

**GOVERNMENT INVOLVEMENT IN HOUSING MICROFINANCE
IN INDONESIA**

*Case Study: Housing Microfinance in Neighborhood Upgrading and
Shelter Sector Project, Indonesia*

THESIS

A thesis submitted in partial fulfillment of the requirements for
the Master Degree from the Institut Teknologi Bandung and
the Master Degree from the University of Groningen

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**DOUBLE MASTER DEGREE PROGRAMME
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INFRASTRUCTURE MANAGEMENT
SCHOOL OF ARCHITECTURE, PLANNING AND
POLICY DEVELOPMENT
INSTITUT TEKNOLOGI BANDUNG**

AND

**ENVIRONMENTAL AND INFRASTRUCTURE PLANNING
FACULTY OF SPATIAL SCIENCES
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ABSTRACT

Housing provision for low income people is a big problem for Indonesian government which has limited budget. To reduce that burden, Indonesia government adopt some housing finance schemes, one of it is housing microfinance. In Indonesia, the government often involve in housing microfinance programme, as policy maker, executor, and supervisor. But, the effect of government involvement in the implementation of housing microfinance in Indonesia is still unclear. Therefore, this research attempt to investigate the role of the government in housing microfinance, based on two cases of housing microfinance programme in Neighborhood Upgrading and Shelter Sector Project (NUSSP).

Case study evaluation method is used to evaluate the implication of government involvement in housing microfinance programme because it allows us to explore and understand complex issue and it can be applied in any phase of policy cycle. Descriptive and explanatory analysis will be use to examine the collected data. From the evaluation, there are two types of government involvement, direct and indirect involvement. And based on the analysis, indirect government involvement is important to support housing microfinance development in Indonesia. Indirect involvement is important because through policies and regulations, government can maintain the market stability and create infrastructure that can support housing microfinance development in Indonesia.

Key words: *low income people, housing microfinance, government involvement, direct involvement, indirect involvement, case study*

GUIDELINE FOR USING THESIS

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LIST OF ABBREVIATION

ADB	: Asian Development Bank
BAPPENAS	: Badan Perencanaan Pembangunan Nasional (National Planning Agency)
BKM	: Badan Keswadayaan Masyarakat (Community Based Organization)
CFI	: Central Finance Institution
DED	: Detail Engineering Design
GOI	: Government of Indonesia
LFI	: Local Finance Institution
MOF	: Ministry of Finance
MPW	: Ministry of Public Works
NMC	: National Management Consultant (central consultant)
NPL	: Non Performing Loan
NSD	: New Site Development
NUSSP	: Neighborhood Upgrading and Shelter Sector Project
OC	: Oversight Consultant (local consultant)
PMU	: Project Management Unit
PT. PNM	: Perseroan Terbatas Permodalan Nasional Madani (Microfinance Company)

CHAPTER 1

INTRODUCTION

1.1 Background

Indonesia, a country with 238 million people (BPS, 2010)¹, is facing serious housing provision problem, especially housing for low income people. In 2010, there are 8,6 million unit houses backlog and government only allocated 3% (Rp.21 trillion from Rp.701,7 trillion) of its budget for housing and public facilities sector (Ministry of Public Works Strategic Plan 2005-2009, Financial Note, and National Budget Plan 2010). Private participation is still lacking because they are more focused on housing for middle-up income, which give them more profit than housing for low income people. There are many schemes that has been developed or adopted by government to overcome housing provision for low income people, one of these is the housing microfinance programme.

Housing microfinance comes out as the result of limitation in traditional housing finance and opportunities from the rise of microfinance system in developing countries (Daphnis, 2004). Traditional housing finance requires security guarantees, formal job or fixed income, and long term of loan. And those requirements impede the engagement of low income people with that system. Whereas the demands to substitute microfinance loan with housing improvement are increased, and that condition support the development of housing microfinance also. Some finance institutions are involved in housing microfinance, NGOs, donors or international organizations, communities, and the government. Their involvement is varies based on the economic, social/ political interest. As a result, the output of housing microfinance also varies. The outstanding example is the different result between housing microfinance programme based on economic interest by financial institution and housing microfinance programme based on social/political interest by NGOs or government. Based on many cases in the world, housing microfinance dependent on economic interest by financial

¹ BPS (Badan Pusat Statistik): Statistic Agency of Republic Indonesia

institution was found more successful than housing microfinance dependent on social/political interest.

In Indonesia, the government involvement in housing microfinance programme is very significant. Government support is given not only as funding, but also as regulations and even directly as executing agency. The government intervention in housing provision is needed since market fail to meet demand of housing for low income people. However, the effect of government involvement in the implementation of housing microfinance in Indonesia is still unclear. Therefore, this research attempt to investigate the role of the government in housing microfinance, based on two cases of housing microfinance programme in Indonesia. Particularly Neighborhood Upgrading and Shelter Sector Project (NUSSP).

NUSSP is a project conducted by government using loan from Asian Development Bank (ADB) in the year of 2004-2009 and extended to 2010, to cope with human settlement problems and it is held in 32 cities/regencies in Indonesia. Its objective is to assist government in reducing poverty in urban areas through partnerships between government, private sector and the community. This project consists of four components: improving government and communities in settlement planning and management system; improving poor people access to shelter finance; upgrading poor neighborhoods and developing new sites for low income people; and strengthening sector institutions to program delivery.

In second and third components, the government tries to help low income people improve their shelter through microfinance scheme. The differences in housing microfinance between these two components are in the concepts and the institution who implemented the program. The housing microfinance program in second component provides financial access to the low income to improve or build their shelter under the responsibility of PT. Permodalan Nasional Madani (PNM). Whereas, housing microfinance in the third component is implemented through the New Site Development (NSD) program which provides new houses to low income people who payback through housing microfinance loanscheme, under responsibility of both financial institution, and government. The differences

between those two programmes will help to broaden perspective on the government involvement in housing microfinance programme is implemented.

1.2 Research Questions

The main question of this research will be “How government involvement affects the implementation of housing microfinance in Indonesia?”. And it leads to the following questions:

- What are the effects of government involvement in housing microfinance in Indonesia?
- To what extent the government involvement is desirable?
- How to enhance government involvement in housing microfinance in Indonesia?

1.3 Research Objectives

The aim of this research is to evaluate the implication of government involvement in housing microfinance program in Indonesia, by analyzing the implementation of two housing microfinance programmes in NUSSP. In detail the objectives of this research are:

1. To identify and analyze the concept and the implementation of housing microfinance in second component (shelter finance) of NUSSP
2. To identify and analyze the concept and the implementation of housing microfinance in third component (NSD) of NUSSP
3. Evaluate the role of the government in the housing microfinance; identify the advantages and disadvantages of the involvement
4. Evaluate the involvement of the government in these projects and formulate recommendation for the development of housing microfinance in Indonesia.

1.4 Research Methods

The study of housing microfinance and the involvement of Indonesian government is based on case study method. Case study is used in this research because it allows us to explore and understand complex issue and it can be applied in any phase of policy cycle (Yin, 2003). In this case, we will explore and analyze the housing microfinance implementation in second and third component of NUSSP towards

the understanding of government involvement's effect in housing microfinance in Indonesia. There are three activities to undertake this research, namely data collection, analysis, and synthesizes.

Data collection

Primary and secondary data will be used for this research. Primary data will be gathered through interview some sources that directly involved with this programme. They are the Head of Project Management Unit of NUSSP and Deputy of Financial Project Management Unit Manager of PT. PNM. This data will be explored further in chapter 3 and be analyzed in chapter 4.

Secondary data will be collect from books, journal, reports, and internet sources. This data will help us get basic and important factors that influence the implementation of housing microfinance and it success or failure in the world. Information come from this review is crucial as a foundation to analyze government involvement and its effect in housing microfinance in Indonesia, and develop acts that is needed to encounter any effects arise from that involvement. The data will be elaborated in literature review in chapter 2 and case study in chapter 3.

Analysis

For this qualitative research, explanatory and descriptive analysis will be used to examine the collected data.

- Descriptive analysis

Descriptive analysis is applied in this research to elaborate the concept and implementation of housing microfinance in Indonesia and the world. It also discovers the role of government behind the success and failure of housing microfinance programme in NUSSP and in the world. This analysis will be used in chapter 2 and chapter 3 of this research.

- Explanatory analysis

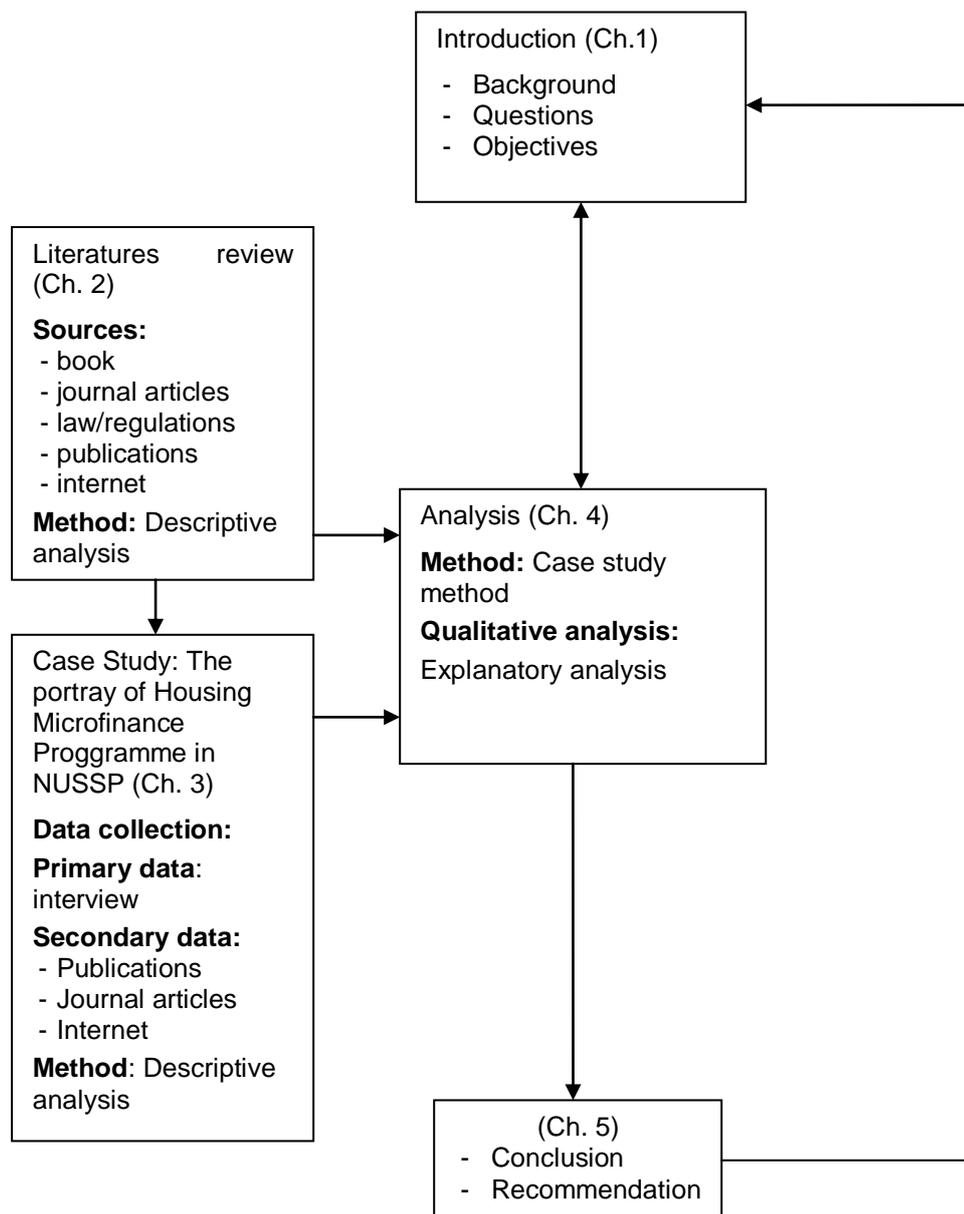
Explanatory analysis is used to answer “how or why” question. In this study it is used to answer the main question on “How government involvement effects the implementation of housing microfinance in Indonesia?”, and it will analyze

in chapter 4 along with other sub questions. The explanation answer will be built based on academic understanding from literature review and case studies that is given.

Synthesizes

The last activity is synthesizing. In synthesizes, information that has been collected and elaborated in chapter 2 and 3, and analyzed in chapter 4 will be combined and extracted its main point to be conclusion. Based on that conclusion, we can propose recommendation to enhance the government involvement in housing microfinance in Indonesia.

Figure 1. Research Framework



1.5 Structure of the Thesis

To systemize the analysis, this research will be structured into six chapters as follow:

Chapter 1. Introduction

This chapter reviews the development of the research thesis: research questions, hypothesis, research objective, research methodology, and structure of the research.

Chapter 2. Housing Microfinance, Concept and Practices

This chapter discusses the theories on housing microfinance, implementation of housing microfinance in Indonesia and in the world, policies and regulations in Indonesia, particularly on housing and financial system in Indonesia, and factors influence the success of housing microfinance programme

Chapter 3. Case Studies: Housing Microfinance in Neighborhood Upgrading and Shelter Sector Project (NUSSP)

This chapter explores the concept of housing microfinance under second and third component of NUSSP, the institutions that are involved, the consumer, and the implementation of the program, based on the primary and secondary data and information acquired from survey.

Chapter 4. Analysis of Government Involvement in Housing Microfinance Programme in Indonesia

Chapter four studies the implementation of housing microfinance in NUSSP and find the answer of research questions, on how the government involvement effect the implementation of housing microfinance and other sub questions.

