

AFFORDABLE HOUSING FINANCE FOR SLUM DWELLERS IN URBAN AREAS IN INDONESIA



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PREFACE

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ABSTRACT

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The existence of slum dwellers in urban areas should be considered in designing national housing finance policy in Indonesia. In fact, the growth of slum area is still increasing. Meanwhile, shaping cities without slums has been the target of national long-term development plan for 2005-2025.

The objective of this research is to give recommendation for the improvement of housing finance policy in order to enhance the access of slum dwellers to housing financial subsidies and supports. In doing this research, I use qualitative method. Methods used in doing data collection include in-depth interview, semi-structured interview, observation, and secondary data collection. Data analysis is carried out by using analytic induction and cognitive mapping.

Slum dwellers have low affordability and limited access to decent housing. Indeed, regarding the context of urban justice, slum dwellers have right to live in the decent house in urban areas. Accordingly, government is expected to facilitate them to get access to housing financial subsidies and supports.

National government has designed housing finance regulations intended to assist low income households to get access to affordable and decent housing. However, some regulations need to be modified concerning the dynamic of social and economic condition of slum dwellers. Mortgage insurance facility that has been abandoned should be provided again with focus on slum dwellers. Housing subsidy delivery through liquidity facility mechanism needs to accommodate the access of slum dwellers to housing mortgage. The function of secondary mortgage facility needs to be optimized in effort to overcome financial mismatch in housing mortgage. Housing provident fund should be institutionalized and needs to incorporate the income characteristic of slum dwellers.

Various forms of housing financial subsidies and supports have been provided by national government but they are not only intended for slum dwellers. Besides, they have not considered the characteristic of slum areas as well as social and economic characteristic of slum dwellers. Therefore, affordable housing provision for slum dwellers is still not effective. Through stimulants for self-help housing development, slum upgrading program, financial assistance for social rehabilitation of slum area, slum dwellers can get access to decent housing. However, the sustainability of slum dwellers to live in decent housing needs to be re-examined in dealing with slum area eradication

Research findings show that linking informal and formal in housing finance system as well as empowering slum dwellers is required to enhance the accessibility of slum dwellers to housing financial subsidies and support. In developing mechanism of informal-formal linkage program, program integration and institutional capacity building among related stakeholders are essential. Social, economic, and physical aspect should be incorporated in housing finance system.

Keywords: housing financial subsidies and support, accessibility, slum dwellers, urban, policy

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CHAPTER 1

INTRODUCTION

In this chapter, I will explain the design of the research, which includes background of the research, the problem statement, research objective, research questions, scope of study and methodology, and the structure of the thesis. The background provides explanation about current condition underlying the importance of the research. Problem statement asserts the main problems that will be examined in this research. Research objective reveals the purpose of the research. Research questions formulate main questions that will be answered in this research. Scopes of study and methodology provide conceptualization and operationalization involved in this research. The last section of this chapter will present the writing structure of this research. In doing this research, I adopt the paradigm of relativist which accommodates perspectives from various stakeholders in interpreting the complex social facts and searching for better alternative solution for certain problem in the context of dynamic reality which is not free value.

1.1 Background

Housing is a basic need of human being that must be handled in public policy field due to its interdependence with the components of human development index which are income, health, and education. In urban areas in Indonesia, housing is relative very expensive because land price is getting higher every year. Urbanization phenomena make housing problems become more complex. As stated in Strategic Plan of Ministry of Housing for 2010-2014, more than 50 % of total households in Indonesia is concentrated in urban areas and its majority is in the category of middle to low income households (Menpera, 2010). Besides, as many as 37.2 million people or 16.6 % of total population in Indonesia were still live below poverty line in 2007 (BPS-Statistics Indonesia, 2008). Consequently, there are still many people who cannot afford decent housing live in slum or squatter areas.

Government is expected to be able to cope with the problem of housing provision for slum dwellers. Government of Indonesia inherently has formulated various policies such as housing subsidy, slum upgrading, low cost apartment development, and housing mortgage facility. However, the policies are still not effective in improving the accessibility of slum dwellers to live in decent housing. The number of slum areas is still increasing. In the end of 2004, slum area of 54,000 Ha is occupied by as many as 17.2 millions households and in 2009, the square of slum area augmented becoming 57.800 Ha (Menpera 2010, p.6).

Recently, national government focuses on pursuing the target of reducing mismatch between demand and supply in housing ownership sector in order to provide decent and affordable housing for middle-low income households. The existence of slum dwellers still get less attention from national government. The existing housing finance system is still not effective in giving more room for the accessibility of slum dwellers to housing financial subsidies and supports.

1.2 Problem Statement

There is indication that housing financial subsidies and supports provided by government are mostly not benefitted by slum dwellers. The slum dwellers work in the informal sector and are not accessible to formal housing (Arnott, 2008). Accordingly, the existing policy of housing finance still cannot enhance the accessibility of slum dwellers to affordable and decent housing.

Housing subsidies are primarily going to civil servants under a preference system (United Nations Human Settlements Programme p.40, 2008). Moreover, liquidity facility policy that has been developed so far cannot benefit the slum dwellers. Liquidity facility predominantly can be accessed by bankable households or people who are eligible to obtain housing mortgage facility according to the assessment made by banking sector. Nevertheless, slum dwellers need to get serious attention from government so that they can live in decent housing and improve their quality of life.

Government has decided to provide affordable housing to accommodate as many as 836,000 households in 2012 to endorse the target of national long-term development plan for 2005-2025, which is to fulfill people's need of decent housing and to shape cities without slums (Menpera, 2010). Consequently, it is essential to improve the access of slum dwellers to housing financial subsidies and supports so that affordable housing provided through government policy will be occupied by the target group of slum dwellers. That can be realised through designing more appropriate housing finance policy.

1.3 Research Objective

Regarding economic characteristic of the slum dwellers in urban areas, the slum dwellers face many obstacles to be able to live in decent house. They need housing financial subsidies and supports from government to be accessible to formal housing. The objective of this research is to give recommendation for the improvement of housing finance policy in order to enhance the access of slum dwellers to housing financial subsidies and supports. Therefore, this research will implicitly contribute to enrich perspectives of planners in dealing with

affordable housing provision in the context of urban justice as well as provide lesson for policy makers in designing housing finance policy in effort to cope with the problem of urban slum areas. This research will also implicitly give contribution to researchers in developing housing finance mechanism for slum dwellers.

1.4 Research Questions

To achieve the objectives that are mentioned previously, the research will answer the following questions:

- What is the characteristic of slum dwellers in urban areas in Indonesia?
- How is the concept of housing finance in providing affordable housing for the slum dwellers?
- What factors influence the effectiveness of affordable and decent housing provision for the slum dwellers?
- To what extent the existing policy of housing finance has endorsed the accessibility of slum dwellers to housing financial subsidies and supports for affordable and decent housing?
- What should be improved in housing finance policy to enhance the access of slum dwellers to housing financial subsidies and supports?

1.5 Scope of Study and Research Methodology

The scope of study will relate to national housing policy design as the umbrella policy for local government in effort to achieve the target of cities without slums by 2020. The focus of housing policy that will be analyzed is housing finance system which includes social, economic, and political aspect. In this research, slum dwellers are conceptualized as people who work in the informal sector and dwell in substandard housing built on the legal land and located in slum areas.

The study will be conducted by using qualitative research method. This method is suitable for describing complex social problems in the field of housing policy. It can describe the local context and perspectives from various stakeholders comprehensively, deeply, and flexibly. However, in applying qualitative approach, data analysis will be time consuming. The analysis results are mostly subjective or susceptible to individual bias and cannot be generalized to every circumstance. In dealing with the constraints in applying qualitative research method, data structuring and defining scope of analysis is carried out to minimize time consumption in doing analysis as well as theory and empirical data is linked to reduce the subjectivity.

This research combines desk study and fieldwork. Desk study is used in doing literature review and analyzing the data or housing policy documents, particularly which are related to affordable housing finance for slum dwellers. The fieldwork that includes interview, observation, and secondary data collection is carried out in Indonesia.

In depth interview is used to identify the factors influencing the effectiveness of affordable and decent housing provision for the slum dwellers. It is also used to obtain the perspectives of the experts, housing practitioners, and policy makers on the limitations of the existing housing finance policy in endorsing the accessibility of slum dwellers to housing financial subsidies and supports. Secondary data collection, observation, and semi structure interview to slum dwellers to identify the characteristic of slum dwellers in urban areas in Indonesia is also conducted.

Data and information that are required include :

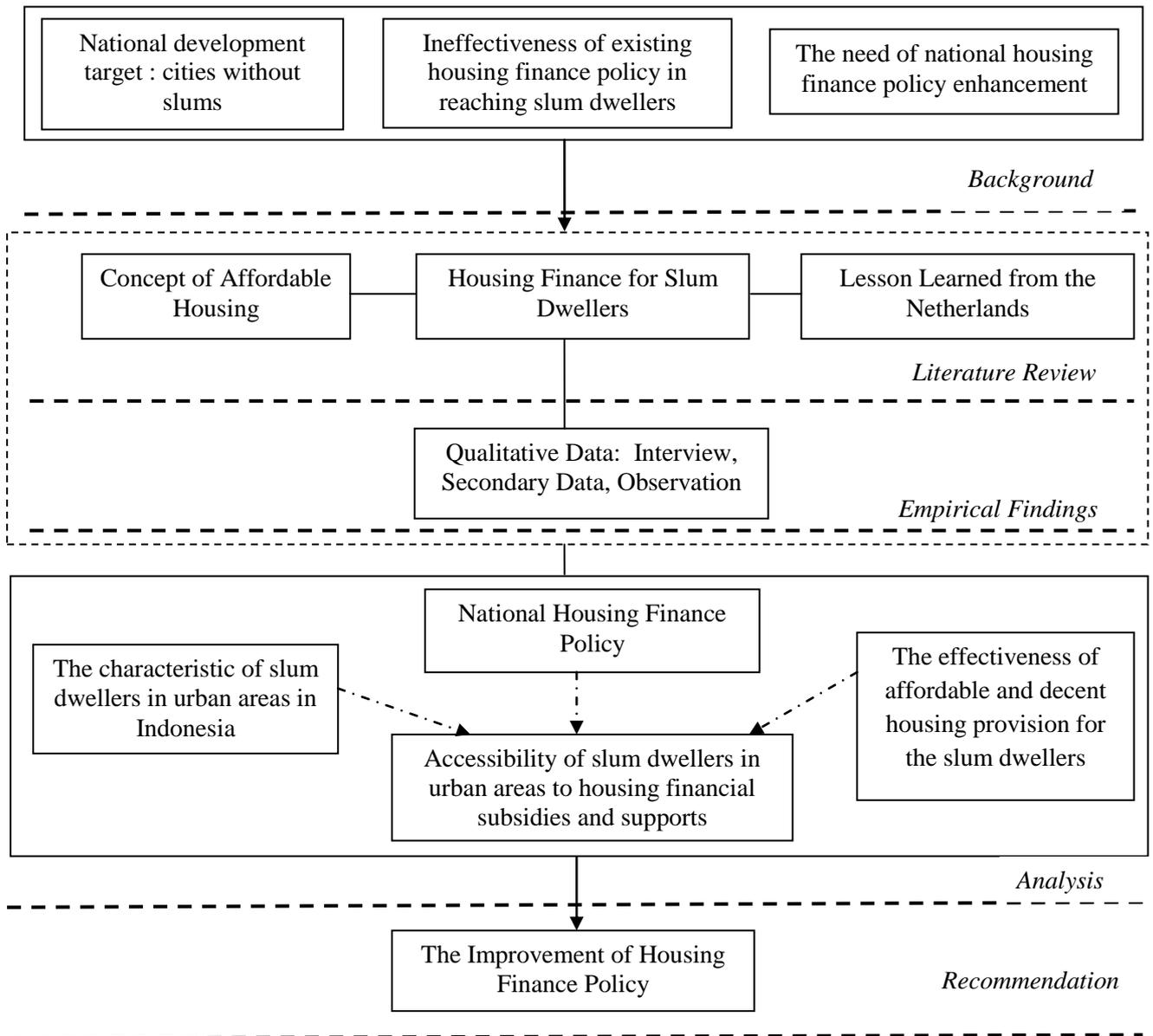
1. Documents of national housing regulations and policies, particularly related to housing finance (can be accessed from the library of government's institution);
2. Data and information about characteristic of slum dwellers in urban areas in Indonesia, such as income rate, type of housing (location, size, tenure, adequacy of utilities), and occupation (obtained from secondary data, observation, and interview);
3. Information about factors influencing the effectiveness of affordable and decent housing provision for the slum dwellers and the limitations of the existing housing finance policy in endorsing the the accessibility of slum dwellers to housing financial subsidies and supports (obtained from the interview result).

The data and information will be analyzed with qualitative approach that involves analytic induction and cognitive mapping. The combination of qualitative analysis method is used regarding different substance of data for answering each research question appropriately.

Analytic induction is chosen in analyzing data which is related to housing finance policy in Indonesia, characteristic of slum dwellers, and effectiveness of affordable and decent housing provision for slum dwellers. It is chosen because it can explore empirical data deeply and provide well-defined reason behind the existence of slum dwellers, the ineffectiveness of affordable housing provision, and the making of housing finance policy. Cognitive mapping is chosen in analyzing data which is related to accessibility of slum dwellers to housing financial subsidies and supports because it can provide systematic problem structuring in housing finance policy with regard to the access of slum dwellers to decent housing. The detail of methodology in data analysis will be explained further in **Chapter 3**.

