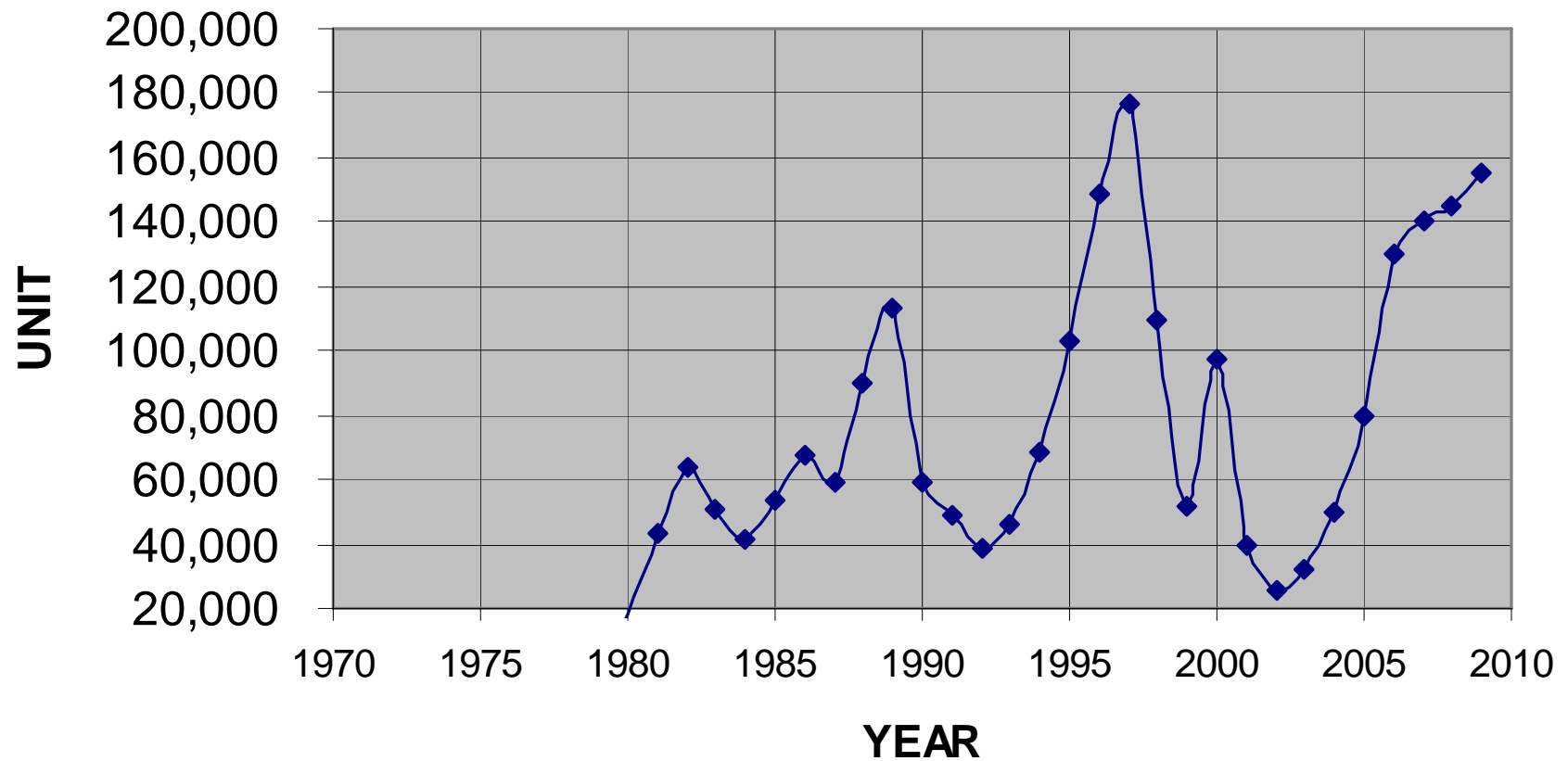
\* As of November

# Property Credit 2000-2005 (2)





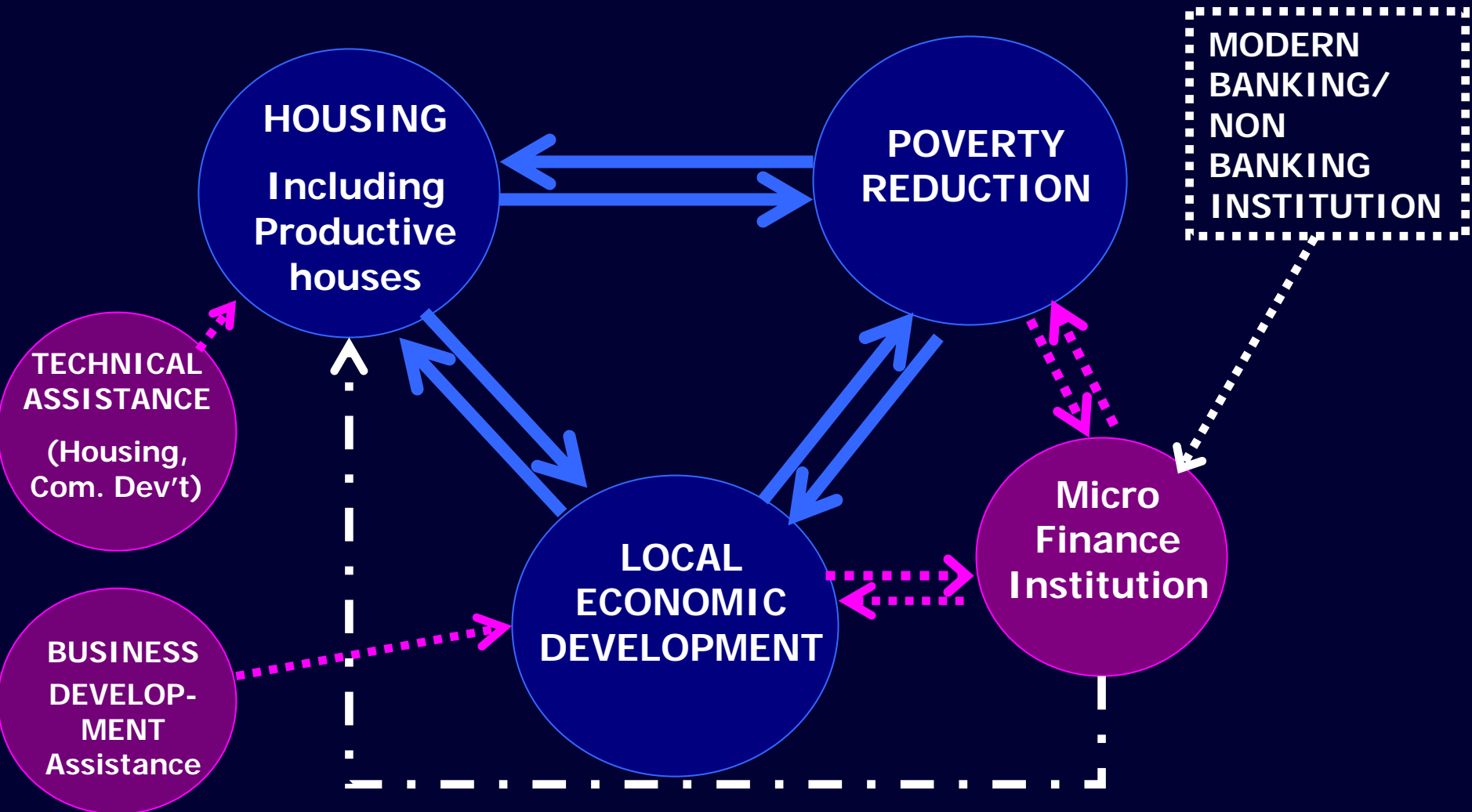
# Housing Ownership Credit 1970-2005



\* 2006 – 2009 : Target Number

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- The success of the property industry has its limitations. The existing conventional banking system has not been able to reach the lower-income population that usually provides their own housing based on self-help.
  - Major barriers hindering entry of lower-income population:
    - No collateral
    - Unsteady income
    - Informal sector employment