Chapter 5. Conclusion and Recommendation

This chapter will summarizes and concluded the research and highlight recommendation for housing microfinance in Indonesia.

CHAPTER 2

HOUSING MICROFINANCE, CONCEPT AND PRACTICES

Before we discuss the government involvement in housing microfinance in Indonesia, we have to know the basic knowledge of housing microfinance. Therefore, this chapter at first will discuss the concept of housing microfinance, continued with the examples of housing microfinance practices in the world, the history, practices, and policies of housing microfinance in Indonesia, and the last is about the government roles in housing market.

2.1 The Concept of Housing Microfinance

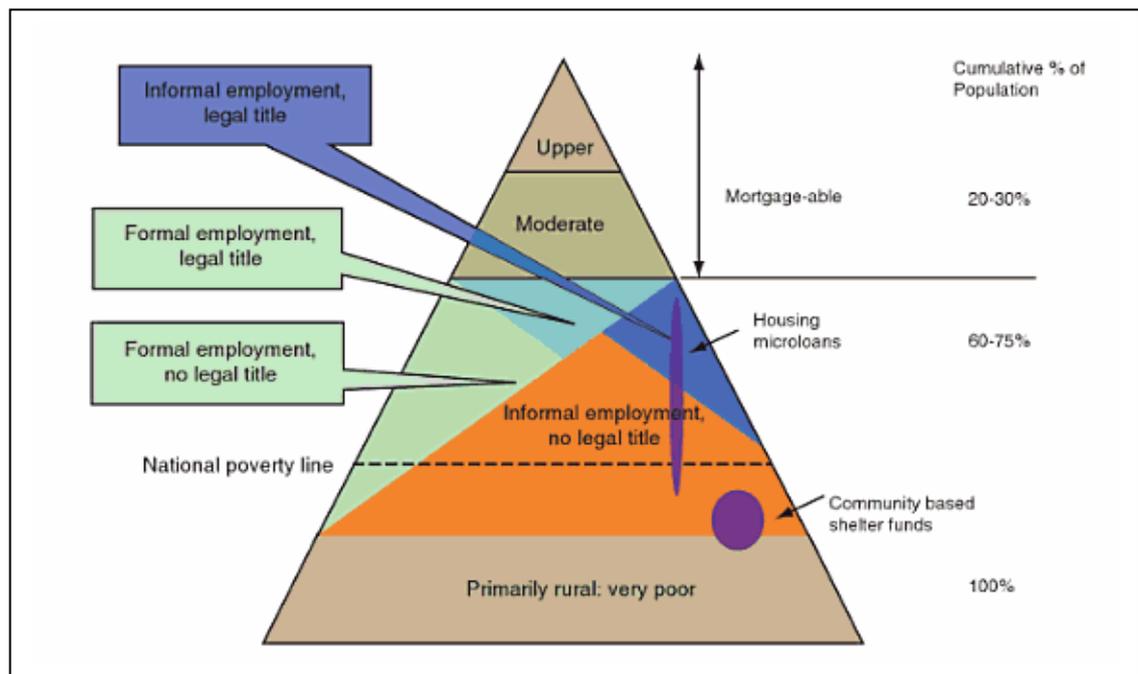
House is a basic need for every human. But there are 1,1 billion people in the world who are live in inadequate houses in urban areas and most of them are low income people in developing countries (UN Habitat). The constraint on government's budget and limited access from commercial banks to reach low income group are the major reasons the lack of housing development for them. Commercial bank asking security guarantee and it is hard for poor people since usually they have land tenure issue or their source income are informal. For poor people, the easiest way to get fund is from informal and semiformal finance institution, also through microfinance system where sometimes they do not have to put any security guarantee (Porteous, 2011).

Microfinance has been known and growth over the past 35 years and it evolved largely in developing countries. Since its emergence that only give small loan for poor people to open small business, it expanded to give loan to improve their property. This choice came up from the knowledge that many microfinance customers subverting their business loan to improve their house due to the lack access to housing finance (Daphnis, 2004). According to MicroNOTE 26 USAID (2007), the definition of housing microfinance (HMF) is part of microfinance, designed to meet the housing needs of the poor and very poor, especially those without access to the banking sector or formal mortgage loans, who wish to expand or improve their dwellings, or to build a home. But apparently the customers of HMF are not only poor or very poor since moderate income people in developing

countries are also cannot afford to purchase housing from the traditional mortgage in commercial bank (Ferguson, 1999, 2003, 2004).

The traditional mortgage system that has large long term period loan is not suitable with low-moderate income people capacities which afford to build their house gradually only. 50%-80% people in developing countries progressively build their home from acquire lot, build temporary shelter, improve it into permanent building, legalize their title property, and lobby government for the services. And, this progressive housing is suitable with the small-short term loan in housing microfinance (Ferguson, 2008). This notion is supported by the fact that low-moderate income people only use small amount of their expenditure on housing, so the small-short loan in housing microfinance is the perfect choice for them (Porteous, 2011).

Figure 2.1 Stylized profile of housing finance instrument usage in developing countries



Source: Porteous, 2011, p.38

Figure 2.1 shows the housing microfinance position in housing finance. We can see from that figure that housing microfinance mostly serve poor to moderate income than very poor people who live beyond poverty line. And because of its

easier requirements than traditional mortgage, most of the customers have informal job, and people with legal or illegal (more than legal) property title have opportunity to get loan.

2.1.1 The Classification of Housing Microfinance

Housing microfinance can be classified into two types, based on its approaches, and based on institutions that implement it. Housing microfinance came in the last two decades from two different approaches, first is from microcredit to housing finance (MCHF) and second from shelter advocacy to housing finance (SAHF). MCHF program is started from the regular microfinance institution which gives loan for small and micro-enterprise. Later they expanded their business by offering specialized housing finance product for new housing construction or home improvement projects because of the high demand from their clients for housing credit. This approach believes that there is strong connection between home and income-generation due to many of their clients subverting their loan to improve their house for economic purposes such as build extra room for shop in their home.

In contrary with MCHF which is more economic approach, SAHF approach came out from the idea that house is the basic right of every human being and they defending that right, especially for the poor. Those advocacy groups developed microcredit programs to give access to the poor to acquire shelter through community empowerment. These groups are less formal than MCHF and most of them operate in small scale eventhough there are also regional or national scale organization that give them more access in lobbying government. The examples organizations from SAHF approach are South African Homeless People Federation and the Indian National Slum Dwellers Association. The differences between MCHF and SAHF approaches can be seen in detail in Table 1.

Table 2.1 Classification and Differences of Housing Microfinance Programs

	Microcredit to Housing Finance (MCHF)	Shelter Advocacy to Housing Finance (SAHF)
Origin	Microcredit programs for small and micro-enterprises	Advocacy groups for low income households' right to access land, shelter and services

	Microcredit to Housing Finance (MCHF)	Shelter Advocacy to Housing Finance (SAHF)
Core belief	Microcredit is financially viable and the poor are bankable	Shelter is a right and the poor are entitled to a more equitable (re)distribution of resources
Vision	Unconditional access to credit for the poor	Equitable access to land and shelter for the poor
Objective	Facilitate access to credit to low-income households to improve their living conditions due to the linkage between the home and the income-generating enterprise	Address the inequitable resource distribution as it relates to land, infrastructure, services and shelter
Focus	Housing construction and home improvements	Land and infrastructure
Services provided	Microcredit for housing construction and improvements Minimal technical assistance	Community organization and mobilization for land, shelter and infrastructure acquisition Microcredit for land, infrastructure, and housing acquisition Substantial technical assistance
Eligibility requirements and loan terms and conditions	<ul style="list-style-type: none"> • Individual or collective loans • Participation in a savings scheme to develop savings habit and create a reserve against default: minimum periodic deposits are required for 12-18 months • Co-signatures and collective liability for individual default • Legal land title or occupancy right required • Market interest rate on own funds and below-market rate on subsidized funds (except for Grameen Bank) 	<ul style="list-style-type: none"> • Collective loans • Participation in a savings scheme to develop savings habit: deposits are often left to the individual's ability to pay • Collective liability for group default • No land title is required • Below-market rate on subsidized funds: terms are structured according to the terms of the capital source • No other requirements: flexible operation

	Microcredit to Housing Finance (MCHF)	Shelter Advocacy to Housing Finance (SAHF)
	<ul style="list-style-type: none"> • Other requirements: concurrent operation of a SME; Successful completion of one or more SME loan cycles; Minimum length of residency in the community 	
Driving concern	Performance-driven: Empowering the poor by providing credit in a financially sustainable way	Process-driven: Empowering the poor by addressing the structural causes of poverty
Main performance indicators	Financial sustainability criteria	Human development criteria
Blockage	Access to credit is the constraint and not the cost of money	Inequity in access to resources is the constraint
Client	The entrepreneurial poor in the informal sector, with a special focus on women	The poorest of the poor, with a special focus on the homeless

Source: The Center for Urban Development Studies Harvard University Graduate School of Design, 2000

If above housing microfinance is classified based on its approach, the next housing microfinance is classified based on institutions that provide it. Since its emergence, many institutions have involved in providing housing microfinance to the poor. According to Ferguson (2004), UN-HABITAT (2008), and Merrill (2009), there are five types of institution that involved in housing microfinance, namely MFIs, NGOs and CBOs, Co-operatives Mutuels and Municipals, Government Housing Programmes, and Commercial Banks.

1. Micro Finance Institutions (MFIs)

The loan that is given by MFIs is usually small with short maturities. The interest rate itself is close to microbusiness loan and its clients are poor people same with microbusiness' clients. The examples of these institutions are BancoSol in Bolivia and Caja Social in Colombia.

2. Non Governmental Organizations (NGOs) and Community Based Organizations (CBOs)

Housing microfinance in NGOs and CBOs are more community-driven development schemes. It gives loan to small group, offers to individual or group, and for security it requires co-signers. The examples are Accion, and Homeless International.

3. Co-operative, Mutuels, and Municipals

Co-operative started their role from saving and borrows institution, then develops into housing microfinance due to increase of demand on housing microfinance from its clients. It gains its popularity because it has lower and more attractive terms than most market. Co-operative also has important role in housing finance since it helps connecting people with housing agencies and banks. The examples are Caja Arequipa in Peru and Mutual La Primera in Bolivia.

4. Government Housing Programmes

The involvement of government in housing microfinance is mainly to reach poor people who do not get access to formal housing finance. Some of the programmes are political driven, not market based. But some others are professionally run by professional team. Ex-FONVIS from Bolivia and FONAVIPO from El Savador are some examples of the programme.

5. Commercial Banks

Commercial banks that involve in housing microfinance (even in microfinance) are limited. Only few of them are profitable. The main issue that impedes their involvement is the security of their loan. But they have major asset that other institutions do not have, which is their big fund to expand the programme. According Accion there are several methods on their involvement: creating internal unit within the bank, creating a financial subsidiary, creating a private service company, and creating new MFI with bank as co-investor. The examples of are Banco de Desarrollo from Chile and African Bank from South Africa.

2.1.2 The Funding

Beside diversity in background, concept, and motive behind their involvement, housing microfinance gets fund from diverse resources. According to Ferguson (2004), UN-HABITAT (2008), and Merrill (2009), there are many strategies is used to fund the housing microfinance, but using only one strategy is often insufficient, so many housing microfinances use combination of those strategies. From those various strategies, basically there are three types of sources. First is from saving, second is from donors, governments or international organization, and third is from commercial banks through loan guarantee programmes.

1. Saving

Deposits are the main source to fund finance institution. So does housing microfinance institution that depend its success from their ability to increase clients' saving. The examples of institution that success funding their housing microfinance programmes based on their saving are BRI in Indonesia, BRAC in Bangladesh and BancoSol in Bolivia.

2. Donors, governments or international organizations

In developing world, donors or international organizations have the important role in promoting housing microfinance. But usually the loan will come with certain requirements and this kind of loan is not sustainable depends on how long the programme will be implemented. It is more political than commercial based. Institutions that often give loans are World Bank, ADB, and USAID.

3. Commercial banks through loan guarantee programmes

This strategy is often used by NGOs to fund their housing microfinance programme. With their connection to reputable institution that can back them and as guarantee, NGOs can access fund from commercial banks to support their programme. The example of this strategy is Rajiv Indira Suryodaya project that backed up by Homeless International Guarantee Fund and UK Department of International Development.

2.1.3 The Characteristic of Housing Microfinance

The fund's sources have important role in the programme's performance. It influences the direction of the institution it will be business based or more social-political based. It will also have a role in the success of the programme. Other characteristics of housing microfinance institutions that influence its performance are the loan size, loan terms, interest rates, security and collateral requirements, underwriting, delivery process, and link to technical assistance (UN-HABITAT, 2008 and Merrill, 2009).

The characteristics of housing microfinance are:

- Loan size: same with micro-credit characteristic, the loan on housing microfinance are small, vary between \$300 to \$5000 and different in each region depend on its GDP.
- Loan terms: usually longer than micro-credit and differ depend on its purpose. From 2 months until 15 years. For example loan for house improvement are two months while loan for house construction are longer until 15 years.
- Interest rates: normally it is higher than commercial bank because of the risk is higher and is also affected by cost of funds, transaction cost, and affordability of clients. But usually lower than micro-credit for business and adopt its fixed interest rates because its periodic payment amount is simpler for the borrowers.
- Security and security guarantee requirements: Most of housing microfinance customers is people with informal job and sometime uncertainty in land tenure. It makes housing microfinance institution difficult to get security guarantee requirement. To make it more secure most of them use co-signers or saving as security for lending.
- Underwriting: housing microfinance interest rates are usually lower than enterprises micro-credit. Sometimes it makes clients tempted to ask housing loan but use it for other purposes. In this situation, loan contract is important to ensure clients will use the loan as it should be to avoid charges.
- Delivery process: to attract customers, housing microfinance programmes try to make the process as easier as could be. The loan providers also give facilities

to make customers works easier such as programme's cooperation with construction industries to guarantee building material quality.