The conceptual framework of this research can be depicted below.

Figure 1.1 Conceptual Framework



Basically, the figure shows the main substances embedded in this research. This research is conducted by considering several issues and problems which subsequently become the background of the research. In effort to achieve national development target which is cities without slums, national housing finance policy needs to be enhanced because the existing housing finance policy is still not effective in reaching slum dwellers. With reference to the background, theoretical basis from literature is reviewed to understand basic knowledge underlying the research and qualitative data is collected to obtain empirical findings. Literature review entails the concept of affordable housing, housing finance for slum dwellers, and lesson learned from the Netherlands. Qualitative data is obtained through

interview, secondary data collection, and observation. Afterward, data analysis is carried out to comprehend the context of national housing finance policy and implementation in relation to the accessibility of slum dwellers in urban areas to housing financial subsidies and supports. Finally, the result of analysis will be elaborated in providing recommendation for the improvement of housing finance policy.

1.6 Structure of the Thesis

Regarding the conceptual framework embedded in this research, the thesis is divided into six chapters. **Chapter 1** elaborates why this research is important to conduct, the objectives of the research, and the methodology that is used in doing the research. This chapter consists of background, problem statement, research objective, research questions, scope of study and methodology, and the structure of the thesis. **Chapter 2** explains the theoretical framework underlying this research. The concept of affordable housing and housing finance for slum dwellers in urban areas will be reviewed in this chapter. Furthermore, lesson learned from the experience of the Netherlands in developing affordable housing policy will be drawn to give additional input for the enhancement of housing policy in Indonesia. **Chapter 3** describes the methodology that is used in conducting this research in order to answer the research questions. Detail explanation about methodology and practical steps taken in data collection and data analysis will be provided in this chapter. In **Chapter 4**, I will elaborate data and information relating to the existing housing finance policy and the accessibility of slum dwellers in urban areas to housing financial subsidies and supports facilitated by national government. Subsequently, **Chapter 5** describes the general characteristic of slum dwellers in urban areas in Indonesia, explains the factors that influence the effectiveness of affordable and decent housing provision for the slum dwellers, and elaborates to what extent the existing policy of housing finance has endorsed the accessibility of slum dwellers to housing financial subsidies and supports for affordable and decent housing. Lastly, **Chapter 6** provides conclusion of the study and recommendation for the improvement of housing finance policy to enhance the access of slum dwellers to housing financial subsidies and supports.

To understand the problems examined in this research and obtain scientific research result, theoretical basis is needed. Relevant theories that have been constructed in other researches which are related to this research topic firstly needs to be reviewed before proceeding to further steps in the research process. Accordingly, in the next chapter, I will provide literature review on mechanism of affordable housing finance.

CHAPTER 2

MECHANISM OF AFFORDABLE HOUSING FINANCE

In this chapter, I will discuss about theoretical framework that gives basic knowledge in understanding affordable housing finance for slum dwellers in urban areas. I will explain the concept of affordable housing in urban areas as well as affordable housing finance that includes housing finance market and housing financial subsidies and supports. In addition, I will draw lesson learned from the Netherlands regarding affordable housing provision and housing finance system. Basically, innovative housing finance mechanism which incorporates the need and characteristic of slum dwellers is required to enhance the accessibility of slum dwellers to decent house.

2.1 Affordable Housing in Urban Areas

Housing sector has become an important element that shapes the urban structure and drives urban economic growth. Housing sector development in urban areas faces affordability problems. In the following sections, I will explain the concept of affordable housing and the accessibility of low income groups in urban areas to affordable housing.

2.1.1 The Concept of Affordable Housing

Housing has significant function not only as shelter building for humanbeing (physical aspect), but also as key for human development (social aspect). Housing problems will have implication on the disruption of well-being of society. Joergensen (1975) has pointed out that better housing has impacts on social welfare, particularly related to health, productivity on the job, and social relation. Bratt (2002) noted that housing affects family well-being in several ways that could be identified as physical attributes and availability, relationship of housing to occupant, neighborhood conditions, and discrimination factors on various sub-groups.

The condition of slum areas certainly affects the well-being of slum dwellers. Slum area is generally characterized by high density, substandard housing construction in terms of building materials and design (inadequate size, lack of ventilation and lighting, substandard toilet and bathroom), inadequate utilities and amenities (such as public open space, clean water supply, sanitation system, drainage system, waste management system). Slum area mostly can be found in disaster prone areas and in the location of uninhabitable environment (such as location directly opposite to railroad, floodplain). Consequently, slum dwellers are

vulnerable to insecurity or unsafety, physical and mental illness, family disfunction, emotional instability, lack of access to employment and education.

Poverty issue has impacted on the affordability and access of slum dwellers to decent housing. Because the level of income of slum dwellers is not sufficient to buy or rent decent house, slum dwellers inevitably choose to live in substandard housing. Besides, concerning their job in the informal sector, they have limited access to get mortgage loan for decent and affordable housing.

Urban landuse also sometimes influence the affordability of low income groups on housing. Local land use regulations may drive up rents and force poor households spend large fraction of their income on shelter (Quigley and Raphael 2004, p.210). Urban area is becoming place where the capital accumulation and production relation occurred and thereby the poor people who have very minimum capital cannot dwell in decent shelter in urban area (Erlangga, 2011). Hence, low affordability and limited access of slum dwellers to decent housing are also related to the concept of power and justice in urban planning.

Harvey (1989) noted that power in urban process can lead capital accumulation in time and space to the certain level rather than the goals of local need fulfillment or social welfare maximization. Urban government as key development actor who used to be managerial in designing city landscape, providing public infrastructure, regulating particular social and private activities, nowadays tends to be entrepreneurial. Therefore, it is not surprising that greater polarisation in the social distribution of income and volatility within the urban network has been created (Harvey, 1989). Ultimately, poor people cannot get fair or decent share in urban space, especially for their shelter, regarding their income characteristic and social vulnerability.

Justice and right to the city for the poor become questionable. In urban development which is driven by capital accumulation, poor people are mostly considered as city burden and are not able to occupy decent house close to the center of economic activities. Urban government nowadays inclines to encourage the development of those activities that have capacity to enhance local property values, the tax base, the local circulation of revenues, and employment growth (Harvey 1989, p.13). Later, urban development occasionally creates class dimension and usually disregards the needs of the poor or the underprivileged citizens (Harvey, 2008).

Fainstein (2005) argued that the objective of urban planning is supposed to create just city which is socially inclusive. Talking about justice inherently has connection with right fulfillment. Therefore, concerning the existence of slum dwellers, the affordability and

accessibility of slum dwellers to decent housing in urban areas needs to be considered in the process of creating just city.

Housing affordability is determined mainly by expenditure for housing in the budget of households or individuals as well as housing prices and rents. While the increasing of housing price is not offset by the increasing of income rate, housing affordability problems are getting worse. Slum dwellers face difficulty in raising their incomes to spend for decent housing, meanwhile the land price contributing to housing cost in urban areas increases rapidly.

Affordability analysis adopts ratios approach by measuring the relationships between household incomes and housing costs (Paris 2007, p.1-2). In general, affordable housing refers to ratio between household expenditure on housing and household income which is not more than 30 percent (Paris 2007, Martin 2011, Bratt 2002). However, most low income households including slum dwellers even cannot spend their income for housing at all. Their well-being is in jeopardy when their family budget is committed to the fixed cost of housing, thereby not leaving enough money to cover food, medical care, transportation, clothing, and recreational opportunities (Bratt 2002, p.19). Regarding that, housing assistance and social safety net can help slum dwellers to enhance their well-being. Yet, their commitment and government support for productivity improvement is required to shape sustainable expected well-being.

Trends of housing affordability are influenced by factors of quantity and quality of housing that also have correlation with changes in government regulation in setting the minimum quality of housing standards and land use planning (Quigley and Raphael 2004, p.200). In addressing housing affordability problems, Paris (2007) pointed out that land use planning mechanism together with public sector involvement can stimulate the supply of affordable housing for low income groups in urban areas, for example by influencing location of lower-cost housing through raising the supply in high demand areas. However, in many cases, landuse planning can also restrain the supply of affordable housing for low income groups in urban areas. For example, by planning commercial area development without anticipating its implication on the rapid increasing of land and housing price in surrounding area. That may trigger the emergence of slums close to the commercial area because slum dwellers expect to get close access to employment from their house and reduce their transportation cost.

Making housing more affordable for slum dwellers can be reached by several ways. Primarily, affordable housing policy should consider the type of housing tenure. For homeownership sector, improvements in underwriting techniques through fixed-rate mortgage and long amortization periods can be taken, while for rental housing sector, policies that increase the purchasing ability of poor households need to be designed (Quigley and Raphael,

2004). Furthermore, accessibility factor also needs to be addressed in providing affordable housing for low income groups or slum dwellers in urban areas.

Many affordable housing projects that are combined with housing finance program for low income groups have been carried out in developing countries. For example, in Indonesia, some credit programs for land and house construction were initiated as part of government sponsored housing projects (United Nations Human Settlements Programme 2008, p.44). Community Based Housing and Initiative Local Development (Co-BILD) project is one of the examples of housing credit programs that is designed to meet the needs of low income groups on decent housing. The housing cost was compressed through incremental self-help construction and sequential housing microfinance. The land acquisition and infrastructure development was carried out collectively by the community with support from the government. In executing the project, government also develop partnership with NGOs, particularly in applying community empowerment principle in CoBILD.

2.1.2 Accessibility of Low Income Groups in Urban Areas to Affordable Housing

Housing policy intrinsically has many things to do with how to meet the needs of low income households for decent housing at the prices that they can afford (Barton, 1996). Housing policy is commonly designed to address the housing affordability problems through establishing social housing sector, providing housing allowances for housing mortgage, and incentives for promoting private sector involvement in affordable housing provision for low income households.

In most developed countries, housing provision is carried out mainly through market mechanism and acquires slight government intervention. However, special intervention from government is still made in providing affordable housing, for example through creative financing, waivers of land use or building regulatory requirements to reduce costs, construction of smaller starter homes or financial assistance from public sources (Field 1997, p.802). Government support in affordable housing provision also can be evaluated from government owned, national, or local monopoly provider of public housing and key government instrument in delivering housing subsidies or grants (Sheridan et.al, 2002).

Compared to developed countries, most developing countries face more complex demographic, development, and economic factors that affect affordable housing provision for low income groups in urban areas. Rapid population growth in urban areas that also relates to urbanization phenomena has implied on the increasing demand for affordable housing. Institutional development regarding urbanisation and land development is still undeveloped. Economic growth emphasizing on service sector cannot absorb labour supply completely in

the formal sector, hence major urban citizens work in the informal sector where incomes are low, intermittent, and uncertain (Pugh 2001, p.399-400). Consequently, uncontrolled urban settlements that can be observed through slum areas are difficult to be eliminated (Joergensen, 1975).

Some approaches have been developed in dealing with low income housing in developing countries. They entail 1) in situ slum upgrading project involving community participation; 2) whole sector development approach with blending of market, state, voluntary sector, and household roles, including development of housing finance system, targeting of subsidies, development of property right, infrastructure improvement, introduction of regulatory audits, improved organization, competition in the building industry, and appropriate institutionally loaded reform; 3) housing finance institution and municipal development fund (Pugh, 2001). Constraints that are mostly found in developing countries are inadequate land policy, undeveloped housing institution, and housing finance system. Those constraints have restricted the accessibility of low income groups in urban areas to affordable housing.

Self-help housing that is also known as informal housing dominates housing stock in developing countries. Informal housing is commonly built by people who work in the informal sector because they have limited access to formal housing which is built in large scale by developers.

Because of the affordability constraint faced by low income groups, most informal housing is built without considering the minimum standard of decent housing. Accordingly, informal housing will trigger the emergence of slum areas if households practiced in the informal housing development do not apply the minimum standard for decent housing construction and settlement environment.

Slum areas are innately the form of self-help housing. Nonetheless, the slum dwellers are not able to improve the quality of their house and basic services like other communities building their self-help housing. Most of them are migrants from rural area who do not have sufficient skill to work in the formal sector, and therefore they work in the informal sector. Slum dwellers have slight access to decent and affordable housing.

Therefore, government needs to control self-help or informal housing development. In most developing countries, such as Indonesia, governments have little information about their informal housing and that makes the effectiveness of housing policy is difficult to achieve (Arnott, 2008). Following pictures which are the example of self-help housing in Indonesia can give more obvious portrait about self-help housing in developing country.

Figure 2.1 Self-Help Housing



Source : Menpera

Realizing innovative financing and institutional arrangements are required to cope with issues of declining affordability and housing stress. To enhance the accessibility of slum dwellers in urban areas to affordable housing, political will from government, political parties, or parliamentary institution is essential. Housing finance that tends to work on the ownership sector but not on rental housing sector which is predominantly accessible for low income households needs to be reformed. The tendency of housing policy focusing on homeownership sector does not help low income households to get access to affordable housing easily.

2.2 Affordable Housing Finance

Housing affordability problems relate mainly to the high cost of construction and the lack of access to medium to long-term financing (United Nations Human Settlements Programme 2008, p.38). In other words, affordability constraint is related to the difficulty of accessing housing finance and the high cost of finance. Therefore, housing finance policy becomes fundamental element that needs to be examined in addressing the problem of housing affordability which stimulates the existence of slum dwellers. This section will explain the theoretical framework of housing finance market and housing financial subsidies and supports for affordable housing provision.