# Housing and income generating activities for the lower-income population



# Overview of MFI assets

<b>INSTITUTION</b>	<b>UNITS</b>	<b>No. of saving accounts</b>	<b>No. of Borrowers</b>	<b>Total credit (Billion)</b>
<b>BRI (People's Bank of Indonesia)</b>	4.046	35.000.000	10.000.000	33.100
<b>BUKOPIN (Indonesian Cooperative Bank)</b>	410	133.000	40.000	282
<b><i>Pegadaian/ State-owned Pawnshop Enterprise</i></b>	817	--	1.000.000	2.500
<b>BPR (People's Credit Bank)</b>	2.217	--	5.400.000	9.400
<b>Savings and Loan Cooperatives /Credit Unions</b>	36.344	11.000.000	11.000.000	6.500
<b>Self-help Groups (<i>Pre-Coop</i>)</b>	800.000	--	--	17.500*

\* Amount of funds provided by State Budget into Informal Self-help Groups in all sectors

# Experience in micro-finance for housing

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- ❑ Cooperatives or micro-finance institutions have existed since early 1950s. Currently there are almost 1 million units of MFIs and cooperatives- some under supervision of formal banks.
- ❑ Foundation for Housing Development Savings (*Yayasan Kas Pembangunan Perumahan* ) discontinued when National Savings Bank established in 1974
- ❑ During 1990s: community-based housing concept initiated. Government encouraged housing cooperatives, however most of these cooperatives failed to continue.



▲ Housing cooperative in local market

State-owned Enterprise of Pawnshop (Perum Pegadaian)



# Experience of Micro-Credit in Pekalongan, Central Java

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- Pekalongan Housing Assistance Program for Low-Income Households:
  - Revolving funds (stimulant) through cooperatives (MFI), for housing improvements
  - Support ‘**Cities without Slums**’ program
  - Problem: limited budget
- In 2006 State Ministry of Housing will support Pekalongan Local Government to strengthen local cooperatives in housing

# New approach

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- Revitalizing current *Tri Daya* approach (Tri Pillar approach for comprehensive social-economic-environment development) by tapping into micro-finance institutions (MFI) that have succeeded in business development. Advantage: able to reach clientele that other financial institutions would not serve, stronger financial capacity of members
- Small, short-term loans for incremental housing development
- Optimizing existing local institutions
- Partnerships with local governments and micro-finance institutions



# Example of home improvements in Pekalongan supported with micro-credit



**BEFORE**

**AFTER**

# Efforts to accelerate self-help housing development

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- ❑ Capacity building: training, technical assistance to local governments, enhancing networks amongst stakeholders in housing development
- ❑ Promote micro-credit scheme in cities and regents
- ❑ Encourage Corporate Social Responsibility funds for social housing development
- ❑ Facilitate Housing Resource Center in cities/regents throughout Indonesia

# Blitar, East Java Slum Upgrading Program

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**Home  
improvements by  
community,  
partially funded by  
local government**

# Experience of *Baitul Maal Wat Tamwil* (BMT)

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- The concept of *Baitul Maal Wat Tamwil* is based on Islamic Syariah Law. *Baitul Maal* is a social fund (charity), while *Baitul Tamwil* is the accumulation of savings
- About 3,000 BMTs in Indonesia, supervised by PINBUK (*Pusat Inkubasi Bisnis Usaha Kecil* or the Business Incubation Center)
- Has been able to reach low-income communities from the informal economy sector
- Developed savings and loan program for housing:
  - **SARAS** (*Simpanan Anggota Rumah Sehat*) is a savings for healthy housing
  - **PARAS** (*Pembiayaan Anggota Rumah Sehat*) is financing healthy housing in the form of credit for land development, housing improvements and housing construction.

# Policy Support for Micro Credit in Housing Development

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1. Encourage MFIs to provide housing loans as an integral part of their financial services business.
2. Make available subsidized credit for housing loans at Non Bank Financial institution;
3. Allocate budgetary support for Micro Credit Guarantee Schemes and Credit Insurance Scheme to offset the risks of lay off;
4. Allocate budgetary support for capitalizing the MFIs that joined the community-based housing finance schemes;
5. Encourage State-Owned Pawnshop Corporation (*Perum Pegadaian*) to deliver housing loans to the community;
6. Strengthen Municipal Government support in social housing upgrading projects for the poor;
7. Provide capacity building program for MFIs field workers;
8. Encourage the private and state-owned companies to allocate Corporate Social Responsibility funds for social housing programs.

*=Terima kasih=*

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State Ministry of Housing  
Jalan Raden Patah 1, Kebayoran  
Jakarta 12110, Indonesia  
Tel.62-21-739 7727