- Link to technical assistance: technical assistance is often used to reduce the construction cost by introducing low cost technologies and it will improve the affordability of the clients.

2.1.4 The Limitation of Housing Microfinance

Despite of its increasing demands on developing countries and is seen as one way to provide shelter for the poor, housing microfinance programme also has weaknesses that can impede the development of this programme. Those weaknesses as explained by UN-HABITAT (2008) and Merrill (2009), are inadequate financial infrastructure, high default rate, high cost of operation, hard to reach the poorest, small loan size, high interest rates, and short term.

- Inadequate financial infrastructure

The financial infrastructures here are legal, information, supervision, regulation, etc, that could guarantee the sustainability of housing microfinance. Those infrastructures sometimes unnoticed by governments since they are more focus on developing institution or programme to disburse funds to the poor.

- High default rate

This is the most dangerous problem in housing microfinance because if they cannot recover their investment, the programme will fail.

- High cost of operation

Based on BRBD's study, the delivery cost on microfinance are 20% to 60% of the loan amount and it is affected by cost on operation, cost on fund, and overhead cost on relation to the total amount of loan disbursed. It shows that the higher the loan the lower the cost.

- Hard to reach the poorest

The poorest are the hardest group to reach because they are more vulnerable in income and opportunities. The risk to give them loan is higher and the cost is more expensive since they only afford small loans.

- Small loan size

Sometimes the poorest client only afford to loan small amount of money, while the loan for housing microfinance is around \$300-\$5000 which is higher than loan in micro-credit, so it above the poorest affordability. It obstructs the growth of housing microfinance.

- High interest rates

Due to higher risk and cost, housing microfinance interest rates is higher than conventional loan. It will decrease the opportunity of the poor to access housing finance.

- Short term

To reduce the risk, housing microfinance terms usually short. With the short terms, the interest rates will be higher. The shorter the term the higher the interest rate. It will reduce the affordability of the poor.

The development of housing microfinance since the last decade shows there are lot of demands on housing finance for low income people and it opens the opportunity for many institutions that concern with those poor people or just see opportunity in business to involve. Housing microfinance system shows many advantages that can make more low income people improve their shelter condition. But housing microfinance also has limitations that can hamper this programme to reach its goal which is to give access to housing finance to the poor. It is now depend on the providers to choose and create their best system to overcome those limitations and governments' role to develop better structure and environment to help housing microfinance growth.

2.2 Housing Microfinance in the World

Since it was developed, housing microfinance has been practiced in many developing countries in Africa, Asia, and Latin America. This part will discuss housing microfinance practices in some countries and identify what factors behind the results.

- **Grameen Bank Bangladesh**

Bangladesh a developing country with 164 million population (UNFPA, 2010)², same with other developing countries, is facing housing provision problem. Housing in Bangladesh is provided by privates, individual, and NGOs. Whereas the government role is as facilitator, as mentioned in their National Housing Policy 2004. As facilitator, government responsibility are improve access to land, infrastructure services and credit, maintain the building material prize, and create and promote housing finance institution (GOB, 2004)³. With that policies, GOB support privates and NGOs to involve in housing provision, sepecially for low income people. One of institutions involved in housing provision for low income people is Grameen Bank.

Established in 1974 as non-governmental organization that gives micro credit to rural people, then diversified their product by launched housing microfinance product in 1984. This product added to Grameen Bank based on research that many of their borrowers use their loan to housing improvement. Since it was first launched, housing microfinance programme receives good response from its customers. The customers of housing micro loan are the member of Grameen Bank itself, and has saving in this bank. To be customer of Grameen Bank, prospective customer must sign up in the form of a group consist of five persons with same background and economy. So, when a member of a group proposes housing loan, other members will act as guarantee. The customer also has to show good record on repayment performance on previous loan. As a result, the rate of repayment on housing loan in Grameen Bank is almost 100% (The Center for Urban Development Studies, Harvard University Graduate School of Design, 2000).

From 1984 to 2009, Grameen Bank has helped approximately 680,000 people built their houses (Grameen Bank Historical Data Series 1976-2009/www.grameen-info.org). The loan fund is come not from donor, but from their own capital (90%) and from Central Bank of Bangladesh (10%). The success

² UNFPA: the United Nation Population Fund

³ GOB: Government of Bangladesh

of housing microfinance product in Grameen Bank is because many factors, namely:

- Interest rate is very competitive, which is 8%, compare to regular-short term loan interest that could reach 20%.
- The bank has strong foundation and capacity. Grameen Bank is experienced institution with many branches spread in many rural areas in Bangladesh with trained employees, and has big amount capital. This bank also has good international reputation.
- The customers are their members that have already known their track records. In addition, its security guarantee is using moral system (pressure from other members) to complete their loan. That kind of pressure makes great impact on those people who are still attached with its culture and society to obey the rules.

- **MiBanco Peru**

With population around 29,5 million people (UNFPA, 2010), Peru is the fourth most populous country in South America, and having housing provision problem. According to the National Housing Plan 2002, housing provision is in the hand of privates, while government roles are facilitates and promotes the privates that involved in housing provision. The government of Peru has some housing programme that all of it is involving financial institutions as housing finance provider. One of it is MiBanco, which is a commercial bank that also the largest microfinance bank in Latin America. Founded in 1998 with micro-enterprises credit product, and then added housing microfinance in their services in 2000 by launching MiCasa. Similar with Grameen Bank, MiCasa's customers are the member of a group that signs up to MiBanco. In addition, they also allow low income workers to join this programme to expand their business to reach the poorer people than micro-enterprises credit customer. To secure the loan, they use cosigners or security guarantee by handing off their household's ownership proof until their loans paid off (Ferguson, Navarette, 2003).

MiCasa offers various products to strengthen their selling point and competitiveness. In addition of housing improvement loan, they give technical assistance for construction. Other products are loan for infrastructure (water, electricity) development, and collaborate with building material supplier to provide building materials. As a result, their housing loan customers are growing significantly from 5,000 loans in 2001 to 20,900 loans in 2007. With interest rate around 45% per annum, still lower than micro-enterprise credit, MiCasa can give profit more than 20% per year. As commercial bank, their fund sources are come from their own capital, which are from deposits and commercial credits (Ferguson, Navarette, 2003 & Ferguson, 2008).

The success story of MiCasa/MiBanco in Peru shows that (Malhotra, 2004):

- Big capital is needed to maintain the sustainability of this programme. As commercial bank with a lot of customers, it is easier for them to get fund from their own sources (deposits, savings).
 - As a big company with big capital, network (affiliate with ACCION Network), and trained employees, they are very competent and professional in managing their business.
 - Besides loyalty of their member, allowing outsiders (low income people-non member) to join the programme could increase their portfolio, and can reach people below poverty line.
 - Government fund/subsidies is not needed to make this programme success.
- **The South African Homeless People Federation (HPF), the People' Dialogue, Utshani Fund**

South Africa has 50,5 million people population (UNFPA, 2010), which more than its half is living urban areas. Although considered as newly industrialized country, South Africa is also facing housing provision problem for the poor because of uneven wealth distribution makes the poor can not afford to buy house provide through mortgage. To overcome that problem, the government of South Africa formulates policies that besides supporting private also

supporting communities, by giving subsidy. They support private by establishing organizations that support emerging non-bank lenders that involved in housing provision. For communities, government gives subsidies directly in the form of housing loan reduction or subsidized the interest rate.

Many institutions established to support government. Sometimes they cooperate to set up a housing programme. One of it is housing microfinance programme that consists of three institutions that work together to help low income people get access to shelter finance. Started in 1990, but they launched its housing loan in 1995. This organization is included in shelter advocacy to housing finance (SAHF) because it started from institution that fights for low income people welfare. Those institutions are the Homeless People Federation (HPF), the People's Dialogue, and Utshani Fund. HPF is formal network of communities, saving, and credit collectives that its members are live in squatter areas. The People's Dialogue is NGO that help strengthen HPF's member capacity by giving them training on communication and organization skill. In addition they give varied technical assistance, for example housing construction. The Utshani Fund is institution that gives them access to finance and get housing subsidy from South African Government. In this system, HPF member is helped to develop house half the price of regular house construction, by themselves and directly receive the subsidy to pay their loan.

The Utshani Fund is funded by international donors, government fund, and the Utshani Trust. To get housing loan from Utshani Fund, HPF member has to be part of saving group, and show commitment and good track record on saving. Loan proposal is submitted by group, and this group will decided which member will get the loan, based on each member proposal on the type of house they want to build. The loan will be given in the form of building material, and they will repay with 1% interest for 15 years term. In 1996, Utshani Fund signed agreement with Department of Housing about government subsidy. If borrower get subsidy from government, their loan term will be 3 years only, but the interest will increase to 2% per month. This interest is still beyond market interest that around 23% per annum. The housing loans performance is

good, with repayment rate is 93%. They also can reach the poorest group, because their members are the bottom 20% of national income distribution.

But in 2001, due to most of provincial governments did not accept Utshani Agreement on housing subsidy (housing provision is responsibility of provincial government), and only approved subsidies from previous loan that had already been issued, Utshani Fund faced cash flow problem and had to reduce their operation and rescheduled new project. The Utshani Fund struggled to keep their operation by optimizing successful loan. With all limitation, during 2001-2005, Utshani built 5000 houses. In 2005, the new Housing Minister gave new role in her new housing policy to Utshani Fund, and succeeds to restore the old subsidies (SDI South Africa Alliance, 2011).

The above story shows some key factors behind the success/failed of housing microfinance:

- Capacity building is important to strengthen the organization.
- Track record of customer is important as a tool to assess prospective customer.
- Capital flow is very important for the sustainability of the operation. When government subsidy was drawn from this programme, it halted the operation of this project, aventhough there are other fund sources.
- Coordination and agreement between stakeholders especially the decision maker is crucial. Eventhough there was agreement between central government and finance institution, but if provincial government did not support it, it will impede the programme.

2.3 Housing Microfinance in Indonesia

This part will discuss the housing microfinance practices in Indonesia. From its history, practices, and policies that support it.

2.3.1 Housing Microfinance Practices in Indonesia

Microfinance institutions have already existed in Indonesia since 19th century during colonialism era with the establishment of Bank Rakyat Indonesia (BRI), the current largest state bank focusing on micro-credit in Indonesia, in 1895. But BRI

involvement in housing microfinance just started in 1990 and it limited only in rural area because it is the extension of rural micro credit enterprises programme (Kupedes). The aim of the housing loan is to fund housing improvement or incremental construction with loan size mostly less than \$1,500. The customers itself should prove they have steady income as guarantee. The percentage of housing microfinance in BRI is very small, only 1% from total portfolio. But because of its total portfolio is massive, the housing microfinance portfolio is considered huge. 1% of housing loans portfolio in BRI is \$ 85,300,000 and it is impressive because it can serves many households especially in rural areas. There is no data on exact number of home improvement loans since the product is not separated between housing construction loans or housing improvement loans.

Another state owned financial institution that providing housing micro-credit is Bank Tabungan Negara (BTN). Firstly established as saving bank and then in 1974 expanded to serve housing credit for low-moderate income people. BTN then specialized as housing bank and serve subsidized and non-subsidized loan. The demand on BTN's loan for subsidized low income housing is increased, so did private bank's loan. But not with BTN's non-subsidized loan which decreased. It happened maybe because of the features for non-subsidized loan in private bank is more attractive than BTN's non-subsidized loan.

Beside the involvement of formal finance institution like BRI in housing microfinance, there are other informal institutions like community based organization, and small non-bank finance institution. But housing microfinance provided by those institutions are rarely documented or studied. Those institutions were mostly funded by international organizations, donors or government. As a result, eventhough the programme considered succeed but not sustainable because if the fund is run out, the programme will end. And many more failed because of poor management.

One example of housing microfinance programme with community based was Community-Based Initiative for Housing and Local Development (Co-BILD). This programme was funded by the Netherland's Government through UNDP. The aimed of this project is to reduce the cost of housing provision through incremental construction, sequence finance, and initiate by communities. The loan was using

commercial rate with short terms up to two years. The loan was disbursed to a board consist of local representatives, NGOs, CBOs, academic, professional and local government, and then they disbursed the loan to communities that implemented the project themselves. The repayment then was used by local government to extend loan to other communities. This programme was succeed to disburse 70% of total fund and helped 5,015 households in two years. But after the fund and technical assistance was stopped, so did the programme.

2.3.2 Housing Microfinance Policy in Indonesia

Having 8,6 million housing backlog, Indonesian government is facing serious problem to cope especially with budget limitation and lack of private contribution. Government has seriously responded this problem by publishes policy and regulation to manage this problem. In the highest level of is the new Law No.1 year 2011 that states government is oblige to fulfill housing demand for low income people through subsidy, stimulant, incentive, or assistance to access housing loans. That law will be specified by other regulations such as minister regulations.

In ministerial level, there are some regulation and decree made to support government policies on housing provision, especially in microfinance. In 2002, Minister of Settlement and Regional Infrastructure issued decree about National Housing and Settlement Strategies and Policies. One of strategies is finance system development and housing market empowerment. In this strategy, government empower housing market through simplifies regulations and permits on land and housing tenure and strengthen the secondary mortgage facilities and other housing credit institutions.

The most specific regulation on housing microfinance is Housing Minister Regulation no. 5 year 2007 on Housing and Settlement Provision with Housing Subsidy Facilities Support through Subsidized Housing Microfinance. This regulation specifies the targeted low income groups based on their income, the type of housing subsidies that will be given, the loan size, terms and interest rates, and the institutions that will implement and responsible for the housing credit.