2.2.1 Housing Finance Market

Population growth and urbanization that drive the increasing of housing demand in urban areas have become potential for the growth of housing finance market. Bank and non bank institution has got involved in financing affordable housing for low income households in urban areas. Urban areas have become places for the production of mortgages which are also the raw products that fuel the financialized economy (Newman 2009, p. 316).

Subprime mortgage that has been established in developed countries is intended to provide loan for borrower with poor credit rating so that low income groups can get access to homeownership credit. However, Newman (2009) emphasized the awareness of phenomena which shows subprime mortgage is benefitted by the unscrupulous or predatory lenders to make profit through abusive lending to low income groups who mostly are unqualified borrowers for prime loans. If that phenonema cannot be handled through sound housing policies and developed housing financial institutions, low income groups will suffer from abusive lending practice and fail to live in decent housing. Newman (2009) noted that information asymmetries that also reflect the lack of complete understanding of borrowers about the borrowing process and their legal rights have become the factor that subprime loans enter foreclosure very quickly. That will lead to subprime crisis and the ineffectiveness of subprime mortgage in facilitating affordable housing finance for low income groups.

In developing countries, most low income groups build their makeshift house incrementally from various financial resources that are not connected to formal institutions and markets, such as their own saving, loan from colleagues, or families. Usually, they will improve the physical quality of their house if they get increased revenue or financial assistance. Nevertheless, for slum dwellers, it is difficult to renovate their house to become decent house because they lack access of housing financial resources.

Stein and Castillo (2005, p.48-49) mentioned that housing finance sources in developing countries can be classified into three categories, which are 1) commercial private financial and banking institutions, which usually avoid to involve in housing finance for the poor because the poor lack solid collateral as well as sufficient and stable income so that giving housing loan for the poor is too risky and will result in low profit margins; 2) public sector, which usually provides subsidized funds for low to middle income groups and civil servants through specialized or non specialized housing intermediaries; 3) informal sources, which include savings, informal loans from friends and family, remittances from family members working abroad, and the sale of whatever assets they have. Reflecting on those categories, slum dwellers certainly only have possibility to get access to public sector and informal sources.

Ferguson (1999) explained the characteristics of formal housing financial market that cannot reach the poor like slum dwellers. He mentioned that the characteristics consist of 1) the criterion used to qualify the households is mortgage payment to income ratio which is usually around 30 percent whereas the poor cannot meet the criterion; 2) mortgages require payments every month for a long period of time (over 5 to 15 years), nonetheless the poor are self employed and their income vary greatly and occasionally face crises so that they will have trouble making regular payments when the payments represent a large portion of their income; 3) extra effort from formal financial institution (such as documenting self-employed income) is required in assessing mortgage application whereas the profit earned from mortgage to the poor is very low.

Recently, housing microfinance has been developed as alternative to accommodate the financing of decent and affordable housing, especially incremental upgrading housing development for low income households. Characteristics of microfinance of housing entail 1) loans are small and incremental; 2) standards for underwriting and establishing appropriate collateral are highly flexible; 3) technical assistance in documentation and building is available (Ferguson 1999, p.190). Essentially, microfinance provides small mortgage loan or loan product where there is no collateral for short term so that the loan can be used for home improvement or home expansion (United Nations Human Settlements Programme 2008, p. 44). However, as Ferguson (1999) pointed out, development of microfinance housing system faces challenges in how to adequately compensate lenders while maintaining affordability for low income households, solving the collateral and credit risk problem at reasonable cost which depends on legal framework and para-legal practices that govern rights to property, involving wide range of technical assistance, and transforming NGOs experiencing in housing and loan packaging into regulated financial institutions.

Innovative financing needs balance between addressing the needs of the target population and the political goals of the public administration because usually national governments see the backlog of housing deficit as quantitative problem that needs to be addressed through the construction of new housing rather than qualitative problem requiring improvements in existing informal settlements, such as slum area (Stein and Castillo 2005, p.54). Furthermore, in effort to shape sustainable housing finance system, risk management in housing finance should be well-established as well as the role of housing finance system in providing wide range of housing options and facilitating long-term financial resource mobilisation should be improved (Kim, 1997). With regard to broader context, stable macroeconomic environment needs to be maintained and management competence in housing finance institution should be well-developed to endorse sustainable housing finance system (Okpala, 1994).

Concerning the existence of slum dwellers and their limitation to get access to decent and affordable housing, government should pay attention on how to design more effective housing policies, particularly in allocating housing financial subsidies and supports. Existing housing subsidies usually go to new housing construction by conventional private building companies with no significant impact on the problems of slum dwellers (Stein and Castillo 2005, p.54). Hence, many programmes relating to affordable housing finance in developing countries fail to reach the slum dwellers.

2.2.2 Housing Financial Subsidies and Supports

In urban area, most low income households who work in the informal sector cannot afford decent housing provided by formal housing markets. Besides the decent housing in urban area is relative expensive, the formal housing markets are overregulated (Arnott 2008, p.14). As a result, they build their own shelter without complying with the regulations concerning land ownership, land use and zoning, as well as without adequate basic infrastructure and sufficient building materials. Hence, government's intervention is supposed to be enabling rather than regulating to shape the social justice in housing development (Turner and Elsinga, 2001).

Most developing countries where almost two thirds of the urban population lives in the informal housing and large proportion of poorest households exist have implemented various housing subsidy programs. Accordingly, housing finance policy in developing countries need adjustment while trying to apply the policy transfer from developed countries (Arnott, 2008). Housing finance policy needs to pay attention on how to improve the access of low income people who work in the informal sector to financial subsidies and supports.

In Latin America, Asian, and African cities, the government has provided supports for middle-low income groups in doing incremental housing construction. The supports from government include subsidies, minimum infrastructure provision, land, building materials, and technical assistance. Government also has developed micro-finance for housing to overcome the limited budget for housing financial subsidies. For example, in Venezuela, government provides small amount of funding for housing renovation or incremental housing construction, then NGOs assist to organize community groups and channel the funding so that they can make small loan, mostly in the form of payment receipts for building materials (Ferguson 1999, p.191).

In general, housing financial subsidies and supports can be explained as follows.

1. Housing Allowances or Subsidies

Government designs policies and regulations for facilitating housing allowances or subsidies. Credits are integrated with housing subsidies but they are usually offered at market interest rates (Stein and Vance, 2008). Subsidies can be differentiated between subsidies for rental housing sector and homeownership sector. They are complemented by monetary savings, self-help, and in-kind contributions from participant households (Stein and Vance 2008, p.20). Mechanism for rental housing assistance commonly includes unit based and tenant based. Unit based assistance is given for low income households living in rental units owned by government, nonprofit, or for profit organization, meanwhile tenant based assistance is given through vouchers or certificates to subsidize their housing (Heintze et.al 2006, p.636). In deciding between housing allowances, vouchers, or subsidies, governments consider the advantages between them, the characteristic of low income households, type and quantity of housing (OECD, 1988).

Subsidy system can help low income people gain access to housing mortgage, for example through providing subsidy for interest or down payment to enhance the affordability of low income households (Stein and Castillo, 2005). Housing subsidies may stabilize housing and allow households more disposable income, encouraging, and easing their transition into employment (Heintze et.al 2006, p.637). Nevertheless, Stein and Vance (2008, p.24) noted that the impact of housing subsidies is also affected by the way resources are handled as well as by the social and technical assistance methods. Major housing subsidies are designed based on income-related to achieve social security objectives (Kemp, 2000). Subsidies can also be given in the form of revolving funds. Recovered funds should maintain their real value and generate a small nominal capitalization of the fund in the medium and long-term (Stein and Castillo 2005, p. 56).

Allowances and subsidies eventually will take large portion of government's budget. Therefore, housing subsidies and allowance should also be endorsed by community empowerment program so that low income groups can improve their welfare and ultimately in the long run they are not dependent anymore on government's subsidies. Moreover, appropriate monitoring mechanism should be developed to make sure that the subsidies reach the target group.

2. Incentives through provision of land, basic infrastructure, and services

In order to make housing cost in urban areas more affordable for low income households, government gives incentives to developer. Government arranges the land provision and finances the development of basic infrastructure and services for new housing development in large scale. This kind of housing financial supports is undertaken by considering the supply

side (Kemp, 2000). Incentives to enhance the participation of private sector in affordable housing provision indeed can give advantage in overcoming the limited financial budget of government. However, sometimes the process of land transfer from government's asset to public asset is time consuming. Besides, if government is not able to develop effective and vigorous monitoring, the private sector can misuse the incentives to gain maximum profit.

3. Financial and technical assistance in slum upgrading

Many slum upgrading projects have been carried out through funding from national government and international agencies to eradicate slum areas and provide decent housing for preceding slum dwellers. Those projects also involve community participation and typically cost a lot of money. Financial and technical assistance are provided along the construction and transformation phase (Sheuya, 2007). However, in some cases, slum upgrading project is not effective to reduce slum areas because couple years later after the project has been accomplished, the areas return to be slum. Therefore, slum upgrading project needs to be endorsed by sustainable community empowerment program.

4. Social housing provision

Social housing sector plays important role in providing affordable housing for low income households, particularly in urban area. Social housing sector including social rented housing in most developed countries has been established further than in developing countries. It also has been enriched by applying the perspective of competition and network with sound housing finance system (Van Bortel and Elsinga, 2007).

Social housing is mostly defined according to national context and ideology. However, three major characteristics of social housing could be listed as follows (Priemus et.al, 1994):

1. its price is not determined to gain maximum profit;
2. it is provided based on the concept of need;
3. it is dominated by government's control or intervention.

Basically, social housing uses a combination of nonprofit ownership and capital grants to provide permanently affordable housing allocated on the basis of need rather than ability to pay (Barton 1996, p. 109). Social housing sometimes is also combined with subsidy systems to keep the housing cost below the market so that low income groups can afford.

Social housing provision requires high cost for its construction as well as maintenance. Usually, rental price of social housing cannot cover the real cost of the building and utility maintenance. Therefore, in managing social housing, government needs to develop partnership with other stakeholders, such as private sector to anticipate the lack of

government's budget in doing maintenance of social housing so that social housing environment can keep being well organized and will not turn into slum.

Housing financial subsidies and supports that have been provided sometimes are not effective in supporting the poor include slum dwellers to live in decent house. The cause factors include inappropriate scheme of housing subsidies, lack of political will to design pro-poor housing policies, lack of monitoring and evaluation of subsidy delivery, lack of transparency and accountability of government, lack of responsiveness in social and economic dynamics.

Housing subsidies may not be benefitted by slum dwellers if government delivers them through formal institution which is not accessible for slum dwellers. Incentives given to private sector in affordable housing project cannot give advantage to slum dwellers if government is not aware of limited access of slum dwellers to housing mortgage. Slum upgrading should be followed by continuous community empowerment to enhance the capacity of slum area community in preserving their settlement environment and housing. Social housing provision requires maintenance budget that could be provided through private and NGOs engagement. Furthermore, housing financial subsidies and supports that are focused for slum dwellers needs to be integrated with other forms of government's support like social safety net for the poor.

2.3 Lesson Learned from the Netherlands

Netherlands is chosen as the country from which lesson learned can be drawn for the case of Indonesia. It is quite well known with its success in affordable housing provision for low income groups. Even Netherlands has small size and limited land availability including for housing sector, government of Netherlands has managed to make use the available land efficiently to meet the needs of people on housing, particularly in urban areas. The intervention of government has taken large portion in housing sector development in the Netherlands.

Effective social housing provision and management in the Netherlands have contributed to the absence of slum area in that country. Theoretically, low income people that get access to live in social housing pay the house rent below the market rate because they only need to pay for the building maintenance and operation cost and other parties (such as government) will cover the other cost (Barton, 1996). In other words, social housing is provided based on the need of low income people on decent housing.

The following subsections will explain affordable housing provision and housing finance system in the Netherlands so that lesson learned from those explanation can be drawn to

enrich the further analysis in this research. Overall, low income households in Netherlands can live in decent house through the provision of social housing and rental subsidy program offered by government. Recently, the government also has considered inviting private sector in managing the social housing.

2.3.1 Affordable Housing Provision in the Netherlands

The intervention of government is needed in housing provision while there is mismatch between supply and demand side in housing sector as well as there are low income groups that cannot afford decent housing. However, the effectiveness of affordable housing provision in a country in effort to anticipate slum areas has many things to do with social and economic characteristic of the population. Although Netherlands is developed country that the major population works in the formal sector and does not have many difficulties in getting access to housing mortgage, there are still low income groups that cannot afford decent housing without government's support.

Land use regulation in the Netherlands has major influence in housing supply which is inelastic in the short-run that stimulates the rapid increasing of housing price. Through the policy and legislative framework of the national government, social housing has become the major components in the provision of affordable housing in Netherlands. National government regulates rental prices and provides financial assistance for low income groups living in social housing and private rental dwellings (Fullarton 2005, p. 29). Housing corporation and non-profit organization get involved in providing and managing social housing in the Netherlands.

Recently, government has focused on increasing housing supply for private ownership and improving the quality of housing. The aim of recent housing policy is to promote functioning of the housing market (Boelhouwer 2002, p.226). Although municipalities still hold the key role in housing provision, private sector also has been actively engaged in land development for housing sector. Social housing stock is viewed adequate and is intended only for low income groups that really need it because before 1990, social housing could be dwelled by higher income groups (Van Kempen and Priemus, 2002).

Social rented housing has experienced many changes in Dutch housing policy framework. The government has stopped giving subsidies directly to housing associations or social landlords (Priemus, 1996). Aftermath of the Second World War, government constructed social housing in large numbers. Since 1998, the rent subsidy programme has been the major housing policy tool to provide affordable housing for low income households (Priemus, 2001). Nevertheless, since 1980s, government has paid less attention in affordable housing

policy which indicates the decreasing of subsidy support on housing construction and the liberalization of housing cooperation (Vermeulen and Rouwendal, 2007). Towards independent social housing sector, Social House-Building Guarantee Fund (WSW) and the Central Housing Fund has been set up (Priemus 1996, p. 1896).

Tenure in total housing stock in 2009 showed 55 percent owner occupied housing, 32 percent social rented housing, and 13 percent commercial rented housing (Priemus 2010, p.756). Regarding the changing tenure profile of which low-income households in Netherlands are concentrated, Schutjens et.al (2002) noted that residualisation factor is also related to spatial concentration of unemployed people, of poverty, and of immigrants affects the social rented housing provision. That factor eventually arises as a consequence of new market oriented-housing policies. Therefore, government has tried to design urban restructuring that is also intended to improve the quality of social rented housing. Nonetheless, social rented stock is increasingly benefitted by low-income groups. Higher income groups have been moving into owner-occupied sector (Van Kempen and Priemus 2002, p. 243).

Priemus (1996, p. 1893) explained that housing association has been established based on criteria including 1) financial security must be secured; 2) relatively low-income households must receive priority; 3) the quality of the housing stock must be ensured; 4) consultation with the tenants regarding management and general policy is required. In effort to meet housing needs for low income households in the future, government has developed hybrid non-profit system to preserve the social housing sector for low income households. Government still provides housing allowances and housing corporations are involved in social housing sector.

2.3.2 Housing Finance System in Netherlands

Housing finance for low income groups in Netherlands are mostly focused on rental housing sector. Rent subsidy regulation makes a distinction between single person, two-persons, and multi-person households (Priemus 2001, p.282). Meanwhile, Priemus (2010) mentioned that government provided support for housing ownership sector through tax deductible. However, housing allowances in the rented sector end up largely with low-income households but the middle-income groups reap most of the benefit of rent regulation (Priemus 2010, p.757).

Priemus (2010, p.759 - 762) argued that some elements needed to be considered in reforming the housing finance system in Netherlands, which are tenure – neutral housing vouchers, abandoning general property subsidies and tax relief, regulated rent adaptation towards market rent level, and reconceptualizing the role of housing association.

Tenure – neutral housing vouchers

The existing housing vouchers are solely intended for tenants and not owner-occupier. Therefore, they need to accommodate both owner-occupiers and tenants (Priemus 2010, p. 759).

Abandoning general property subsidies and tax relief

Subsidies recently are viewed as instruments that promotes inefficient use of the available housing and impedes sustainability in housing stock (Priemus 2010, p.760). Consequently, tax modification and incentives for saving aimed at low income groups need to be implemented as alternative financial instruments in affordable housing provision.

Regulated rent adaptation towards market rent level

The annual rent needs to be adjusted towards market level to prevent tenants with a modest income from being smoked out and to limit the transaction cost for both tenants and landlords considering the regional differences to encourage private investment (Priemus 2010, p.760-761).

Reconceptualizing the role of housing association

The existing role of housing association needs to be reconceptualized since the structure of the rents is directed towards market level. Housing association should contribute to social integration, prioritize the households that are unable to house themselves without support, and seek profit in the interest of housing (Priemus 2010, p. 761-762).

2.4 Concluding Remarks

The existence of slum area cannot be separated from housing affordability problems. Urbanization phenomena and land use planning in urban areas also need to be considered in reducing slum area. Slum area not only has implication on the physical urban performance but also the well-being of society.

In the context of urban justice, slum dwellers have right to live in decent housing in urban areas. Urban space is supposed to be allocated for housing needs, including for low income people. However, regarding the tendency of entrepreneurialism in urban planning, decent housing in the location where job opportunities are accessible cannot be afforded by slum dwellers. Therefore, the accessibility of slum dwellers to decent and affordable housing needs to be considered in housing finance policy.

Most slum dwellers work in the informal sector and do not have fixed and sufficient income to take housing mortgage or rent decent house. Consequently, they cannot comply with the

requirements of formal housing financial institution or cannot afford decent rental house. Formal housing finance usually requires collateral, down payment with minimum 20 % of housing price, regular mortgage payment with minimum 30 % of income, and regular payroll. Housing microfinance actually can be accessed by slum dwellers but most microfinance institution does not have adequate financial capacity to finance long-term housing mortgage.

To fulfill their need of dwellings, most of slum dwellers build self-help housing incrementally with substandard quality. They do not really care with the adequacy of housing utilities and settlement environment because housing for shelter close to their workplace is what really matters for them. To improve the quality of their housing, they need assistance from other parties concerning their difficulties in raising income.

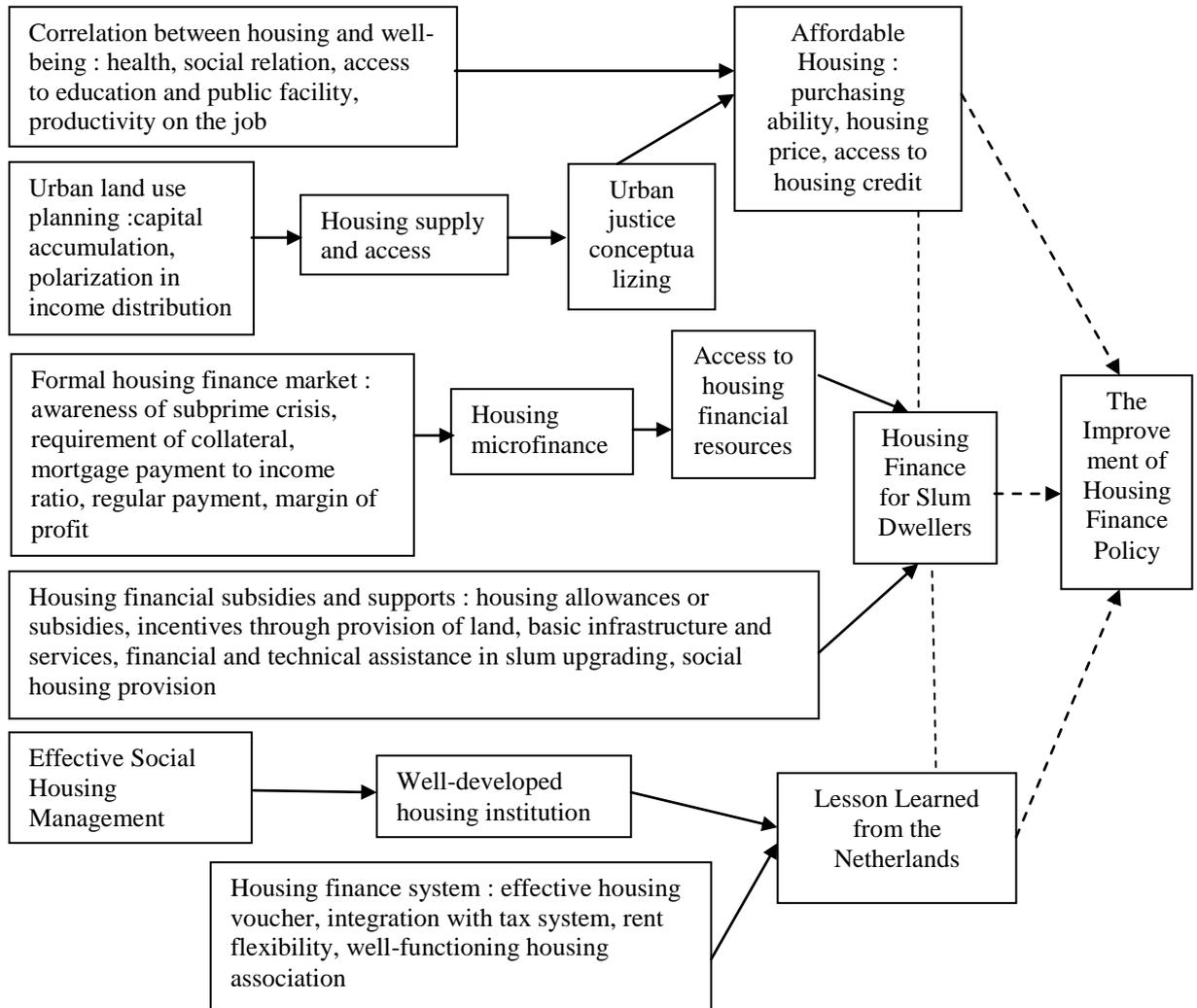
Government intervention in facilitating slum dwellers to live in decent house is essentially required because slum dwellers face many constraints in increasing their well-being by themselves, especially related to get access to live in decent housing. Through various forms of housing financial subsidies and supports provided by government, the accessibility of slum dwellers to live in decent housing actually can be enhanced. However, innovative housing finance system still needs to be developed to achieve that. Each kind of housing financial subsidies and supports has its own weaknesses and strengths that needs to be considered in assisting slum dwellers to live in decent housing.

Most developed countries, such as Netherlands, do not face significant rapid urban population growth as well as poverty and informal sector development issue which stimulate the existence of slum dwellers in urban areas. Different from most developing countries, such as Indonesia, Netherlands has developed sound social housing sector to cope with affordable housing provision for low income households. Rental subsidy programme has become the main tool to help low income households to live in decent housing.

Nowadays, national government in the Netherlands has developed market-oriented housing policy that involves housing stock restructuring and reformation of housing finance system. Learning from the Netherlands experience, establishing sound social rented housing sector could be alternative to apply to facilitate decent housing for slum dwellers with considering the culture of society and financial capability of government in the context of developing countries, such as Indonesia.

Subsequently, from the literature review given in this chapter, theoretical framework in this research can be depicted below.

Figure 2.2 Theoretical Framework



Lessons and knowledge regarding mechanism of affordable housing finance have been drawn through relevant literature. Theoretical basis have given deep insight that will contribute to achieve the research objective. However, linking theory and phenomena in certain context eventually needs appropriate methodology. In the next chapter, I will explain the detail about research methodology, particularly in doing data collection and data analysis with reference to the theory.

CHAPTER 3

KEY QUESTIONS AND METHODOLOGY

This research tries to examine the existing housing finance policy in relation to the accessibility of slum dwellers to housing financial subsidies and supports. As stated in the introduction chapter, the key questions that are pursued in this research encompass the characteristic of slum dwellers, the concept of affordable housing finance for slum dwellers, factors influencing the effectiveness of housing provision for slum dwellers, the extent of existing housing finance policy in endorsing the accessibility of slum dwellers to housing financial subsidies and supports, and the improvement of housing finance policy. These key questions will be answered through applying appropriate method in doing data collection and data analysis so that the research objective to give recommendation for housing finance policy enhancement can also be achieved.

In this chapter, I will describe the methodology used in data collection and data analysis. The practical steps and how to overcome the challenges in doing data collection will be given. The detail explanation about the chosen method in doing data analysis will be offered. Qualitative approach will be applied during the research process. In addition, the goal of this approach will be focused on explanatory aspect. That means the goal is focused on answering the why questions that will cover the relationship among different factors examined in the research.

3.1 Data Collection

Data collection is carried out through interview and observation in Indonesia on May 20 – June 2, 2011. Detail schedule of the fieldwork can be seen in **Appendix 1**. The interview is classified into in-depth interview and semi-structured interview. Because of time limitation in doing the thesis fieldwork in Indonesia, the number of interviewees is limited and observation is restricted in one slum area located in Kemandoran District in Jakarta. However, secondary data collection is also conducted to complement data obtained from restricted number of interviewees and observation location.

In-depth interview involves 1) two representatives from academic scholars (Bandung Institute of Technology and University of Indonesia), 2) two representatives from developer association (Real Estate of Indonesia (two people) and Association of Housing Developers of Indonesia (one person)), 3) two representatives from Non Government Organization (Habitat for Humanity and Buddha Tzu Chi), and 4) three representatives from policy makers in

Ministry of Housing. The number of the interviewees involved in the process of in-depth interview is limited to ten people. The list of interviewees and broad outline of in-depth interview questions can be seen in **Appendix 2 and 3**.

In-depth interview is chosen to explore detail information and perspectives from the interviewees in effort to obtain the answer for each research question. In doing in depth interview, the interviewer does not have structure of questions like in the questionnaire and the interviewees dominate the conversation. In the process of interview, the interviewer needs to guide the conversation and concentrate in listening, recording, interpreting, and clarifying the explanation given by interviewees. The strength of in-depth interview is its flexibility digging up information on the research topic from the respondents; however, the interviewer is required to have analogous and good listening skill (Babbie, 2001). The weakness of this method is time consuming. Besides, the reliability of the answers depends mostly on the skill of interviewer and the articulacy (knowledge and experience) of the interviewee. Therefore, in doing interview, I apply good listening skill as well as critical and analytical thinking to clarify the answers given by interviewee in order to get reliable information.

Before doing in-depth interview in Indonesia, I identified the people whom I can interview. Some of them are my colleagues from my previous workplace and lecturer from my previous institution of education. Others are recommended by my colleagues. I communicated with them through electronic mail to ask their availability to be interviewed. Afterward, I arranged schedule for the interview according to the time availability of the candidate interviewees.

However, in the fieldwork practice, I need to reschedule the interview because of the postponement or cancellation made by some of interviewees. Besides, I also have to search for other reliable interviewees who are willing to be interviewed. Fortunately, my colleague can give me some contact persons that have deep knowledge and rich experience in the housing field, including in doing research, policy making, and project implementation. Subsequently, I made contact with them through phone call and made agreement about the interview schedule so that I could do the interview to obtain data and information I need. During the interview, I recorded the conversation with every interviewee by using tape recorder. In addition, I directed the flow of conversation by asking general questions related to the research topic, allow the interviewees do most of the talking, and listened to them attentively and expectantly. At the same time, I made some key notes and learned what they said.