Eventhough Indonesia has minister regulation on housing microfinance, unfortunately Indonesia does not have act that support microfinance industry. Presently Indonesia based its microfinance regulation on Banking Act Year 1992. This act regulate bank activities, includes in here are the activities of MFI. According to this act, NGOs or non-financial institution can not execute bank activities such as saving, if they do not transform into MFI or cooperative. Many small NGOs and non-financial institutes can not follow this because the requirements are difficult for them. As a result many of them disperse or operate without license. This regulation can obstruct the development of housing microfinance in Indonesia, and to reach the poorest people. The NGOs and non-financial institutions existent are important since they are considered as institution that can reach the poorest people.

Another regulation is issued by Bank Indonesia (Indonesian Central Bank), which is regulation to support microfinance in 1990. Through that regulation, government obliges all national bank, state owned or private, to allocate 20% of their portfolios to support micro-small credit. With this regulation it is hoped that micro-credit can develop in Indonesia and help many low income people develop or improve their live.

2.4 Government Involvement in Housing Market

Privates in developing countries failed to meet the demand for low income housing. This condition is recognized by government who tries to overcome this problem by intervening in the property market. There are some critics on government direct involvement in public housing provision because many of projects involving them failed (UNCHS, 1996, 2001). In some cases in 1960's where government involved directly in public housing project, it was criticized by former World Bank official that those projects were inefficient, unaffordable by the poor, did not reach its target, and too small (Mayo (1999) in Gilbert, 2004). CGAP (2006) in its focus note also stated that based on 15 years observations, only two types of microfinance project that sustainable. First is project that is implemented by saving-based groups, where its fund came from their own saving. And second is project that is implemented by self-help group, which fund came from their own saving, and extended its source by receiving loan from external

fund. Whereas, projects that has started from external fund (donors or government) has tendency to failed (not sustainable)⁴.

In contrary, there are opinions that support the involvement of NGOs, government, or other non financial organization, in microfinance. Those NGOs or non-financial organization are needed to reach the poorest people who do not get access to microfinance (Sundaresan, 2008). That opinion is supported by Swanson (2008) who said that noncommercial investor is needed to take over the risk that not wanted by commercial investor. Housing microfinance for the poor is risky business, so government, donor or other noncommercial investor will be needed to take that risk. So, what the government should do? What kinds of intervention are needed? In this session we will discuss the kinds of intervention that governments usually do in housing provision.

Property market is is highly susceptible by fluctuation in economic development, high transaction cost, immobility, and heterogeneity of its product (Zhu, 1997). With this condition, government intervention is needed to maintain the conduciveness of property market. Intervention in the form of policies and regulations for example taxes, incentives are needed. Those intervention are needed to make fund is accessible and loan is affordable for the market. It could stabilized and stimulate the market and in the extent it could invites developers to play in the market and increase the competitiveness of the market. Competitiveness in market is good to give customers more choices. But government has to keep control on the market to keep it stability.

Subsidy is one form of government intervention in housing market. Although subsidy is criticized by many sides not effective for addressing housing provision problem, but some practices show good results on it. One critic that against the utilization of subsidy in housing provision argue that subsidy in the form of interest rate ceiling will “*distort overall financial sector policy and constrain the development of viable institutions*” (Malhotra, 2004, p.269). It argues that competent financial institution can work without subsidy. And for poor people, they do not care the cost as long as it is accessible. On the other hand, there are

⁴ CGAP is an independent policy and research center housed at the World Bank, dedicated to advancing financial access for the world's poor. <http://www.cgap.org/p/site/c/aboutus/>

opinions on why subsidy is very important for housing provision. Hoek-Smit (2009) mentioned some factors to support subsidy, first is the lack of an efficient system in housing finance, second is the price of standard housing in the market is still not affordable for poor-moderate people, and third is the absence of ready buyers that could hampered the recovering and mobility of investment. Those issues are also existing in Indonesia. Success stories of subsidy scheme come from Latin America. Housing subsidy policy in Chile is considered as the best practice, and adopted by other Latin America countries. Subsidy is only given to the poor and they must have willingness to help them self. To assess their willingness, government tests it by seeing their saving records (Gilbert, 2004). The longer they save and the greater their saving, the more chances they get subsidy.

The practice of giving grants to public has commonly been implemented by government or donors. By giving grants, government assumes that “public money can lure private behaviour in the direction of government desire” (Boyne, et.al, 1991). The grants receiver must utilize the grant according to the objective of the programme and the grant’s activities should value equally or exceed the grants. But government can not guarantee that public money is spent according to government direction. Thus, government has to predict the behaviour of its grant receiver, and it will be difficult job. Many cases show the failure of the grant projects because of unpredictable customers behaviour. Without intense supervision it will be hard to expect the success of the programme.

Land tenure is one of success key on low income housing provision. Malhotra (2004) stated that to improve life standards and security, people have to secure their land rights. If they already have assurance on their property, they will eager to invest more on their property. Their investment can be in the form of business extension in their home, such as add room in their house to be rented. Many finance institutions that give housing loan also require security guarantee in the form of land ownership. And this requirement could hamper their attempt to get housing loan since most of this housing loan customers live in slum areas with no clarity on their land status.

From above types of government intervention, we can formulate criteria to analyze government involvement in housing microfinance in Indonesia. That criteria is listed in Table 2.2 below:

Table 2.2 Government Intervention in Housing Microfinance

No	Government Intervention	Activities
1	Policies & regulations	Law, regulation, strategy
2	Fiscal intervention	Subsidies, taxes
3	Direct provision	Grants, donation

2.5 Concluding Remarks

Housing microfinance is a complex system that continually developing since it is involving many subjects. It also varies with each case since this system is tailored according to its environment. There is no certain formula on how to be successful in housing microfinance business. We can only see from some of the best practices. The concepts of housing microfinance show that the basic information we need to analysis housing microfinance implementation in a case study, such as its type, its characteristics, funding sources, and their limitation. The practices of housing microfinance in the world show the factors behind its success or failed. The housing microfinance practices in Indonesia help us to know the housing microfinance environment and status in Indonesia, with policies and regulations that support it. And since this research want to understand the effect of government involvement in housing microfinance, the theories on government intervention is elaborated. There are three types of government intervention: policies and regulations, fiscal intervention, and direct provision.

Those interventions will be used as a framework to analyze the government involvement. Alongside with the case studies in the world, both are used to evaluate and identify the implementation of housing microfinance in NUSSP that will be discussed in Chapter 3. Were those concepts and theories implemented in the case studies?

Chapter 3

Case Studies: Housing Microfinance in Neighborhood Upgrading and Shelter Sector Project (NUSSP)

Housing microfinance in Neighborhood Upgrading and Shelter Sector Project is implemented in two components. First is improving access to shelter finance component and second is upgrading poor neighborhood and new site development component. This chapter evaluates the implementation of housing microfinance in those two components, and identifies the role of every institution involved, especially the government roles.

3.1 Housing Microfinance under Improving Access to Shelter Finance Component in NUSSP

In this part, we discuss the housing microfinance implementation in improving access to shelter finance component of NUSSP. It gives an overview of housing microfinance programme, the concept of housing microfinance in the programme, the roles of institutions that involved, and identifies the customers of the programme.

3.1.1 Overview of Housing Microfinance under Improving Access to Shelter Finance Component of NUSSP

Improving access to shelter finance is one component of NUSSP which objective is give finance access to low income people in 32 cities/regencies (see appendix 1) in Indonesia where NUSSP is executed. Accordingly, they can enhance their living condition by using the loan to improve their houses, construct core houses, legalize land tenure, or improve settlement infrastructures. Housing microfinance programme under this second component of NUSSP will be operated by PT. PNM as Central Financial Institution (CFI) and Local Financial Institution (LFI) as executor in targeted areas.

This project is funded by a loan from Asian Development Bank (ADB) in the amount of US\$ 15,6 million, and has been absorbed in the period of 2004-2009. NUSSP targets PT. PNM to get 30,000 customers in 32 areas and form 800 saving groups when programme accomplished. In practices, from US\$ 15,6 million allocated loan, only 8,7% is disbursed to approximately 1,670 consumers in 12

areas. According to the Head of PMU of NUSSP and Deputy Financial PMU-NUSSP of PT. PNM, the main reason the second component of NUSSP has failed is that the interest was not competitive (too high) compared to market interest. The interest that is given by PT. PNM as CFI to LFI as their executing agency is 15,5%. And LFI gave higher interest to their customer (until 18%), whereas market interest is only 8%. Other factors behind the failure of this programme are the number of LFIs eligible and willing to implement this program is limited. At the same time, communities consider this programme a donation project, non-commercial, which makes many LFIs reluctant to joint this programme.

At the end of this programme, the repayment performance is $\pm 88\%$ and not implemented anymore by LFI because they believe housing microfinance programme is not as profitable as business microfinance programme. For the loan, the remains loan that is not disbursed by consumers is returned to government.

3.1.2 The Concept of Housing Microfinance Programme

In housing microfinance in second component of NUSSP government acted only as initiator and designer (policy maker). In this programme, housing microfinance can be classified based on its approach as microcredit to housing finance (MCHF), because it is implemented by microfinance institution (PNM and LFI), focus on housing improvement and construction, and focus on financial sustainability. As executing agency, LFI has the right to determine the interest and term of loan for consumers, based on market mechanism. Since there is no requirement that LFI has to be involved in housing microfinance programme before, central consultant will give training on housing microfinance to LFI to overcome lack of housing microfinance experts in LFI.

The consumers are selected by LFI based on recommendation from Badan Keswadayaan Masyarakat (BKM)⁵ and Oversight Consultant (OC)⁶, and have to be approved by PT.PNM, and they can be individual or groups, with maximum loan Rp.10 million (US\$ 1,120), security minimum 10% of their loan, and 1-5 years term. Security guarantee will not be needed if the LFI is cooperation and the customer is the member of that cooperation. The loan will be allocated to finance

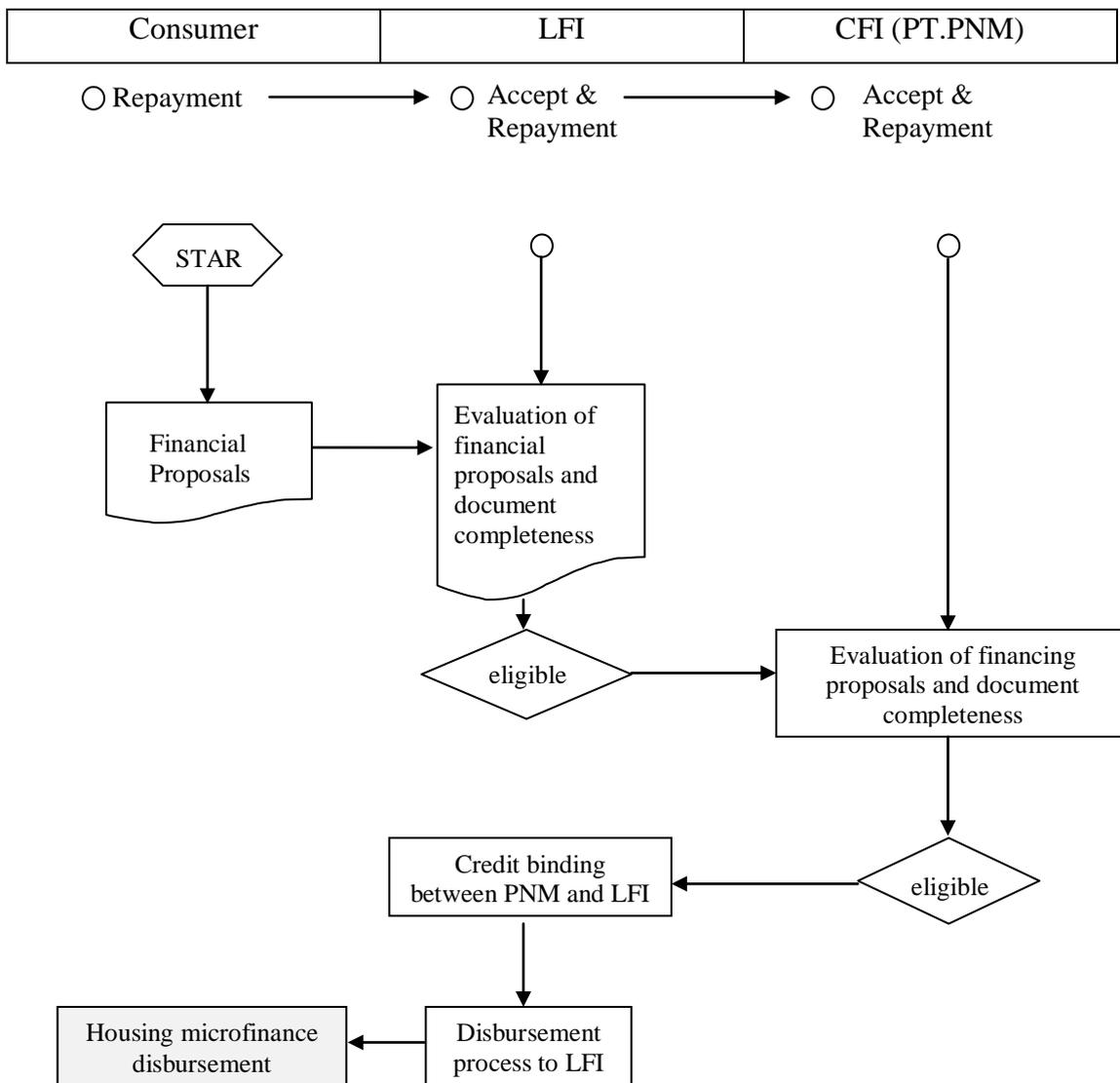
⁵ BKM: Community based organization

⁶ OC: Local consultant

one of these choices: house improvement, core housing construction, land certification, land purchase, add space in the house, and infrastructures installment.