Semi-structured interview are focused on getting information about the characteristic of slum dwellers in urban areas in Indonesia. It involves slum dwellers that consist of three people. Observation is conducted to complement information obtained from semi-structured interview

with slum dwellers. The outline of interview question can be seen in **Appendix 4** and picture taken during observation can be seen in **Appendix 5**.

Semi-structured interview is chosen because the slum dwellers do not have so much information about the research topic, but their characteristic and opinion about housing financial subsidies and supports need to be identified. In doing semi-structured interview, a set of open questions are made to obtain point of view of the respondents on certain issues. The weakness and the strength of this method are similar to in-depth interview. Observation is focused on the housing condition of the slum dwellers and the settlement environment in slum area.

In doing semi-structured interview and observation to the slum dwellers, first I identified the location of slum area close to my accommodation. I visited some households in that location and asked their availability to be interviewed. After that, I did the interview, made some notes, observed their house and their settlement environment.

Secondary data collection is also carried out in the fieldwork because some relevant data cannot be accessed through internet. Besides, it is intended to complement interview and observation as well as save time and resources while survey for primary data collection is not possible to do in the limitation of timeframe and budget research. Secondary data collection was conducted through visiting government institutions which provide access to data and policy documents related to research topic. It is conducted in Central Bureau of Statistic, Ministry of Housing, Department of Public Works, Ministry of Social Affairs, and Coordinating Ministry for People's Welfare. Secondary data were obtained in the form of hardcopy and softcopy file. However, in the fieldwork practice, there is rescheduling for secondary data collection because of public holiday which has not been known before going for fieldwork as well as the time availability of government employee who is in charge of giving access for data collection.

After accomplishing data collection, I made data compilation and verified the data. I transcribed the interview results, stored the observation result, and systematized the file of housing policy documents. That is intended to simplify the process of data analysis.

3.2 Data Analysis

In qualitative research, data analysis is carried out by interweaving data collection and theory (Babbie, 2001). Qualitative data obtained from the fieldwork are analyzed with inductive approach. In applying inductive approach, data analysis will be determined by research objective, various readings and interpretations of the data so that the findings can arise

directly from the analysis of the data (Thomas 2003, p.3). This approach can make data from various sources more condensed and create comprehensive links between research objective and findings from the data. Besides, the approach is not restricted to particular structure so that analysis is more flexible. Nevertheless, the result of data analysis could be biased by subjectivity of researcher, especially in deciding what is important and less important in the data.

Methods of qualitative data analysis that will be used consist of analytic induction and Strategic Options Development and Analysis (SODA)/cognitive mapping. Analytic induction is used to analyze national housing finance policy, the characteristic of slum dwellers, and the effectiveness of affordable and decent housing provision for slum dwellers. SODA/cognitive mapping is used to analyze the accessibility of slum dwellers to housing financial subsidies and supports.

In doing analytic induction, the steps that are taken consist of:

1. Data and information obtained from interview, observation, literature, and policy documents are organized with respect to the analysis theme.
2. The organized data and information are scrutinized to identify main characteristics and supplementary attributes. Then, typology is created for the characteristics or attributes, for example income rate, occupation, housing type/condition, housing location, housing size, type of land tenure, and adequacy of utility.
3. The results taken from the previous step (step 2) are linked with the theory and research objective to figure out the correlation between the characteristics or attributes. Then, assumption is created and generalization is taken.

This analysis method involves reasoning behind certain phenomena, such as the characteristic of slum dwellers and the ineffectiveness of affordable housing provision for slum dwellers. Analytic induction enables the adjustment of attributes and relationships between them throughout the analysis process to represent the reality (Ratcliff, 1994). Nonetheless, this method cannot be used for prediction of the phenomena, such as the implication of the increasing of income rate on the accessibility in the future. The analysis result cannot be generalized in every setting because analytic induction cannot provide whole explanation for the phenomena, for example some factors examined in national housing policy needs to be modified with regard to regional context. To overcome this limitation, analysis is carried out by cross-checking information and looking at some examples from certain regions in Indonesia obtained from data.

SODA is suitable in analyzing the interview result to answer the research questions about to what extent the existing policy of housing finance has endorsed the accessibility of slum dwellers to housing financial subsidies and supports for affordable and decent housing. Regarding the complexity and uncertainty in housing problems, this method is appropriate in exploring the interests and perspectives of related stakeholders. Through applying SODA method, important features of the policy problems can be examined deeply and comprehensively. Accordingly, the problem structuring process related to affordable housing finance policy for slum dwellers will lead to recommendation that are more likely to be implemented in effort to enhance housing finance policy.

SODA method has been developed in the UK Operational Research community over the past 30 years to assist strategic decision making (Westcombe 2002, p.1). It also can be used in doing problem structuring in the process of policy evaluation and policy making. It develops the principle of Jointly Understanding, Reflecting, and Negotiating Strategy (JOURNEY), therefore SODA focuses on the point at which people feel confident to take action they believe to be appropriate and they can commit to the achieved agreements (Rosenhead 2001, p. 21-22).

In the framework of SODA, there are assumptions about the individual, the nature of organizations, consulting practice, and technology and technique (Rosenhead 2001, p.23). Individual is assumed to have sense and logic in giving perspective on problems. The organization is assumed to change continuously as the individuals negotiate their role in the organization. Then, consultant is needed to bring together different perspectives, analysing those perspectives, and facilitating negotiation for agreed action (Rosenhead 2001, p.22). Lastly, the technology and technique are assumed as facilitative device that can be operated in managing the complexity of action decision making. In applying the cognitive mapping, there are two principal ways of working, which are exploring the goal system working to increasingly detailed options for achieving goals or starting from the detailed options and gradually working up the maps towards goals by exploring each concept in turn as a potential option (Rosenhead 2001, p. 29 -30).

The steps that are taken in using SODA or cognitive mapping to analyze the problem of housing finance policy in endorsing the accessibility of slum dwellers to housing financial subsidies and supports include:

1. Stakeholder mapping

The characteristic of housing policy problem mostly is multiple problem which is distributed throughout the policy making process and interpreted in different perspectives

by numerous stakeholders and as a result, the analysis of the problem seems to be in unmanageable boundaries (Dunn, 2008). Accordingly, the method of problem structuring will be effectively used if the boundary analysis is also conducted to complement the method. Boundary analysis could be applied in terms of stakeholder mapping which is established based on the analysis of the influence and the priority of the stakeholder in the housing field. In this study, stakeholders that have been identified encompass policy makers in Ministry of Housing, housing developers, NGOs engaged in housing field, and academic scholars engaged in housing research.

2. Problem structuring

In doing the problem structuring, the interests and perspectives of stakeholders regarding the problem of accessibility of slum dwellers to housing financial subsidies and supports should be identified first. Then, the technique of cognitive mapping can be applied in elaborating those interests and perspectives. Following guidelines in doing cognitive mapping (Ackermann et.al, 1993), the steps of problem structuring include:

- ✓ The transcripts of the interviews are scrutinized to obtain main concepts.
- ✓ The sentences of concepts are converted into short phrases.
- ✓ The hierarchy between concepts is built. The layers of hierarchy comprise of goals (at the top), strategic directions, and potential options.
- ✓ The goals that will end up at the most super-ordinate concepts are identified.
- ✓ Potential strategic issues regarding the accessibility of slum dwellers to housing financial subsidies and supports are identified. They may have characteristics in terms of long-term implications, high cost, irreversible, the need of portfolio of actions to make them happen, or may require change in culture.
- ✓ The opposite poles to clarify the meaning of the concepts are distinguished. Then, the concepts are placed in the imperative form to add meaning to the concepts.
- ✓ The names of the actor who states certain problem need to be identified and incorporated into the concept text.
- ✓ The option and the outcome within each pair of concepts are identified by noting that each concept can be seen as an option leading to super ordinate concept which in turn is the desired outcome of the subordinate concept. A generic concept needs to be ensured as super ordinate to specific items that contribute to it.
- ✓ The first pole as the primary idea needs coding.
- ✓ The concepts to provide better more complete understanding to the problem are tidied up, but isolated concepts that are not linked needs to be ensured in appropriate way. Then, mapping can be started.

The using of SODA method will result in goal that reflects different perspectives of related stakeholders in structuring the problems. However, doing interview without executing public consultation, the goal and strategic directions cannot be communicated and negotiated with the related stakeholders. Therefore, workshop or Focus Group Discussion (FGD) is more appropriate than interview in accommodating the perspectives of stakeholders. Nonetheless, workshop or FGD is difficult to do because time limitation of the research fieldwork and impediments in gathering stakeholders in one place at one time. To deal with the limitation of the interview compared to FGD, the interview is carried out by discussing the possible conflict of perspectives between stakeholders.

Moreover, there is no absolute result or outcome of cognitive mapping in applying SODA method on certain case. That is caused by the existence of subjectivity element of stakeholders and researcher in communicating the problem and doing the problem structuring. Therefore, different selected stakeholders and different consultant will produce different scheme of cognitive mapping and may state different goal, strategic directions, and potential options.

Even though the SODA method can significantly contribute to the problem structuring in the process of housing policy making, the using of the method takes much time to learn and understand the perspectives of various stakeholders. Therefore, it is often time consuming and complex. Understanding what has been told by the stakeholders through interview in translating those perspectives into map is rather difficult. To overcome those constraints, trial and error in making cognitive map is conducted until obtaining the result of cognitive map that reflects perspectives from all stakeholders engaged. Besides, organizing data into more well-structured form eventually helps to optimize time in doing analysis.

In general, through applying methodology explained formerly for data analysis, the answers of research questions can be obtained. But, before going into analysis part, first I will elaborate national housing finance policy providing related data and information or insight for analysis. Housing finance policy that will be described in the next chapter is focused on housing financial subsidies and supports provided by national government.

CHAPTER 4

NATIONAL HOUSING FINANCE POLICY IN INDONESIA

In this chapter, I will explain about national housing finance policy in Indonesia. First, I will describe the scenario of housing development in the framework of national long-term development plan for 2005-2025. Afterward, I will elaborate housing finance regulation and housing financial subsidies and support for slum dwellers. Overall, national government has formulated housing finance policies that are able to cope with the problems of slum area but the improvement of housing finance system is needed to endorse the effectiveness of housing finance policy implementation.

4.1 Scenario of Housing Development for 2005-2025

Housing as basic need for human being needs to get intervention from government because middle-low income people cannot afford decent housing through market mechanism without support from other parties. Housing problems in urban areas are getting more complex because land availability for housing is getting scarce whereas the need of housing is increasing due to the rapid population growth. Poverty issue and huge imbalanced development between urban and rural areas in Indonesia also have contributed to housing problems.

Poverty issue which is strong related to affordability on housing has forced poor people to live in substandard housing. Besides, poor people have limited accessibility to formal housing finance. About 85 % of households in Indonesia build self-help housing (Interviewee : Didik Sunardi, Ministry of Housing, 2011). Poor people in urban areas usually build their house without considering standard requirements for the size, material, design, location, utility, and environment because of lack of knowledge and financial capacity (Interviewee : Rizal Isky Rusli, Real Estate of Indonesia, 2011). Consequently, many slum areas emerge in some parts of city.

According to Department of Health, standard house must have minimum size of 8 m²/person (Badan Pusat Statistik, 2009). Therefore, housing which has size of below 8 m²/person is defined as substandard housing. Regarding that definition of substandard housing, insight about the distribution of percentage of household living in substandard housing among provinces in Indonesia can be given in **Table 4.1**. From the table, we can see that the highest percentage of household living in substandard housing is in Jakarta, and it is followed by

Papua. The average percentage of household living in substandard housing in Indonesia is around 51.37 %. However, from the data, we cannot identify the distribution of that percentage between urban and rural area.

Table 4.1
Percentage of Household Living in Substandard Housing by Province in 2009

No.	Province	Percentage (%)
1.	Nanggroe Aceh Darussalam	45
2.	Sumatera Utara	57.28
3.	Sumatera Barat	53.66
4.	Riau	47.13
5.	Jambi	43.08
6.	Sumatera Selatan	55.73
7.	Bengkulu	42.61
8.	Lampung	25.89
9.	Kep. Bangka Belitung	51.02
10.	Kepulauan Riau	47.29
11.	DKI Jakarta	92.83
12.	Jawa Barat	44.52
13.	Jawa Tengah	12.25
14.	DI Yogyakarta	11.79
15.	Jawa Timur	17.78
16.	Banten	56.83
17.	Bali	53.35
18.	Nusa Tenggara Barat	64.02
19.	Nusa Tenggara Timur	72.51
20.	Kalimantan Barat	61.89
21.	Kalimantan Tengah	53.40
22.	Kalimantan Selatan	52.83
23.	Kalimantan Timur	56.15
24.	Sulawesi Utara	68.22
25.	Sulawesi Tengah	59.09
26.	Sulawesi Selatan	41.95
27.	Sulawesi Tenggara	49.35
28.	Gorontalo	67.76
29.	Sulawesi Barat	52.38
30.	Maluku	56.12
31.	Maluku Utara	51.34
32.	Papua Barat	47.60
33.	Papua	82.44

Source : Badan Pusat Statistik, 2009

Based on Constitution 1945, living in standard housing is one of human rights guaranteed by the state. Therefore, slum dwellers that live in substandard housing deserve to get serious attention from government. As stated in National Long-term Development Plan (2005-2025), the main target of long-term housing development is to fulfill the need of affordable and decent housing which is accompanied by adequate infrastructure and housing utility as well as endorsed by long-term, sustainable, efficient, and reliable housing finance to shape city

without slums. Accordingly, scenario of housing development will be directed at providing decent and affordable housing to increase the well-being of society and to create sustainable housing development. The development of housing finance system will be directed at the improvement of accessibility of housing credit for low-income people and the mobilization of long-term housing financial resources through primary and secondary market (Law No. 17/2007) .

Housing policy needs to be enhanced to create conducive climate for housing development and improve the access of low income people to housing financial sources, land, and secure tenure. With limited budget in dealing with housing problems, government has tried to encourage the involvement of private sector, NGOs, and community in housing development. Furthermore, national government has tried to encourage local governments to increase their awareness and capacity to solve housing problems as well as their revenue budget for housing expenditure.

In effort to implement national long-term development plan 2005-2025, government has set up national priorities in housing sector for 2010-2014 to accommodate as many as 836,000 low income households, which include subsidized standard landed housing development with total of 685,000 units, owned low-cost apartment 180 units, rental low-cost apartment 650 units, and housing infrastructure and utility development (Strategic Plan of Ministry of Housing for 2010-2014, p.15). According to strategic plan of Ministry of Housing for 2010 - 2014, to improve the accessibility of low income people to affordable and decent housing, government has designed policy in providing housing financial support, implementing liquidity facility in incorporating subsidy for housing mortgage, improving the mobilization of long-term financial sources, and the development of housing provident fund.

The growth of slum area is still increasing with the rate of 1.37 % every year (Strategic Plan of Ministry of Housing for 2010-2014, p.6). Nonetheless, until now, the mapping of slum area in Indonesia has not been provided yet by government (Interviewee : Eddy Pujianto, Ministry of Housing, 2011). Besides, the efforts of government to solve the problem of slum areas have not been carried out in integrated and holistic approach (Interviewee : Hong Tjhin, Buddha Tzu Chi, 2011). They are mainly focused on physical aspect. Meanwhile, they need to be integrated with the accessibility of slum dwellers to affordable housing finance.

According to interview result with slum dwellers, the ability of slum dwellers to provide down payment for housing mortgage is ranged from Rp 100,000 to 2,500,000 (10 – 200 €). Their ability to pay the installments is around Rp 5,000 – 20,000/day (0.5 – 2 €). Meanwhile, the cheapest price of owned-house in particular urban areas in Indonesia is around 25 million rupiahs and the required housing down payment is at least 20 % from the total housing price

(Interviewee : Ainoor Kardiman, Association of Housing Developers of Indonesia, 2011). Consequently, characteristic of slum dwellers needs to be taken into account in improving housing finance policy to comply with housing scenario in long-term development plan for 2005-2025. Description about general characteristic of slum dwellers is shown below.

Table 4.2
General Characteristic of Slum Dwellers

No.	Characteristic	Description
1.	Income rate	< 10,000 – 60,000/day (< 1 – 5 Euros/day)
2.	Occupation	Street vendor, housemaid, small shop owner, pedicab driver, public bus driver, handyman, craftsman
3.	Housing Location	Indicated by proximity to casual employment opportunities, including mixed and dense residential area, old downtown, adjacent to the railway lines, dangerous location along riversides, canals (canal marshland), under high tension electric cable
4.	Housing Size	< 4-8 m ² /person, 1-3 rooms (occupancy rate 1-2 person/room)
5.	Type of Land Tenure	Usually have no clear land certificate, with type of shared certificate (legacy). There is also land with legal certificate
6.	Type of Housing Ownership	Ownership, rental, self-help housing built on rental land
7.	Physical Housing Condition	Most slum dwellers have semi-permanent buildings which do not comply with standard of health, security, and hygiene. Typical housing condition is indicated by non-pavement floor/ground floor/cement floor, bamboo matting wall, non permanent roof/bamboo roof/tile roof/ broken roof, lack of lightning, lack of ventilation.
8.	Utility and Public Facility Adequacy	Slum dwellers usually have inadequate utility and public facilities like tap water, electricity, sewage systems, proper drainage systems, sanitation, open space, road network, pathway, etc. There are no private toilet facilities. The use of public bathroom and toilet is usually charged with range cost of Rp 1000 - 6000/person/day. Water supply accessed from drinking water company

		(vendor), well, pump. Electricity source can also be obtained from oil lamp. Drainage and waste management system is bad. Waste treatment includes garbage can collection, waste storage in the ground hole, waste disposal into the river, waste combustion.
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Source : Compiled by author from various sources

4.2 Housing Finance Regulation

The problem of housing affordability needs to be examined from supply side and demand side. Supply side is mainly related to the price or value of housing, while demand side is related to purchasing power. Government intervention through housing finance regulation is needed in balancing supply and demand side so that low income people who have low purchasing power can get access to affordable and decent housing. In this section, I will elaborate the applied housing finance regulation in the national level which aims to support low income people to afford decent housing. The regulation includes subsidy scheme for mortgage insurance, subsidy scheme through liquidity facility, the development of secondary mortgage facility, and housing provident fund.

4.2.1 Mortgage Insurance

In 2006, Ministry of Housing designed regulation relating to mortgage insurance which is legalized in Regulation of Ministry of Housing No. 05/Permen/M/2006 and Regulation of Ministry of Housing No. 07/Permen/M/2006. However, since 2008, the support of national government in mortgage insurance has not been available anymore. Ministry of Finance observed that mortgage insurance support is not needed because Ministry of Housing has also designed direct delivery subsidy for housing mortgage at that moment whereas national budget for housing expenditure is limited (Interviewee : Eddy Pujianto, Ministry of Housing, 2011).

Support for mortgage insurance was given in the form of subsidy facility in paying the insurance premiums. This support is intended to help people working in the informal sector who cannot get access to housing mortgage in bank institution. Because of their non-fixed income characteristic and unavailability of collateral, bank institutions applying prudential principle in providing credit is reluctant to bear high risk of default. Therefore, government designed subsidy scheme in insurance premiums payment so that insurance companies that had made agreement with Ministry of Housing will guarantee the risk of default. But, the

policy design turned out could be benefitted by people working in the formal sector who also have risk of unemployment.

According to Regulation of Ministry of Housing No.05/Permen/M/2006, the amount of subsidy was determined based on loan tenor and basic insurance coverage. The subsidy would be given to the household who wanted to buy or renovate their house for the first time. The target group is households that have income rate maximum of Rp 2,000,000/month. The lower the income rate, the higher amount of subsidy will be received. The subsidy was given to support housing mortgage and housing renovation with the maximum value of housing as much as Rp 42,000,000 with loan to value ratio (LTV) is larger than 92.5 %.

Mortgage insurance support, however, still needs to be provided, especially for slum dwellers. In dealing with the limited budget of national government for housing sector, government may design policy to encourage private sector (developer) and NGOs to assist the slum dwellers through giving subsidy in paying the insurance premiums. Government may modify the regulation so that the target group of the mortgage insurance can be made specifically for slum dwellers and the subsidy scheme can be benefitted to them. In addition, government needs to formulate policy for housing credit guarantee to assist slum dwellers to get access to housing mortgage (Interviewee: Didik Sunardi, Ministry of Housing, 2011).

4.2.2 Liquidity Facility

Problems and challenges in housing sector in Indonesia is very complex. Government also needs to cope with the backlog of housing provision which was 7.4 million in 2009 regarding that backlog will increase every year following the growth of population (Strategic Plan of Ministry of Housing for 2010-2014, p.5). There are also other factors that challenge the development of housing finance policy. Those factors are 1) enormous mismatch between the decreasing purchasing power of people with the increasing of housing price in the market mechanism that has implication on exacerbation of housing affordability problem; 2) fluctuating interest rate and inflation that also influences housing finance system and ultimately will burden the ability of people to pay the housing mortgage; 3) mismatch between primary and secondary housing finance that also influences the limitation of financial capacity in financing long-term housing mortgage; 4) lack of implementation of integrated area based housing development (Deputi Bidang Pembiayaan Menpera 2011, p. 8).

In dealing with those challenges, government has been developing liquidity facility policy which is legalized in Regulation of Ministry of Housing No.14/Permen/M/2010 and Regulation of Ministry of Housing No.15/Permen/M/2010. Prior to that legalization, the previous policy regulating housing mortgage subsidy is short-term oriented and cannot be

applied for construction credit. The availability of subsidy is only limited in particular time frame which is around 4-10 years or not along the loan tenor frame and financial sources were taken from portion of spending in national budget.

Through the development of liquidity facility, government attempts to increase the affordability of low income people, particularly on the aspect of ability to pay the mortgage without default. The recent long-term oriented housing finance is supported by government through portion of finance in national Budget or other financial resources which are blended with financial capacity of bank issuing the housing mortgage. That is intended to reduce the interest rate of housing mortgage until single digit during the loan tenor. Besides, the affordable mortgage interest will be fixed along the loan tenor that might take fifteen years. The financing entails revolving fund so that at certain period, the portion for liquidity facility from national budget can be reduced or eliminated, especially if housing provident fund has been institutionalized (Menpera 2011, p. 20).

The higher the value of housing mortgage, the lesser the proportion of liquidity facility endowment, consequently the interest rate will be higher and vice versa. The implementation of liquidity facility is differentiated between conventional and syariah bank financial system (Islamic finance appliance). Monitoring and control is also carried out through cooperation with bank/financial institution and coordination within and among government institution. The target groups are middle income people with maximum income rate of Rp 4,500,000/month and low income people with maximum income rate of Rp 2,500,000/month (Regulation of Ministry of Housing No.14/Permen/M/2010). The detail arrangement of implementation of liquidity facility regarding housing types and values will be described in table below.

Table 4.3
Liquidity Facility Scheme

Type of Bank Financial System	Housing Types	Minimum Loan to Value Ratio (%)	Maximum Housing Value/Price (Rp)*	Maximum Interest Rate for Conventional System or Margin for Syariah System (per year)
Conventional	Landed House	10	50,000,000	8.15 %
			60,000,000	8.25 %
			70,000,000	8.35 %
			80,000,000	8.5 %
	Low-Cost Apartment	12.5	90,000,000	9.25 %
			100,000,000	9.35 %
			110,000,000	9.5 %
			120,000,000	9.65 %
			130,000,000	9.80 %
			135,000,000	9.95 %

Syariah	Landed House	10	50,000,000	8.15 %
			60,000,000	8.25 %
			70,000,000	8.35 %
			80,000,000	8.5 %
	Low-Cost Apartment	12.5	90,000,000	9.25 %
			100,000,000	9.35 %
			110,000,000	9.5 %
			120,000,000	9.65 %
			130,000,000	9.80 %
			135,000,000	9.95 %

Source : Regulation of Ministry of Housing No.14/Permen/M/2010

* 1 € is equal to Rp 12,000

The asset of housing mortgage is usually difficult to be liquidated, meanwhile the investor (bank) needs liquid financial instruments for security reason. Through liquidity facility, government provides supporting finance for bank in order to transform the asset of housing mortgage to be more liquid. As a result, bank will be encouraged to apply fixed interest rate for subsidized housing mortgage.

Liquidity facility is a finance mechanism that is carried out through special intermediary institution, so called special purpose vehicle –liquidity facility (SPV-LF) for publishing debt notes in the capital market and delivering them to qualified bank/financial institution. Accordingly, bank/financial institution can buy the asset of housing mortgage, give long-term loan for housing credit, and use the guarantee asset to issue another more housing mortgage. Moreover, long-term financial resources can be utilized optimally through publishing debt notes in the capital market. Many bank institutions will get attracted in engaging in business of housing mortgage and that will stimulate healthy competition. Nevertheless, government needs to be aware of selecting the bank/financial institutions that will be involved in the implementation of liquidity facility policy so that the risk of misuse of liquidity facility financing can be avoided.

4.2.3 Secondary Mortgage Facility

Housing price components are dominated by construction cost. High construction cost will have implication on high housing price which low income people are difficult to afford. On the other side, financial resources for housing mortgage are still dependent on short term financing so that the issue of financial mismatch emerged in housing finance system. To overcome it, government has institutionalized secondary mortgage finance through establishing Sarana Multigriya Finansial, Ltd (PT SMF) under the supervision of Ministry of Finance. But, SMF is still not operating and functioning optimally (Interviewee: Eddy Pujianto, Ministry of Housing, 2011).

SMF is expected to increase the lending capacity of the banking sector and to enhance the efficiency of secondary housing market. Regarding Presidential Regulation No. 1/2008, this institution can give liquidity facility to the banking sector up to 15 years maturity and could place its fund in bonds, deposit, certificate of Bank Indonesia, and other financial instruments stipulated by Ministry of Finance. Consequently, banking sector will be easier in using long-term financial sources in financing housing mortgage that involves long-term loan. Different from liquidity facility mechanism, this regulation is not only focused on subsidized housing mortgage.

SMF has started to sell asset backed securities in stock exchange of Indonesia that can be utilized for housing mortgage. SMF also has supported some regional development banks in facilitating the availability of mortgage housing finance. Nevertheless, government still needs to keep endorsing SMF to function and operate simultaneously with the implementation of other recent housing finance regulations in effort to create more effective provision of affordable and decent housing for low income people.