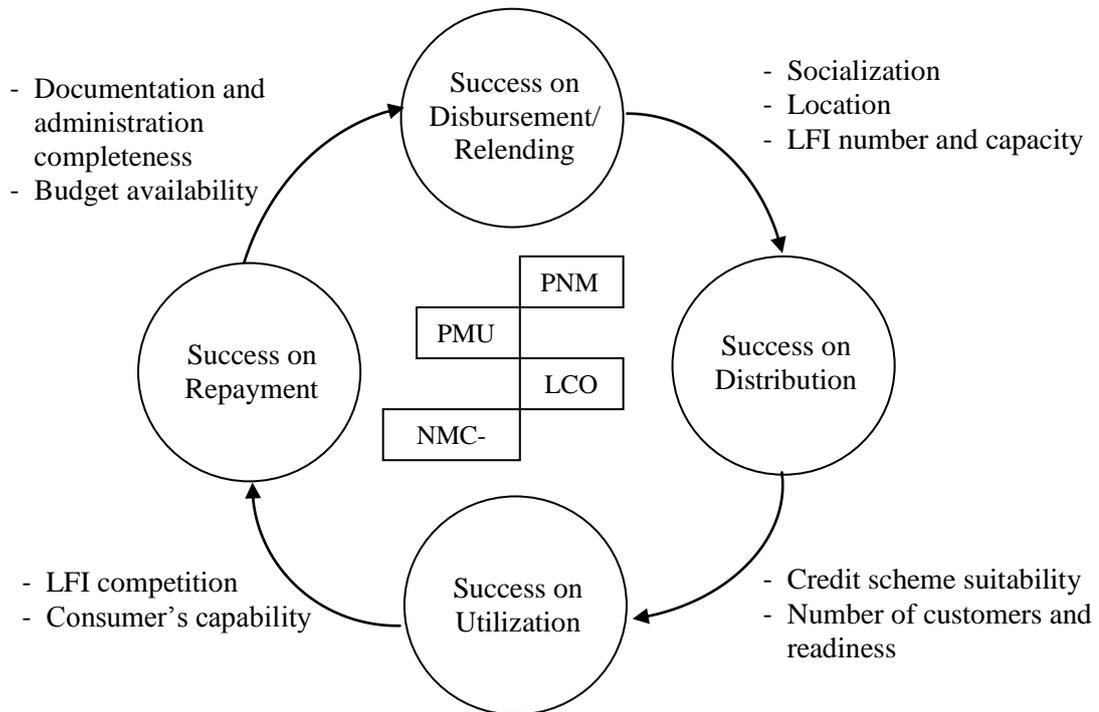
Figure 3.1 shows the mechanism of housing microfinance. It begins by composing consumer financial proposal. The consumer is eligible person that has been identified and recommended by BKM and OC before. OC will assist them compose the financial proposal. LFI will evaluate the eligibility of the candidate and their documents. If LFI approves it, the candidate will be step forward to be evaluated by CFI (PT.PNM). If candidates not eligible, they will be refused. When CFI approve the candidate, CFI will bind the credit with LFI, transfers the loan to LFI. Finally LFI will distribute it to customers.

Figure 3.1 The Mechanism of Housing Microfinance Submission



Source: Based on Housing Micro Credit NUSSP Technical Guidance

Figure 3.2 the Financial Cycle of Housing Microfinance in NUSSP



Sources: Based on NMC (Central Consultant)

Housing microfinance under second component of NUSSP was designed by government to be implemented by commercial financial institution with the expectation that commercial financial institutions could maintain its sustainability. Figure 3.2 shows the financial cycle of housing microfinance in NUSSP. It illustrates that the success of programme relies on the success of four steps, disbursement/releasing, distribution, utilization, and repayment. But in practices, there are no LFIs that continue this programme.

3.1.3 The Institutions

There are seven stakeholders involved in housing microfinance under second component of NUSSP, namely central government (PMU of NUSSP), local government, central finance institution (PT.PNM), local finance institution (LFI), central consultant (NMC), local consultant (OC), and Asian Development Bank (ADB).

- Central Government

Housing microfinance in NUSSP is initiated by central government and realizes it through ADB's loan. Central government that involved in NUSSP consists of many institutions, namely Ministry of Public Works that is represented by PMU of NUSSP, Ministry of Finance, and BAPPENAS (National Development Planning Agency). Government's role does not only stop until that stage, they also design, and supervise the implementation of the programme. Ministry of Public Works as initiator, designs the programme with Ministry of Finance and BAPPENAS, and with ADB as the donor. Ministry of Public Works also supervises it together with BAPPENAS. Whereas Ministry of Finance responsible to designs the housing microfinance programme and manage financial administration of the programme.

- Local Government

Local government's roles are helps local consultant promotes the housing microfinance programme and coordinates LFI, OC and BKM to identify suitable location for this programme in their area. After locations are determined, local government role only promotes of this programme to the low income people in their area.

- Central Finance Institution (PT. PNM)

PT. PNM is state owned company that providing finance for micro-small-medium enterprises and co-operation, that its fund comes from national budget, loan, and investor (PNM Profile). PT. PNM is involved with housing microfinance programme in NUSSP because they are the only finance institution willing to join the programme, has experience in microfinance, and has branches in targeted areas.

PT.PNM signed subsidiary loan agreement (SLA) with Ministry of Finance (MOF) to carry out the housing microfinance through Local Finance Institutions (LFI), which will conduct micro credit for housing to society. As central executing agency, PT PNM has responsibilities to:

1. Determines participated LFIs that have been recommended by OC
2. Evaluates LFI's finance proposal and potential customers.
3. Determines the total subloan of LFI.
4. Evaluates system and financial and operational procedure of LFI.
5. Prepares socialization material.

6. Gives reports to PMU of NUSSP that acts as central government representative, regularly.

Eventhough PT. PNM is experienced in microfinance, but the housing microfinance programme in second component in NUSSP is their first task in housing microfinance topic, and they do not have experts in this field. Thus they need assistance from consultant in housing microfinance area.

- Local Finance Institution

Local finance institution is the spearhead of this programme. They could be LFI that already exist in targeted area or BKM that has potential to develop as finance institution. To be involved in this programme, LFI has to be recommended by OC and local government to CFI. They do not need to have experience in housing microfinance before since they will get training from consultant on housing microfinance material. Housing microfinance experts will be deployed in each OC to assist LFI on housing microfinance.

As forefront, LFI has tasks to prepare list of prospective customers and the amount of their loan, evaluates their finance proposal, compose distribution plan, and send monthly report to CFI in detailed.

- Central Consultant (NMC)

As central consultant, NMC main responsibility is to coordinate, supervise, monitor, evaluate, and set procedure and operational standard for the execution of the programme by the OC. Besides directing OC, NMC also has responsibility to strengthen PNM capacities and evaluates PNM and LFI activities. Furthermore, together with PNM, NMC also has to prepare socialization material that will be done by OC and LKL. In order of the lack of housing microfinance expert in local level, NMC has to provide housing microfinance experts and locate them in targeted areas to guide LFI.

- Local Consultant (OC)

OC main responsibility is to succeed housing microfinance programme with NMC supervision and through coordination with LFI, local government, and PNM. The activities that they should do are:

1. With local government identify suitable areas for this programme.
2. Recommend potential LFI to PNM.
3. Socialize the programme to communities.
4. Identify prospective customers.

5. Assist prospective customer to prepare and compose their finance proposal.
 6. Strengthen LFI capacities by giving them housing microfinance training.
 7. Help formalize BKM to LFI by giving them financial training and technical assistance.
 8. Monitor the implementation of housing microfinance.
- Asian Development Bank (ADB)
ADB has a main role as loan provider. With central government, they design this programme to help low income people get access to shelter finance. They also monitor and evaluate the implementation of housing microfinance programme and ask reports from PMU of NUSSP, PNM, and NMC.

3.1.4 The Consumer

Housing microfinance programme in NUSSP targets low income people in 12 cities. To be included as prospective customers, those low income people have to meet some requirements:

1. Has steady income and should be < Rp.2,000,000 (US\$ 222) per month.
2. Live in targeted areas/neighborhoods that have already identified before by OC and local government as area that need to be upgraded, proved by their identity card.
3. It could be individual or group that is formed and develop through NUSSP activities.
4. Minimal income should be 2,85 times of loan amortization.
5. Capable to meet the needs of at least 10% of financing facilities.
6. Submit documents that are required by LFI, including security guarantee if it is needed.
7. Has no arrears/credit problem, including from government's loan.

The above list shows the requirements that are needed to be eligible as customer are tough enough. Especially the requirements on customer's financial capacity. It makes only certain people eligible to access the loan, and they are low-moderate income people. As a result, LFI got approximately 1.670 clients, far below 30,000 targeted clients, with failure rate payment of 12%.

3.2 Housing Microfinance under Upgrading Poor Neighborhood and New Site Development (NSD) Component

This part discusses the implementation of housing microfinance in upgrading poor neighborhood and new site development component. The discussion will be divided into an overview of the programme, the concept of housing microfinance in the programme, the roles of institutions that are involved, and the customers in this programme.

3.2.1 Overview of Upgrading Poor Neighborhood and New Site Development (NSD) Component of NUSSP

New Site Development (NSD) is part of the third component of NUSSP. The objective of this programme is to reduce slum areas through developing new settlement outside slum area or close to the existing site within the slum area. In this programme low income people will get new houses completed with infrastructure within the area. To be considered as prospective clients, these low income people should live in areas that can not be improved anymore through the upgraded programme because of its condition that is not only dangerous for the environment but also for humans, such as in prone flood areas, high tide or coast erosion areas, and potential landslide areas. Low income people who live in land owned by government which is already planned for certain development or preservation areas can also be considered as prospective clients.

Since its publication, this programme received positive responses not only from low income people, but also from local government. Local government plays a significant role in this programme, because they are not only supported by giving assistance or help with socialization but they also have to provide land for development. Their total commitment to help low income people is needed in this programme. And there were five local governments that seriously committed to this programme. Those five cities/regencies are Palembang City, Bone Regency, Baur-Baur Regency, Polewali Mandar Regency, and Jeneponto Regency. In total, 886 houses were constructed in those five areas, with house prices ranging from Rp.25,000,000 (US\$ 2,780) – Rp.53,750,000 (US\$ 5,970). The interest follows market interest which is around 6.5% flat /year with 15 years term. For the

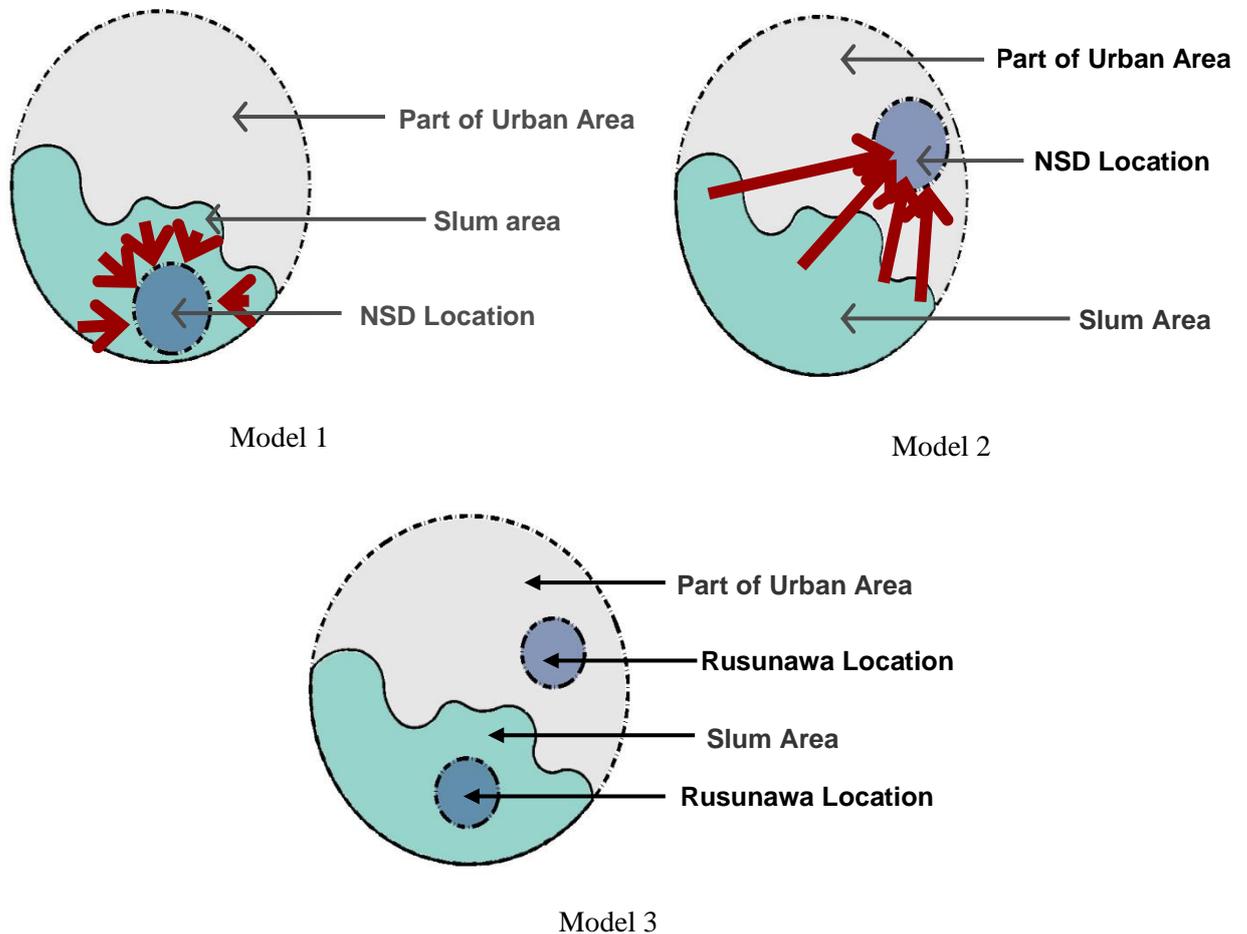
payment method, except for Jeneponto Regency which is not housing microfinance programme since the house is granted by local government to its citizens, the other four areas use housing microfinance system, which they have to pay their house installment through LFI that is involved in this programme. The payment collection could be daily, weekly, or monthly depends on their agreement. If payment is collected daily, it will be managed by UPK (financial management unit), part of BKM, and they will pay to the bank weekly.