4.2.4 Housing Provident Fund

According to Law No. 1/2011, housing provident fund needs to be institutionalized and operated in national housing finance system in order to optimize the utilization of funds collected from saving of people for housing finance. This law mandated the need of special law and technical guidelines in line with the rule hierarchy to regulate housing provident fund more detail as it is written in chapter 123 and 124. To fulfill the mandate, Ministry of Housing is doing study and trying to formulate effective policy regarding the operationalization of housing provident fund.

Housing provident fund can be alternative in financing housing provision in order to cope with the rapid increasing housing needs of people. Based on Law No.1/2011, there are 3 main principles of housing provident fund, which are : 1) saving is made regularly in certain period by individual; 2) saving only can be withdrawn according to particular requirements agreed between the individual and financial institution; 3) saving can be used as a tool to get access for housing mortgage or credit for housing construction or housing renovation. In realizing housing provident fund, there are two types of saving, which are compulsory saving for people who have fixed income and voluntary saving for people their employer who have non fixed income. Moreover, there will be saving contract that contains agreement about the saving, for either down payment or installment.

Private companies are encouraged to provide the compulsory saving for their employees. Meanwhile, government or region/state-owned company will facilitate its employees who have not lived in decent house to involve in housing provident fund mechanism, for example, through doing auto debit the certain amount of their monthly salary (Menpera 2011, p.25). The use of housing provident fund is not allowed for other purpose except for housing finance. In some countries, such as Singapore, the similar form of housing provident fund mechanism has been applied. In Singapore, central provident fund which is derived from saving belonging to society is also used for living cost insurance after retiring or termination of employment (Interviewee: Eddy Pujianto, Ministry of Housing, 2011).

Through housing provident fund mechanism, low income people who are not able to provide collateral as well as do not have fixed income can acquire housing mortgage access from bank institution. Saving can be Government also can give incentives for low income people to raise the value of their saving, for example through imposing lower interest rate or longer loan tenor for housing mortgage. However, the interest rate for saving in housing provident fund mechanism is lower than common form of saving.

4.3 Housing Financial Subsidies and Support for Slum Dwellers

Regarding low affordability and access of slum dwellers to decent housing, government have to provide housing financial subsidies and support for slum dwellers. Nevertheless, the effective delivery of housing financial subsidies and support requires focus program and integration with the characteristic of slum areas. In the following paragraphs, I will elaborate the existing housing financial subsidies and support that can be benefitted by slum dwellers.

4.3.1 Stimulants for Self-Help Housing Development

Stimulant program for self-housing development includes financial support, social, and technical support. Housing development program recently has become part of government's effort in solving poverty problems. Through coordination with Coordinating Ministry for Social Welfare, Ministry of Housing has designed policy to provide social and technical support for self-help housing development in the framework of national program of community empowerment so called PNPM Mandiri. Poor people who get the stimulants have active role as subject in executing the embedded activities in the program.

PNPM Mandiri itself includes three clusters, which are 1) support and social safeguard; 2) community empowerment; and 3) micro business empowerment (Interviewee: Eko Heri Poerwanto, Ministry of Housing, 2011). The first cluster is intended for poor people who have

income rate below Rp 350,000/month and providing main food supply (such as rice), health insurance, cash money, institution capacity building. The second cluster is intended for people who have income rate between Rp 350,000 – 1,400,000/month and increasing their productivity and optimizing their potential in effort to alleviate their welfare. The last is intended for people who have income rate between Rp 1,400,000 – Rp 2,000,000/month for improving their capacity in executing micro business.

The concept of PNPM Mandiri program emphasizes on community participation, institution strengthening, self-management implementation, and direct support to the community (Menpera 2011, p.26). The application of that concept in development of housing sector has been legalized in Regulation of Ministry of Housing No. 05/Permen/M/2009. According to the regulation, the scope of PNPM Mandiri in housing field includes the preparation and improvement of the capacity of the facilitator selected from housing practitioners, the involvement of facilitator to empower the community through mentoring and monitoring in the process of housing renovation or self-help housing construction, and the operationalization of housing and utility development.

Furthermore, government also facilitates low income people to obtain legal certificate for their land provided that their land is not in conflict status, not pledged as collateral, in line with urban spatial plan, less than 2000 m², and belonging to inheritance (Menpera 2011, p.27). Usually, because of cost, time, and knowledge impediments, most low income people are not able to follow the procedure of land certification. Therefore, government needs to facilitate them to create secure tenure for them (Interviewee: Azrar Hadi, University of Indonesia, 2011). The process of land certification is also designed through participatory concept.

Financial support designed by Ministry of Housing is delivered through micro financial institution through the form of revolving fund accommodated in micro credit scheme. The target group of this financial support is people who have income rate between Rp 1,400,000 – Rp 2,000,000/month (Regulation of Ministry of Housing No. 05/Permen/M/2009). That means the financial support is not specific intended for slum dwellers because it is also expected to prevent the growing of slum areas in case low income people do not have financial capacity in renovating their house or building standard housing or improving their living environment. It is also still focused on the activity of physical construction and not integrated with financial support provided by other ministries (Interviewee : Eko Heri Poerwanto, Ministry of Housing, 2011).

In realizing stimulant program for self-help housing development, national government has facilitated local governments to increase their capacity in endorsing the success of the

program. Support from local government is crucial, particularly in data collection, priority identification, and local budgeting. Some local governments have shown their commitment in implementing the program through allocating their own local budget instead of depending fully on financial support scheme from national government. Some of them also have attempted to adjust their organization structure, especially for executing and monitoring the implementation of the stimulant program. Other stakeholders, such as NGOs, also have participated in implementing this program.

In effort to make the stimulant program become more effective for slum dwellers, government needs to integrate all the financial supports provided in national and regional level. The delivery of financial support should consider the characteristic of slum areas. The target group of financial support provided by Ministry of Housing should be extended to poor people who have income rate below Rp 1,400,000/month.

Because that financial support is only focused on technical aspect of housing construction, Ministry of Housing should enhance its coordination with other ministries which provide financial support on social and economic aspect for poor people. Therefore, the stimulant program should be implemented through pilot projects which integrate all the financial supports for the improvement of the well being of slum dwellers. The pilot project needs to be operated based on locations of slum areas identified by local government and involve all the stakeholders (Interviewee: Leopold, Habitat for Humanity Indonesia, 2011).

4.3.2 Slum Upgrading Program

Since 1966, many types of slum upgrading program have been carried out by government of Indonesia. However, only a few regions get serious attention from the government in solving the problem of slum areas. Mostly, the implementation slum upgrading program is initiated by local government.

The well-known slum upgrading implementation in the end of 1960s is MH Thamrin Project in Jakarta and WR Supratman Project in Surabaya (Interviewee: Rizal Isky Rusli, Real Estate of Indonesia, 2011). Both project applied community development through encouraging the community in slum area to contribute to the project. The community provided manpower, land, building materials, and some amount of money they can afford (Dirjen Perkim PU, 2002).

With the funding from World Bank, national government designed Kampung Improvement Program (KIP) to be implemented for 10 years (Dirjen Perkim PU, 2002). The program involved physical and non physical improvement relating to solve the problems of slum areas.

Physical components consisted of road/pathway, drainage system, water supply, waste disposal, public toilet and bathroom facility, public health facility, and school. Non physical components consisted of human resource capacity, living environment, and economic development, education.

From 1992 to 1996, government implemented the program of improvement of urban residential area. This program was intended to improve the quality of urban infrastructure, housing building, and housing utility. The community made proposal to government regarding the identification of their needs. Nonetheless, this program did not cover all parts of urban areas in Indonesia.

Later, from 1998 to 2002, government implemented Comprehensive Kampung Improvement Program which emphasized on stimulating revolving fund from slum area community and establishing community association (Dirjen Perkim PU, 2002). Meanwhile, during 1998-2005, government also implemented Community Based Housing and Initiative Local Development (CoBILD). Furthermore, in 2001, government launched the program of improvement of environment quality which also had aims at stimulating the well-being of slum area community.

However, since 2006, governmental program in national level focusing on upgrading slum areas has decreased. Local governments are expected to be more initiative in designing and implementing slum upgrading program (Interviewee: Eko Heri Purwanto, Ministry of Housing, 2011)). In fact, most local governments still need encouragement from national government. Therefore, in 2010, Ministry of Housing began to develop guidance and stimulants for local governments to cope with the problems of slum area (Interviewee: Didik Sunardi, Ministry of Housing, 2011). Regarding that, Ministry of Housing developed program of area based slum upgrading or so called PLP2K-BK that will be implemented for 10 years. This program highlighted the synergy and coordination between national government, local government, and other stakeholders.

In dealing with slum area problems, integrated and comprehensive approach needs to be applied by government. Slum upgrading should integrate the social, economic, and environmental aspect so called tridaya approach. Slum upgrading implementation should be compatible with urban spatial plan and the potential of urban activities in surrounding slum area (Interviewee: Nia Pontoh, Bandung Institute of Technology, 2011). The welfare increasing of slum dwellers can be pursued through integrating the productivity of slum dwellers and the system of urban activities (Interviewee: Johanes Tulung, Real Estate of Indonesia, 2011).

Through the program PLP2K-BK, government has tried to manage and improve the quality of housing environment in slum areas by looking into wider context or scope of urban areas. The components of the program itself consist of slum upgrading plan, the establishment of community pioneer, the implementation of community action plan, detail engineering design (DED), the delivery of physical stimulant support for housing utility, supervision, monitoring and evaluation (Deputi Bidang Pengembangan Kawasan Menpera, 2011).

Regarding guidelines for the implementation of PLP2K-BK (Deputi Bidang Pengembangan Kawasan Menpera 2011, p.6), there are three major types of technical solution for slum area problems as will be described as follows.

1) Improvement and Restoration

This involves revitalization, rehabilitation, renovation, reconstruction, and preservation. Revitalization entails effort to revive particular urban area and develop the potential in that area. Rehabilitation entails effort to enhance the quality of physical environment which is experiencing degradation. Renovation makes changes for some components that shape the settlement area. Reconstruction returns the housing environment to the formerly better condition by using both old and new components. Preservation maintains the good quality of the existing component and prevents early damage, for example by formulating standards for basic building coefficient, river border.

2) Rejuvenation

Rejuvenation involves effort to dismantle some parts or the whole part of housing environment or settlement area and in the same place where the dismantling is taken, better quality of housing infrastructure and utility is developed in line with regional spatial plan. The goal of rejuvenation is to increase the value of land use and give economic added value to the activities in certain area. Rejuvenation can take form of land consolidation, land re-adjustment, and land sharing.

3) Sustainable Management and Maintenance

This includes efforts to prevent, control, and reduce the negative impact as well as maintain the positive impact from some activities on housing environment.

The application of those types will be adjusted in accordance to the characteristic of slum areas and urban development. In making slum upgrading plan, there are several steps will be taken as described as follows (Deputi Bidang Pengembangan Kawasan Menpera 2011, p.7-9):

- 1) Preparation, consists of the formation of executing team, schedule arrangement, stakeholder identification.

- 2) Data identification and data collection, consist of primary and secondary data collection. The required data and information entail the scope of slum area, environmental carrying capacity, main activities in slum area, problems and opportunities in slum areas in urban context, physical and non physical stimulants, coordination among governmental institution.
- 3) Analysis, includes position and the function of the slum area location in the system of urban spatial plan, characteristic of the location of slum area, demography, characteristic of urban area, potential and problems of slum upgrading, forecasting of the needs of maintenance in the future, strategy for local economic development to enhance the welfare of slum dwellers, strategy for community development, stakeholder mapping, program sustainability, financial potential.
- 4) Macro guidance for community pioneer in doing Community Action Plan (CAP) with slum dwellers based on their aspiration.
- 5) The arrangement of plan documents, include plan for infrastructure, housing utility, community organization, spatial plan of slum upgrading, detail plan of slum upgrading, plan of production area supporting local economic development, detail financial plan, environmental plan, monitoring and evaluation mechanism, coordination mechanism.

Because of national budget limitation, Ministry of Housing has arranged some criteria for location that will get facilitation from central government. Afterward, local governments are expected to identify the prioritized location. The criteria include general criteria, compulsory criteria, and competitive criteria. Those criteria emphasize on congruence with regional spatial plan, the degree of problem complexity, community participation, and commitment of local government indicated by allocation of local budget for the implementation and sustainability of PLP2K-BK program (Deputi Bidang Pengembangan Kawasan Menpera, 2011).

The design of PLP2K-BK program seems adequate to deal with the problems of slum area. However, the success of implementation will depend mostly on synergy between stakeholders and strong commitment of local government. Central government needs to develop fiscal instrument mechanism, such as the use of specific allocation fund to encourage local government to be active in this program. Besides, due to the limitation of financial capacity of government, government should intensely develop partnership with private sector and NGOs. Affordable housing finance mechanism should be considered more in implementing the program, especially for slum dwellers who rent house in slum areas.

4.3.3 Financial Assistance for Social Rehabilitation of Slum Area

Concerning that slum dwellers live in poverty condition, Ministry of Social Affairs has developed financial assistance for social rehabilitation of slum area that also applies community development principles. This financial assistance is not restricted to urban areas. Thus, slum dwellers living in rural areas also can get this assistance.

Financial assistance is given to the slum dwellers that fulfill the criteria arranged by Ministry of Social Affairs. The target group is slum dwellers who have income rate below Rp 600,000/month (Dirjen Pemberdayaan Sosial Mensos, 2008). But, local governments first identify the location of slum dwellers that will get priority for the financial assistance. The amount of the money is up to ten million rupiahs per household (Dirjen Pemberdayaan Sosial Mensos, 2008). It is provided for house renovation and small business development or agriculture activities. As stated in the guidance for implementing empowerment program of poor people, the criteria of substandard housing applied in assessing the beneficiary comprise: 1) damaged house, 2) house made of non permanent building material (such as bamboo); 3) the design of housing could endanger its dwellers; 4) damaged floor; 5) inadequacy of toilet and bathroom facility.