This NSD programme was designed with massive government involvement in it, both central and local. Central government designed this programme only in one term (NUSSP 2004-2010) with expectation that after the project ended, local government will continue this programme using their local budget. But it turned out that when this NUSSP wrapped up, so did housing microfinance programme in NSD. Local governments did not continue this programme.

3.2.2 The Concept of Housing Microfinance in New Site Development

NSD is aimed to reduce slums in urban areas through developing new settlement for low income people in new site. There are three alternatives of NSD development models. First model is relocating low income community that lives in slum area that could not be upgraded to new site within that area. Second model is relocating low income community that lives in slum area that could not be upgraded to new site outside the slum area. And the third model is relocating low income community to multi storey rental accommodation, within or outside the slum area but still in urban area. And from those three models, five NSD projects are using second model.

Figure 3.3 Alternative NSD Model



Source: NSD Guidance

To be involved in NSD programme, cities/regencies must meet certain criteria, namely: they are listed in 32 cities/regencies that involved in NUSSP, urgently require reducing slum areas programme, show good performance in NUSSP implementation since NUSSP is enacted, local government guarantee the availability of land for NSD, and has prospective clients that will to be relocated.

Housing microfinance in NSD can be classified as shelter advocacy for housing finance (SAHF). It is because its focus on land, housing, and infrastructure construction, its social-political interest, and government directly involved as executor. For its funding, NSD is financed by some stakeholders, ADB loan, central government, local government, and communities. ADB loan is used to finance infrastructure construction and housing lots preparation. Central

government finance detail engineering design (DED) and site plan design, using national budget (APBN). Local government finance community preparation and relocation, using regional budget (APBD). And communities finance their house development by housing microfinance scheme, pay housing construction permit, and property certification. LFI is involved in housing construction as institution that manages housing microfinance. LFI in NSD mostly are state or regional owned bank. Table 3.1 shows the activities and its finance sources.

Table 3.1 NSD Activities and Source of Fund

No	Activity	Source of Fund			
		ADB Loan	APBN	APBD	Community
1	Community Preparation			X	
2	Project Preparation				
3	Land clearing	X			
4	Site Plan/DED		X		
5	Housing development (through LFI)				X
6	Permit for Building Construction				X
7	Infrastructure	X			
8	Relocation			X	
9	Land right Transfer				X

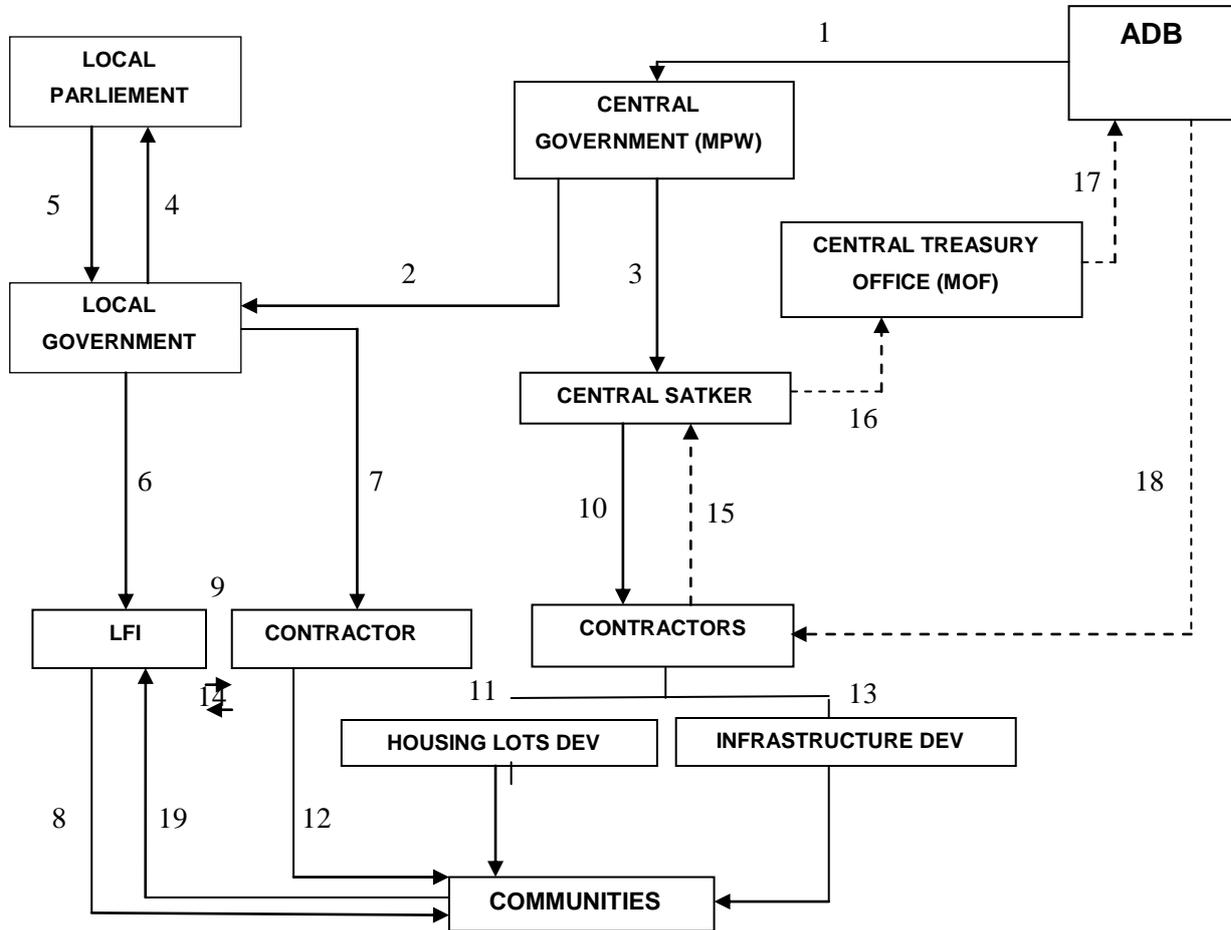
Source: NSD Guidance

The ADB loan to construct infrastructure and preparing housing lots will be managed by central government through Central NUSSP Project Manager (Satker/works unit). Satker will arrange bidding to get contractor that will build infrastructure and prepare housing lots. For housing development, local government will make MoU with selected LFI to finance the housing construction. Government will give guarantee and responsible if customers can not fulfill their housing loan payment. Local government will also select developer that will

construct the house. Detail funding mechanism is showed in figure 3.4. Step of activities are as follows:

1. Loan agreement
2. MOU between MPW and Mayor/Bupati regarding the implementation of NSD
3. MPW give authority to Central NUSSP Project Manager (Satker) to manage Central Fund
4. Discussion on land for NSD among related Agencies and Local Parliament
5. Decision from Local Parliament and forwarded to Mayor/Bupati
6. MOU between Local Government and Local Financial Institution regarding housing development.
7. Selected constructor housing development
8. Housing Microfinance agreement between LFI and communities
9. Housing construction finance agreement between LFI and contractor
10. Selected constructor for land clearing, housing lots development, and infrastructure construction
11. Land clearing and housing lots development
12. Housing construction
13. Infrastructure Development
14. Invoice of housing construction to LFI
15. Invoice of housing lots and infrastructure development works to Central Satker
16. Forward invoice to Central Treasury Office and ADB
17. Central Treasury Office forward the invoice to ADB
18. ADB pay the contractor through Direct Payment
19. Communities pay housing installment to LFI

Figure 3.4 Funding Mechanism and Activities



Source: Based on NSD Guidance

3.2.3 The Institutions

This part will discuss the roles of institutions that involved in housing microfinance in NSD. This discussion is needed to understand the role of each institution, especially the government’s role. There are many institutions engaged with NSD programme, namely central government, local government, central consultant (NMC), local consultant (OC), local finance institution, and ADB.

- Central Government

Central government that consists of Ministry of Public Works, Ministry of Finance, and BAPPENAS has substantial role in NSD programme. Their first

role is initiates and design NSD programme with ADB. Then Ministry of Public Works assigns consultant to compose feasibility study of areas that proposed to implement NSD. Next, central government makes MoU with local government that is considered eligible and has strong commitment to reduce slum settlement in their area. Ministry of Public Works through central Satker then selects contractor to develop infrastructure and prepare housing lots. In finance matter, central government has responsibility to finance the design of DED and site plan that is also made by consultant, using national budget. Government will also finance infrastructure construction and land clearing, because although it funded by ADB loan, the customer will not be charge for it. Customer will only pay for house construction, building construction permit and property certificate. Whereas the ADB loan for infrastructure will be paid by central government. Another government role are monitor and evaluates the implementation of this programme together with BAPPENAS and ADB.

- Local Government

The role of local government in NSD is very big. Together with consultant they identify areas that suitable for NSD. Then they help consultant promote the programme to communities, and identify the prospective clients that interested to join NSD. One significance local government role is that they are obligated to provide land minimum 2 Ha, as a new site where the new settlement will be built. They have to transfer that land to the customers in order to reduce the total house cost that will be pay by the customers. Other important local government roles are they have to find LFI that want to involve in this programme, and act as security guarantee if the installment payment not success. Another local government role is they select contractor to build the house.

- Central Consultant (NMC)

In NSD programme, central consultant helps central government in composing feasibility study of targeted areas and design DED and site plan. Central consultant has to manages, directs, and supervises the work of local consultant also. Monitoring and evaluation of this programme is also done by central consultant and they will report it regularly to central government and ADB.

- Local Consultant (OC)

In the first stage of NSD programme, OC with local government identify suitable location for NSD and list prospective customer with local government. NSD Promotion is also done by OC. When the project is implemented, OC will monitor and evaluates it, and report it to central consultant.

- Local Finance Institution (LFI)

LFI that involved in this programme could be bank (private or state bank) and non bank: Baitul Mal wal Tamwil (Islamic finance institution), and cooperatives. In the implementation, LFI that joined NSD programme is state bank (state or local owned bank). They agree to join this programme because local government guarantees this programme, and they have programme to help low income people to get access to finance shelter.

- ADB

As loan provider, ADB decides every step that will be taken. They also involved in designing programme with central government. Another ADB task is monitoring and evaluation the implementation of the programme, and receives regular reports from central government and central consultant.

3.2.4 The Consumer

To be considered as NSD's prospective customers, there are some criteria that should be passed. Those criterias are:

1. Low income people who live in slum area in cities/regencies where NUSSP is implemented.
2. Has steady income maximum Rp.2,500,000 (US\$ 280), and minimum Rp.1,000,000 (US\$ 110) per month.
3. Willing to be relocated to new area outside their existing slum area.
4. Keep a certain amount of deposit in bank account (selected LFI) minimum Rp.2,000,000 for certain NSD programme that got subsidy from Ministry of Housing.

All those requirements are needed to guarantee customer's eligibility. But those requirements show that the targeted customers are low-moderate income people, not the poorest people. The poorest will not pass the requirement since their

income is not steady. It means that the poorest are still not reached by this programme.

3.3 Concluding Remarks

There are two different housing microfinance programmes in NUSSP, improving access to shelter finance (second) component and upgrading poor neighborhood and new site development (third) component. The government's roles in those components are also different. In the second component, government involved indirectly, only as policy maker (initiator and designer), and supervisor. In the third component, government involved directly as policy maker (initiator and designer), executor, and supervisor. The result of those programmes are different, the second component failed to reach its target, whereas the third component success to reach its target. In its concept, housing microfinance institution in the second component is operated by microfinance institution, used funding from donor. In the third component concept, housing microfinance is operated by government and microfinance institution, and the funding came from government, donor, and MFI. The government involvement in both housing microfinance programme can be categorized as follow:

Table 3.2 Government Roles in Housing Microfinance in Indonesia

Direct Involvement	Policy Maker	Executor	Supervisor
Indirect Involvement	Policy Maker	-	Supervisor

After this chapter discussed the implementation of housing microfinance programme in NUSSP, the next chapter will analyze the government involvement in housing microfinance in Indonesia. The analysis will be based on the results of the government performance in case study, and from theories and examples of housing microfinance practices in other countries.

Chapter 4

Analysis of Government Involvement in Housing Microfinance Programme in Indonesia

Neighborhood Upgrading and Shelter Sector Project (NUSSP) is one example of programme that adopted housing microfinance in its component in Indonesia. Chapter two gives us foundation on housing microfinance: the concepts, practices, and policies, which will help us to analyze the housing microfinance practices. Then, the cases, which are housing microfinance in second and third component of NUSSP that will be analyzed, are elaborated in third chapter. Based on types of government intervention in second chapter, this chapter (chapter 4) will analyze the implementation of housing microfinance that has already elaborated in third chapter. The analysis is done to answer the questions that are mentioned in first chapter.

To organize the discussion, this chapter will be divided into three parts, two analyses are based on the type of government involvement in case studies, which are direct and indirect involvement, and the last is the concluding remarks. To structuring the analysis, the discussion will follow the framework that is based on discussion in chapter two which is type of government intervention in housing market (policy and regulation, fiscal intervention, direct provision). And from chapter three which is the government roles in housing microfinance in Indonesia based on the case studies of NUSSP programme (policy maker, executor, and supervisor). Those involvements is put into table 4.1 as follow:

Table 4.1 Table of Analytical Framework

	Policy Maker	Executor	Supervisor
Direct Involvement	<i>Policies</i> - Fiscal intervention: Subsidies - Land tenure procedures <i>Regulations</i> <i>Strategies</i>	Direct Provision: Grants House Infrastructure	<i>Monitoring</i> <i>Evaluation</i>
Indirect Involvement	<i>Policies</i> <i>Regulations</i> <i>Strategies</i>		<i>Monitoring</i> <i>Evaluation</i>

4.1 Direct Government Involvement in Housing Microfinance in Indonesia

Direct government involvement in housing microfinance in Indonesia is exemplified in New Site Development (NSD) Programme in NUSSP. In this programme, central and local government were actively involved in the implementation of NSD, not only acted behind the screen. Central government roles were initiated and designed, financed, conducted construction tender, and monitor and evaluates the programme. Whereas local government roles were identified location and customers, programme publication, provided the land, selected local finance institution (LFI), acted as security guarantee for the customer, selected housing contractor, and monitor and evaluated the programme.

In general, we can classify it into three roles, which are policy maker, executor, and supervisor.

4.1.1 Policy Maker

In direct involvement, government roles not only as policy maker, but also as decision maker. When government has housing microfinance programme, they design the programme on how it will be executed, selected area that suitable with the programme, and selected the consultant, contractors and the LFI. Those roles are very important because the success or failure of the programme depend on those activities. For example is the selection of NSD areas. From some alternative areas, the government has to select and decide which area is the right one. The area should be has access to infrastructures network, not disaster-prone area, and close to their city/workplace. The NSD area should meet all those requirements in order to make the low income people want to be relocated. NSD programme will fail if the targeted people do not want to live in that area because of the bad location.

According to Sundaresan (2008), traditional institution like NGOs or non-financial institution are still needed to reach the poorest who do not get access to microfinance institution. As Porteous (2011) showed in his pyramid of housing finance instrument usage in developing countries (see figure 2.1 chapter 2), housing microfinance serves poor to moderate income more than very poor. With the involvement of government, the poorest is expected can be reached by housing microfinance service. But in reality, this programme not reached those poorest people. This is happened because

this programme is designed with certain requirements to get eligible customers, to guarantee the programme will be works. And those requirements only met by the poor to moderate people, than the poorest. The number of beneficiaries also relatively small compared to housing for the poor demand.

Subsidy is part of government involvement in the form of fiscal intervention. Some criticized subsidy will distort financial sector (Malhotra, 2004). But that is only happened if the subsidy in the form of interest rate. In NSD, subsidy is given to the low income people in the form of house price reduction by Ministry of Housing. For customer, those subsidies are very helpful because it will reduce their loan. Subsidy in the form of reducing house loan is also implemented in South Africa. And they succeed to give housing loan to many low income people. Although there was a problem because of lack of coordination and understanding with local government, in the end the programme can operates again (see chapter 2).

Housing microfinance programme is designed to be sustainable so when the project and funding ends, the programme keep continue using public fund. In NSD case, the programme is expected continue with local government budget. NSD programme has just finished in 2010; government is still evaluating the programme. And there is only one issue that one local government (Palembang City) wants to continue this programme. But so far, there is no realization of that issue. So the sustainability of NSD programme is still questionable. This programme could end like previous housing provision programme (Co-BILD) in Indonesia. When the fund and technical assistance stopped, so did the programme (see chapter 2).

Another example important policy should be made is about land tenure. Land tenure is an important factor in housing provision. Many housing microfinance programme require land ownership as security guarantee. NSD programme was designed by the government with guarantee of secure property for the customer. So they do not have to be worry about eviction anymore. Government also made the land certification procedure easier to accommodate this programme. Through simple land tenure procedure, low income people will able to acquire land, and continue to build their house progressively, to accommodate their need.

4.1.2 Executor

As executor, direct provision is often used by government to help low income people. It could be grant, house, or infrastructure. Grant is commonly used by government and donor. In NSD, grant was given by local government in the form of land where the houses will be built. This grant is very helpful for the customer since they now only pay for the house loan. The critic on giving grant for people is because they doubt the grant will be allocated as government direction. But the grant in the form of land can not make the grantee freely to use it as they want. There is rule that they only can sale the house and the land if their loan is paid off. Another grant given by the government is in the form of infrastructure. Infrastructure in NSD location was given by Ministry of Public Works, using ADB loan. But low income people do not have to bear the cost of infrastructure since it not included in their house price. Infrastructure cost will be covered by central government.

Another direct government involvement is local government acted as a shield for community, as a guarantee for the bank. This is very helpful to make LFI want to involve in the programme. But there is a concern how it will end. Eventhough government has already identified the prospective customers, make sure they are eligible, but who know what will happen in the future. What if customers fail to pay off? Government has to pay attention on this subject seriously and has to supervise this programme strictly.

4.1.3 Supervisor

Supervision is important to keep the programme running on track. Supervision should be held in every project, so did in NSD programme. The monitoring and evaluation activities are in the responsibility of the government and ADB. But because this is a programme that has duration, which is five years programme, the monitoring and evaluation also finished when the programme was complete. As a programme that was designed to be sustainable, the supervision should not stop in the end of the programme. Supervision should continues to make sure the programme reach its sustainable target, which is keep providing housing for low income people, through local budget. In practices, there are no local governments that continuing housing provision programme. Except the rumor from the Palembang City that want to carry on the programme, as discussed in previous section.

4.1.4 Advantages and Disadvantages

Every activity has advantages and disadvantages. Direct government involvement in housing microfinance in NSD definitely has that too.

- Advantages

Community as the beneficiaries of housing microfinance programme definitely got the most advantages. Because of direct government involvement, community got affordable houses with simple access to obtain it. It happened because government also acted as policy and decision maker. When there is something hampered the programme, central and local government as decision maker can coordinate to remove or reduce it. For example simplify the procedures on land certification and land granted. As long as it still allowed by law and regulation.

The direct involvement of government in housing microfinance programme gave the privates example of housing provision programme that it succeeds has to be competed. It gave market something to learn and adopt about housing provision for low income people. And it made them more creative in developing finance system that is more accessible.

By directly involved in the project, government was more aware on low income people condition, on their difficulties in accessing finance system, what they want, and what they need. Government also more understand market condition, on how housing finance system works in reality. Those activities gave government experiences, something to be learned, and as the basic of the future housing microfinance programme.

- Disadvantages

Direct government involvement gave community a simple access to get a house. Government gave them many facilities like subsidy and grants. But if this habit continues, it gives bad effects on community. Indonesian government has policy to involve and empower community in housing provision. Government supposes to assist community to increase their capacity, to be more participate in housing provision. If government only gives them aid, it will not educate them. They will

always be depended on government, waiting the next programme, and their initiatives will be low. As the saying goes, better give hook than give fish.

Government involvement in microfinance industries has been criticized could crowd out microfinance market, and be competitor for privates. Particularly if government product has lower interest rate than market interest, it will make microfinance institution that focus on their sustainability hard to compete (Hubka & Zaidi, 2005). In NSD programme, the competitive interest rate and simple access made this programme accepted by community and made them realize there are other financial systems that could help them obtain house in affordable price. And it could make communities swift from conventional finance system.

Another concernment on government direct involvement in housing microfinance is when they are acted as policy and decision maker, they have right to select and decide LFI and contractor to build the houses. The problem of favourable or the worst is corruption is feared emerge. These problems are commonly come out especially when government has no transparency and accountability in its bidding/selection process.

4.1.5 Direct Government Involvement Summary

Direct government involvement in housing microfinance gave advantages and disadvantages as discussed above. But to what extend is their involvement needed. Some people support the direct involvement of government in housing microfinance because government needed because they can help reach the poorest, and can make the programme run smooth and fast because as bureaucrat, they can simplify the bureaucracy procedures.

In contrary, Hubka and Zaidi (2005) criticize the involvement of government. According to them, to create ideal microfinance environment, government should not involved in microfinance industry. Their involvement could create unfairness since they are also act as policy and decision maker. Government ideally only maintain the stability of housing microfinance market by create regulations that could support the development of housing microfinance market. In a case of NSD, what government did is keep the market competitiveness by transferring housing finance operational to finance institution. By using finance institution (commercial

bank), the competitiveness of market interest rate was maintained. So, government involvement is important, but they have to leave finance operational to finance institution to maintain market competitiveness.

4.2 Indirect Government Involvement in Housing Microfinance in Indonesia

Second component (Improving access to shelter finance component) of NUSSP is the example of indirect government involvement in housing microfinance. In this component, government did not involve in execution of the programme. Government gave that responsibility to microfinance institution. Central government roles were initiated and designed the programme, monitor, and evaluated the execution. Whereas local government involvement were only identified prospective locations and help the publication to LFI and communities. How this kind of involvement effect the implementation of housing microfinance will be analyzed below.

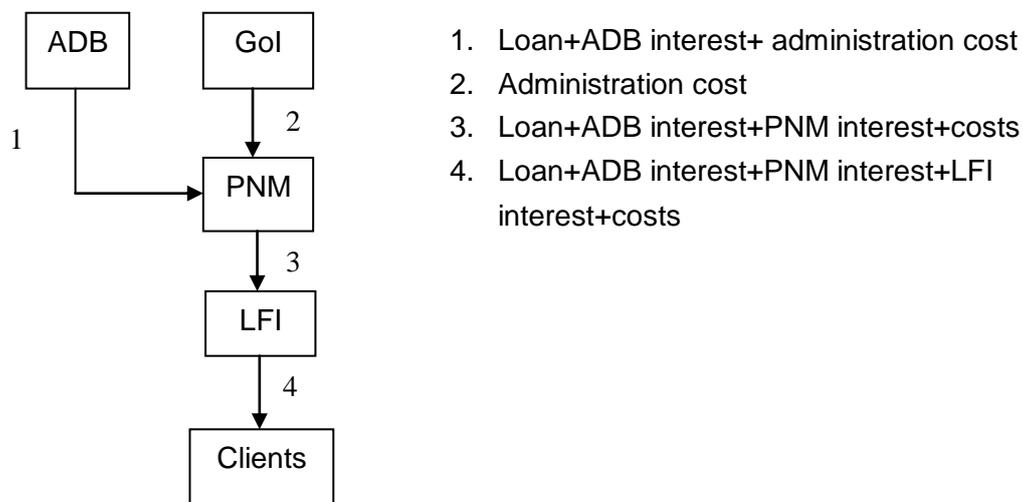
4.2.1 Policy Maker

In indirect involvement, as initiator and designer of the programme, government designed the concept, how it will be implemented, the mechanism, the requirements, the actor involved, and their job description. Once all settled, government gave it to executing agency (PNM and LFI) to implement it. Government had no right on determining the interest rate, the terms, or the customer selection. Those all were executing agency's rights. So when the problem of the interest rate that was considered high by customer came, government can not intervenes it. In housing microfinance concepts, its interest rate is generally higher than market interest because of the terms is shorter and the risk is bigger. But it is still lower than interest rate of enterprises micro-credit. Many housing microfinance institution like MiBanco (MiCasa) in Peru also charged interest higher than market, but they can survive and even emerge as big finance institution in their region. Customers also said that they do not care the cost as long as the access is simple (Malhotra, 2004). But in reality, NUSSP communities did not respond this programme well, due to its high interest rate.

Government designed this programme with involvement of finance institution because government expected this housing microfinance program can be conducted professionally with commercial rate. That strategy was chosen in order to make this

programme sustainable without government or donor loan. This strategy was important because “continued reliance on donor or government funds is both detrimental and unrealistic” (Hubka and Zaidi, 2005). Government has budget limitation so they hope LFI can continue this programme with initial capital from ADB loan. But in practice this design produced loan with interest far higher than market rate. This was happened because this product had too many links, so the interest was higher also. Figure 4.1 shows that client has to pay many interests and administration costs from many finance institutions. Government as the designer had considered this will be happened before the project was executed. They expected when this programme was implemented, their rate will competitive enough with market rate. But in reality, market rate tended continue to decline. So when interest rate problems rose, government could not do anything to minimize the effect.

Figure 4.1 Component 2 of NUSSP Loan Mechanism



Source: Based on NMC report

Housing microfinance in second component of NUSSP was design to be sustainable, to keep continue when NUSSP ended. But in reality, housing microfinance programme ended when NUSSP completed. None of the LFI’s continuing this programme. They back to enterprises micro-credit product that they considered more profitable, eventhough the interest rate is higher than housing microfinance. Besides of the interest issue, according to PMU and PNM, LFI reluctant to continue this

programme due to the customers uncertainty. The demand number is unclear and public opinion that this programme is grants/donation programme rather than commercial made the people hard to accept the high interest rate. Before this programme is designed, government supposedly did market research to identify the demand and customer condition. The research is needed to know their demand, their eligibility, their perspective, and their readiness to this programme. With valid and accountable data, government can design better system, and decide which area is prospective, which area is not.

4.2.2 Supervisor

Monitoring and evaluation are needed to keep the programme works in its track, as its design. Based on monitoring, the government can find out what missed or wrong in their design. It is important to make the programme meet its target. The example from second component of NUSSP shows that during the programme implementation, the customer requirements make this project difficult to reach its target, the number of customers. So, government changed the requirements, made the area broader so it can reach more eligible customers. This case shows that how important is supervision for this programme.

4.2.3 Advantages and Disadvantages

Indirect government involvement in housing microfinance in second component of NUSSP gave advantages and disadvantages to its stakeholders. Those advantages/disadvantages are as followed:

- **Advantages**

By not involved directly to housing microfinance, government educates community to be independent. They do not have to wait government fund to help them improve their shelter. Government only gave them facility which is easy access to housing finance. Government also gave them knowledge about housing microfinance

Indirect government involvement also gave opportunity for private to introduce their self to community, and build or expand their network. In NUSSP case, their involvement gave them free publicity. Many Indonesian people are still not familiar with LFI and its services. Community maybe knows the LFI but do not

understand their system and services. So this programme was a good opportunity for LFI to go public and get close to communities. Private involvement instead of government also gives them opportunity to develop their business. In NUSSP, government gave them access to finance source so they can develop their business by added housing microfinance product in their portfolio. If this product success, it will increase their capital. LFI opportunity to get access to finance sources in Indonesia is difficult. Many commercial banks do not want to give loan for micro-credit purposes because it is risky business. The regulation (Banking Act Year 1992) also makes NGOs and non financial institution difficult to access funding. So, the access that is given by government can make LFI develop their business.

Other indirect government involvement advantages in housing microfinance was it increased privates/LFIs knowledge on housing microfinance. LFI in Indonesia know about housing microfinance, but they do not have enough capital to develop it in their business. The capital here is not only fund, but also they do not have enough knowledge/skill to practice it. Government in NUSSP programme gave housing microfinance training to those LFIs so they have new asset which is skill to develop housing microfinance product in their company. By involved in housing microfinance programme, it gave privates opportunity to help housing provision programme. It is good for their portfolio. It gives them credit in government's eyes. And if it success, that achievement will be a good asset and can raise their image in front of government and investors.

For government, indirect involvement gave them opportunity to observe the implementation of housing microfinance programme that they have designed. So they know which programme worked out, which one not worked out; which policy is effective, which one is not effective. Those advantageous help them design next housing microfinance programme or policies. Indirect involvement also gives opportunity for other institutions to help government in housing provision programme. It helps reduce government's burden in low income people housing provision. Another advantage is it was an opportunity for government to empower communities. It supports government policy to develop housing provision based on community participatory.

- Disadvantages

Indirect government involvement in housing microfinance make government can not intervene its implementation, when something obstructs the implementation of the programme. Something here is related with executor (PNM and LFI) rights, such as interest rate, terms, and customers selection. If housing microfinance interest rate competitive, it will not be problem. But it was much higher than market rate, and community aggrieved because they had to pay more. Another loss was it made community and LFI reluctant to join the programme due to its high interest rate.

4.2.4 Indirect Government Involvement Summary

Above analysis shows the effects of indirect government in housing microfinance. The effects could be advantages or disadvantages. Thus, what kind of government acts that is needed in the case of indirect involvement in housing microfinance? Indirect involvement in this programme made government only acted as initiator and designer. And the result shows that the programme failed to reach its target due to the interest rate is not competitive. Government can not intervene to reduce the interest because it was the microfinance institution (PNM and LFI) rights. The analysis also shows that the high interest rate issue rose because of too many interests and costs that should be borne by customers due too many links in the chain. This shows there was faulty in government's design.

Analysis on the other hand shows that with this design, government gave privates (PNM and LFI) opportunities to develop. Those finance institutions can develop their business, human resources, and network. This achievement is important to develop housing microfinance in Indonesia. For community, indirect government gave them opportunity to develop their potency. Government made them more independent and empower themselves. Summing up, indirect government involvement is needed to strengthen housing microfinance system in Indonesia. But government has to design its programme carefully with considering every factor that could obstruct its goals. Government has to compose well regulation and policies in microfinance to support housing microfinance. Because as academics and

practitioners agree that good microfinance environment which gives wide access to low income people to finance products, and connect them with advanced economy sectors only can be realized if government creates well-regulated microfinance environment (Gallardo, 2001).

4.3 Concluding Remarks

Housing microfinance in second and third component of NUSSP is designed with different approaches on government involvement. Direct involvement for third component, and indirect involvement for second component. Different involvement generates different result. In direct involvement, government roles as policy maker, decision maker, and executing agency made this programme reached its target provide housing for low income people. With direct involvement, government as policy and decision maker success designed simple system and cut bureaucracy procedures that usually hamper or takes time. This programme success maintains market competitiveness by using financial institution to administer housing loan. But the direct involvement failed to maintain the sustainability of the programme and could not reach the poorest people. On the other side, indirect government involvement gave different result, it failed. In this programme, government only acted as policy maker and supervisor. The executing agency is micro finance institution (MFI). Only role as policy maker, government had no right to intervene MFI. So when interest rate became a problem, government could not ask MFI to reduce their interest rate. The design of the financial mechanism was the reason behind the high rate of interest. This programme failed to reach sustainability also. But this programme success gave MFI opportunity to developed their business, network, and skill.

The analysis of government involvement in housing microfinance in Indonesia based on case studies shows the factors behind the success and the failed of the programme. It also shows both involvements failed to reach sustainability. Whereas, that factor is very important in the success of housing microfinance. Hence, what government has to do to reach sustainability and the poorest?

Chapter 5

Conclusion and Recommendation

Based on literature review, case studies and analysis, this last chapter will give conclusion and recommendation on the government involvement in housing microfinance in Indonesia. In conclusion, research questions will be answered. The recommendation is given to enhance the government involvement in housing microfinance.

5.1 Conclusion

Government involvement in housing gets pros and cons from practitioners and academics. The supporters said that government involvement help the programme reach the poorest. Whereas the contras said that government involvement makes the programme failed. How about government involvement in housing microfinance in Indonesia? This research evaluates the involvement of government in housing microfinance in Indonesia, represented by two case studies, which are housing microfinance in second component (improving access to shelter finance) and third component (New Site Development) of NUSSP. Those cases have different approaches; one is government directly involved in the programme (third component) and second is government indirectly involved in the programme (second component).

Direct involvement gives government more chances to act. As policy maker, executing agency, and supervisor, government can act freely to succeed the programme. Government has access to act in every step of this programme. If obstruction happened during the programme, government can coordinates, change the process, simplify the procedure, anything needed but still in the legal provisions, to make this programme smoothly proceed and succeed. Indirect government involvement limits government act, as the government play a role only as policy make and supervisor. Accordingly, the government cannot intervene as executing agency and cannot direct the executing agency to change its policy. As a result, direct involvement made government successfully implemented their programme. On contrary, indirect involvement limited government action to make

the programme works and as a result the programme is failed. But, those two involvements have similarity. Limited by resources (fund, time, skill) and design, both involvements did not reach sustainability and the poorest people. Those factors are essential for housing microfinance programme.

Government involvement in housing microfinance in Indonesia has advantages and disadvantages. The advantages of direct involvement is that it provides low income people simple access and procedure, gives housing microfinance knowledge to public and privates, makes government has more understanding on people and market condition on housing finance, and those experiences are lesson learned for the next housing microfinance programme. The disadvantages of direct government involvement are this programme makes community dependent on government, gives privates more competitors, and makes government back to top down system. For indirect government involvement, the advantages are it educates communities and empower them to be more independent and active, gave opportunities to privates to develop their business, network and skill, reduce government burden on housing provision, and gives government lessons to learn on housing microfinance policies and regulations. The disadvantages of indirect involvement are government cannot intervene the implementation of the programme. So when programme failed it will affect community also.

Government involvement is still very important to trigger housing microfinance industry in Indonesia. But sometimes their involvement is considered lack or sometimes too much. Learn from previous involvements and the state of housing microfinance in the world, it would better if government involve indirectly. Direct involvement maybe successful to give low income people affordable house. But it failed to bring sustainability, only reach small amount of targeted people, and does not reach the poorest people. Indirect involvement in NUSSP programme might be failed, but it was because the faulty in design. Too many links affect on the interest and costs that should be covered by customers. So community and finance institution reluctant to join and the programme failed. By involved indirectly, government will give private more opportunity to develop housing microfinance system. By involving privates there will be more chances on sustainability because sustainability is target that should be reached by privates in order to make them

survive in business. Involved indirectly, government has to create supportive and conducive environment for housing microfinance, by producing regulations and policies that support housing microfinance system and institution that involved in it.

Government involvement in housing microfinance affects the housing microfinance conditions in Indonesia in many ways. The effect could be advantageous and disadvantageous. Government should enhance government involvement to make housing microfinance system optimally works to help reduce housing for low income people provision problem. In order to do that, government has to maintain and strengthen the advantages of government involvement, such as: support microfinance institution development by creating conducive environment and produce policies and regulations that support microfinance system in Indonesia. Government has to reduce disadvantageous impact of their involvement also. For example is community empowerment by involving communities in the programme to reduce their dependent to government, and strengthen their community based organization. The detail action that could be taken by government will be elaborated in recommendation part.

Based on the analysis of case studies, government involvement is still very important in housing microfinance in Indonesia, especially indirect involvement. Because as policy maker, government could manages and decides the direction of housing microfinance in Indonesia. Through its policies and regulations, government also could create supportive housing microfinance infrastructures and maintain the stability of market situation, to support housing microfinance development in Indonesia.

5.2 Recommendation

This last part will give recommendation to government, based on the analysis in chapter 4. This recommendation also answers the question on how to enhance government involvement in housing microfinance in Indonesia, in more detail. This recommendation is expected can help government improve and develop housing microfinance industry in Indonesia. And those recommendations are:

1. Introduce housing microfinance system to community and private

Housing microfinance is not too popular for Indonesia people due to lack of information about housing microfinance. Housing microfinance that implemented in Indonesia majorities is in the form of government/donors programme that concentrated only in certain area and for certain communities. While those implemented by privates only reach low to moderate income people, not reach the poorest. There are many people who do not know this housing finance system. Whereas for private (finance institution), they know but their knowledge are limited. The limitation of knowledge holds back their will to expand their business to housing microfinance. To make housing microfinance develop and accepted by community and privates, government should promotes it more.

2. Strengthen community, private, and government capacity

Introduction of housing microfinance has to be complemented with strengthening the capacity about housing microfinance. Government can train communities so they can involved in housing microfinance. Examples from other countries, communities have been trained so they have ability to develop their community by forming saving groups or self-help groups. This group can be assets to help them acquire housing microfinance loan. Strengthen private capacity is by giving them knowledge and skill on housing microfinance. With that knowledge and skill, private can assess market and community preparedness to accept housing microfinance. With that knowledge and skill they can develop their business also. Government knowledge on housing microfinance is needed so they will not initiate and design ineffective and inefficient housing microfinance programme.

3. Formulate policies and regulations that support housing microfinance industry

Indonesian government does not have specific regulations on housing microfinance. Law on microfinance had been composed in 2001, but then it failed. So presently, microfinance system regulates through Banking Act year 1992. This is not enough. Government has to formulate more policies and regulation to support housing microfinance industry since the present act limits

the development of housing microfinance. Banking Act 1992 limits NGOs and non-financial institutions to operate microfinance system. Whereas, NGOs and non-financial institutions are institutions that can reach the poorest. So, the new regulations that support the housing microfinance development are needed.

4. Simplify regulations that support housing microfinance industry

Government involvement in housing microfinance in NSD case made low income people get access to housing finance easier because the process and requirements were easier. It is because government simplified many processes such as land tenure and housing credit process. The long and inefficient bureaucracy procedures often hamper many programmes, especially non-government programmes. It makes privates reluctant to develop their programmes. Government has to cut this problem if they want housing microfinance system develop in Indonesia.

5. Create conducive environment for housing microfinance industry

Housing microfinance industry is affected by macroeconomic condition. Uncontrolled inflation can disrupt the stability of economic. It will influence the economic system and has consequences also in stability of interest rate. Government has to maintain the stability of macroeconomic to support the housing microfinance development in Indonesia.

Another issue that should be considered by government is that government better not conducting another housing microfinance using loan from donors, if the programme objective is sustainability. Because it will make the programme failed, as exemplified by second component of NUSSP. Funding by donor will make communities assume that the programme is donation, not commercial programme. So it will be not appealing for finance institution and they will not attract to join the programme. It will difficult also to convince community that the programme is commercial not donation programme.

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APPENDIX 1

NO	NUSSP LOCATION	NSD	HMF	NOTE
1.	Kota Kendari	-	-	
2.	Kab. Bau-Bau	V	-	
3.	Kab. Kolaka	-	V	
4.	Kab. Buton	-	-	
5.	Kab. Muna	-	-	
6.	Kota Makassar	-	V	
7.	Kab. Bulukumba	-	V	
8.	Kab. Jeneponto	V	-	
9.	Kab. Bone	V	-	
10.	Kab. Gowa	-	V	
11.	Kab. Palopo	-	V	
12.	Kab. Polewali Mandar	V	-	
13.	Kab. Luwu	-	V	
14.	Kab. Luwu Timur	-	-	
15.	Kota Palu	-	-	
16.	Kota Surabaya	-	V	
17.	Kab. Lamongan	-	V	
18.	Kota Mataram	-	-	
19.	Kota Tangerang	-	-	
20.	Kota Sukabumi	-	-	
21.	Kota Serang	-	-	
22.	Kab. Subang	-	-	
23.	Kota Yogyakarta	-	V	
24.	Kota Pontianak	-	V	
25.	Kab. Rembang	-	V	
26.	Kota Medan	-	V	
27.	Kab. Tanjung Balai	-	-	
28.	Kota Padang	-	-	
29.	Kota Jambi	-	-	
30.	Kota Palembang	V	-	
31.	Kota Bengkulu	-	-	
32.	Kota Bandar Lampung	-	-	
TOTAL		5	12	