Financial assistance is distributed through community organization in its neighborhood well as micro finance institution. However, mentoring, monitoring, and evaluation still hold crucial role to make sure the financial assistance is not abused by certain parties. Community is expected to be active in managing the funding and doing the house renovation. The process of house renovation mainly involves manpower from the community. Accordingly, that will create job opportunities for the community.

Besides financial assistance, there are also facilitators, who give training and education for slum dwellers in order to raise their awareness of healthy living environment and improve their productivity. Small business groups, with minimum of ten people, are formed so that the member of the groups will be more cautious in using the funding for small business development. There is more reliable control mechanism when the business is developed by group and not by individual.

Unfortunately, this financial assistance program has not been integrated with other governmental program in the framework of solving the problems of slum area. Besides, there should be differentiation of criteria and mechanism of financial assistance between slum dwellers living in urban area and those living in rural area. Although the target group of this financial assistance program is different from other programs, there should be effective and integrated mechanism to accelerate the eradication of slum areas.

4.4 Concluding Remarks

Solving the problems of slum area has got priority in scenario of housing development for 2005-2025. Housing finance has become the fundamental part in achieving target of slum without cities. In the framework of national long-term development plan, housing finance system will be developed to improve the accessibility of low income people to housing credit.

In fact, the existing housing finance policy has considered the affordability and accessibility of low income people to housing mortgage. Through the housing finance regulation regarding mortgage insurance, liquidity facility, secondary mortgage facility, and housing provident fund, government has tried to assist the low income groups to get more access to housing mortgage. Government has developed various schemes of housing finance so that low income groups can provide down payment and the installments that they can afford. However, those schemes have not been effective in coping with slum area reduction.

In formulating mortgage insurance facility, government should make more specific criteria which reflect the characteristic of slum dwellers. For example, target groups are people who live in slum area and work in the informal sector with non-fixed income rate below Rp 1,000,000.

Moreover, government can also develop policy to provide housing credit guarantee in assisting slum dwellers so that they can pay down payment compliant with their affordability. For example, if slum dwellers can only provide down payment as much as 10 % of the house price (LTV = 10 %), whereas bank institution only want to give credit for LTV > 30 %, then government needs to arrange agreement with the bank institution in giving guarantees to cover the gap.

Government needs to consider how to incorporate the accessibility of slum dwellers in the existing liquidity facility mechanism. Liquidity facility mechanism mainly involves bank institution applying prudential principles in doing assessment to give the housing credit to the target groups. Therefore, low income people such as slum dwellers cannot be benefitted from this mechanism.

In designing housing provident fund mechanism, government needs to give particular treatment for slum dwellers. Most of slum dwellers have difficulty in doing saving due to their poverty condition. They might be able to do monthly saving in very small amount of money. They might also need longer time to reach certain amount of saving required by bank institution to get access to housing mortgage while housing price is getting higher every year.

Various types of housing financial subsidies and supports have been provided in dealing with the problems of slum area. Integrated approach and coordination enhancement have been applied in implementing programs regarding slum area problems. Nevertheless, they still needs to be enhanced with focus on the accessibility of slum dwellers to housing financial subsidies and supports to make the implementation of housing finance policy more effective in achieving the target of cities without slums.

CHAPTER 5

HOUSING FINANCE SYSTEM FOR SLUM DWELLERS

In this chapter, I analyze the affordable housing finance for slum dwellers in urban areas in Indonesia. The analysis will be divided into three main parts. The first is general characteristic of slum dwellers, the second is factors influencing the effectiveness of affordable and decent housing provision for slum dwellers, and the last is the accessibility of slum dwellers to housing financial subsidies and supports. Since slum dwellers also have the right to live in decent house in urban areas, government is expected to consider their characteristic in providing more effective affordable housing provision for low income groups. Following the discussion of mechanism of affordable housing finance in **Chapter 2**, this chapter highlights housing finance system which implies on the accessibility of slum dwellers to decent housing. By applying methodology explained in **Chapter 3** and examining housing finance policy elaborated in **Chapter 4**, this chapter responds to the ineffectiveness of housing finance policy in endorsing the accessibility of slum dwellers to housing financial subsidies and supports.

5.1 The Characteristic of Slum Dwellers

Economic capital and activities are concentrated in urban areas. Urban areas have high attraction for people to live and to work. People can easily find everything they need for their well-being in urban areas. Urban areas can offer not only adequate public facilities and job opportunities, but also entertainment that is hardly to find in rural areas.

Most people who migrate from rural areas to urban areas have expectation to increase their welfare and get benefit from good things offered in urban areas. But, unfortunately, job opportunities in urban areas mostly require high education level and skill that most migrants from rural areas cannot fulfill. Most public facilities and entertainment available in urban areas turn out can be afforded only by people who have certain level of income. However, migrants who are hard to find the job which can give them sufficient income to live do not easily give up and they keep struggling to live in urban areas.

They choose to survive in urban areas by taking any effort they can because sense of pride they have and the way of thinking that living in urban areas is still better than living in rural areas. Before moving to the city, they have strong eagerness to success in living in urban areas in order to make their family in the village become proud of them and to help their

family financially by hoping that they can get satisfactory income to share to their family. Besides, they think that they can make use of some facilities in urban areas which are not available in their village.

When they cannot get formal job, by using money they bring from their village or they borrow from some friends or family, they start small business or they become worker in the informal sector (consumer-oriented tertiary sector), such as street vendor, handyman, craftsman, pedicab driver, etc. Their job does not need high productivity and skill. By doing that job, they can earn income to survive in urban areas or even to share it with their family in the village.

Besides the need of job, they certainly need dwelling places in the city. However, because they cannot afford decent formal house in urban areas, they rent house with cheap price or build self-help housing step by step without considering standards of decent housing related to its design, building materials, utility, and location. Reflecting on Bianpoen (2011, p.178), migrant people commonly live with the style of rural life, therefore, they practice housing without feeling the need of standard of urban hygienic and sanitation requirements. Eventually, that generates the existence of slum areas.

Slum areas are characterized by high density of housing, high density people, inadequate public facility and utility, high social insecurity, people with heterogeneous background, low education, and non fixed income. Slum dwellers usually have low awareness on their living environment. They do not have secure tenure and safe dwelling. Their housing size is typically quite small but it is occupied by inappropriate number of people. They do not really care whether their housing is decent or not because what they most need is to have shelter which is near their workplace. Because of their economic characteristic, they cannot afford either house close to their workplace or transportation cost for long distance between such workplace and dwelling place. Consequently, they are forced to occupy uninhabited lands which are located in central, peripheral, or central peripheral where most informal job opportunities are available.

Furthermore, slum dwellers in urban areas are not only migrants but also native residents who have stayed in the location of slum areas since few decades ago. Their housing location is mainly in the old downtown or mixed and dense residential area. They get land or house as inheritance from their parents or ancestors. However, because of poverty condition or economic characteristic, they do not have enough money to renovate their house or maintain the quality of their housing utility or surrounding living environment.

In fact, slum dwellers that live in rental house have willingness to own decent house. But, they do not have adequate awareness and knowledge capacity in taking care of their living environment. Besides, they do not have sufficient income and access to get mortgage for decent housing. Therefore, with regard to their low ability to pay down payment for housing mortgage which indicates their LTV ratio is below 10 %, they need housing credit guarantee or mortgage insurance facilitated by other parties, such as government or developer or NGOs. Concerning that they have low and non-fixed daily income which indicates their ability to pay the mortgage is below 30 % from their total income per month, they need special mechanism of mortgage payment that allow them to pay the installments daily in relation to their ability.

Government needs to bridge the gap problem between the affordability of slum dwellers and the access of slum dwellers to formal housing finance. The affordability characteristic on housing mortgage should be considered in designing housing finance policy so that housing financial subsidies and supports provided by government can be effectively used by slum dwellers. Government can also facilitate some of slum dwellers to live in decent and affordable rental housing, for example through the provision of rental low cost apartment (rental flats) complemented with subsidies. However, the factors influencing the effectiveness of affordable and decent housing provision for slum dwellers should be taken into account. For example, slum dwellers do not want to move to flats, or they only live there for a while and then they move back to slum areas because their habit or culture does not fit with the design of the flats.

5.2 Effectiveness of Affordable and Decent Housing Provision for Slum Dwellers

The problems of slum area in Indonesia are strong related to poverty issue. But, there are also other factors that influence the effectiveness of government's solution to tackle slum area problems. While government has provided affordable and decent housing intended for slum dwellers, the provided housing turns out is not occupied by the slum dwellers. The unintended target groups dwell the house and that phenomena obviously slow down the effort of government to eradicate slum areas.

Private sectors, such as developers that have got involved in some projects of affordable and decent housing provision for slum dwellers stated that the factor of culture or local context has the most influence on the effectiveness of those projects. For example, when government tried to relocate the slum dwellers living in the river border in Dayeuhkolot in Bandung, the slum dwellers did not want to be relocated even their dwelling places are vulnerable to flood. One of the reasons is because they have emotional attachment to the location of their dwelling places. Another example, when government wanted to relocate the slum dwellers in Jamika in

Bandung, in the beginning the slum dwellers wanted to be relocated but then they changed their mind because they had stayed in that location for such a long time that they could not leave the place where they grew up and felt convenient.

Another argument from private sector is that the design of the housing provision for slum dwellers influences the endurance of slum dwellers to live in decent housing provided by government. Generally, government builds five storey flats which are located far from the workplace of the slum dwellers. The location of flats is mostly selected by considering the capacity of government's budget. Therefore, the location is not strategic location for people who work in tertiary sector regarding the land price is relative cheap.

In many cases, the relocated slum dwellers cannot endure to stay in housing provided by government. They transfer the housing to other parties who are not the target group of the housing provision project and then they return to slum areas. They also have difficulties to adjust to live in five storey flats concerning their habits in living in landed house. For example, they need common space which is not provided in the flats to have social interaction among neighbors.

According to the perspective of academic scholars, political aspect also influences the effectiveness in providing affordable and decent housing for slum dwellers. Political leaders usually only think about how to reach their main goals during their reign so that the commitment in solving the problem of slum areas is not long-term oriented. Meanwhile, in coping with slum area problems, long-term political commitment to implement integrated and continuous solution is essentially required. Besides, horizontal and vertical coordination within government bodies need to be enhanced. Sectoral egocentricity and conflict of interest needs to be eliminated. Sometimes, particular government institution does not want to support the solution of slum area problems executed by other government institution because they only want to pursue their own target.

For example, the project of Marunda Flats in Jakarta intended for slum dwellers has been accomplished in 2007, but until now the flats still have low occupancy rate. The flats consist of 38 blocks, which nine of them were built by using local budget. Most of the units are vacant or not occupied by the target group. There is lack of coordination between local government and central government. The slum dwellers are difficult to be relocated to the flats because the location is not strategic for their living. Until now, local government has not tried to stimulate the economic activities and accessible transportation in surrounding area of the flats. Local government considered that central government first should transfer the status of the asset to local government because the cost of the project took large portion from national budget rather than local budget.

The process of relocation and the requirements of government in selecting people who deserve to live in housing provided by government sometimes encumber the slum dwellers. As a result, slum dwellers are reluctant to move from slum area. For example, slum dwellers are required to have local residential identity card in the process of relocation. But, most of the slum dwellers who are migrants cannot meet the requirement because they do not have enough time and money to administer it.

Furthermore, academic scholars and private sector also perceive that lack of regulation enforcement and inadequate control mechanism affect the effectiveness of the housing provision for slum dwellers. The tendency of slum dwellers to return to slum area needs to be anticipated. Government needs to control the misbehavior of the slum dwellers. For example, government identifies and records the list of relocated slum dwellers. Afterward, warning and sanction are designed and informed to the relocated slum dwellers. The slum dwellers need to sign agreement regarding prohibition of transferring the right to live in the house to other parties without permission from government. In addition, government needs to carry out regular control to check if the occupants are the intended target group or not.

NGOs also perceive the needs of monitoring after the project implementation. According to their perspective, government needs to arrange budget allocation to maintain the quality of the building and environment to prevent the emergence of new slum area in the location of housing provision. Since the slum dwellers have low consciousness on their living environment, they need to be trained and educated in preserving clean and health housing environment. They also need to be facilitated in improving their productivity and skill which ultimately will have implication on the increasing of their welfare.

NGOs note that participation of slum dwellers are needed in the whole process of affordable and decent housing provision, including in the process of project design and monitoring. NGOs also perceive that the context of culture should be considered. That is intended to create sense of belonging of slum dwellers to the project and encourage them to have awareness of living environment and actively participate in taking care of the settlement environment.

Moreover, NGOs point out that affordable housing provision for slum dwellers, like flats, should also be followed by affordable public facility provision, such as education facility, health facility, public space, playing ground, market, and place of worship. The public facility provision needs to accommodate their aspiration and culture. For example, public space for community meeting or open roof that can be used for their necessity in making handy crafts or food supply requiring sunlight.

Based on the experience of NGOs like Tzu Chi organization, the education for the children is essential. When the children are educated about taking care of environment and saving money, they become understand better and aware about environment and the importance of using pocket money sparingly. Subsequently, they will become the agent of change at their home. They will share their knowledge obtained from the school with their parents. They will influence the behavior of their parents towards better way. The mindset of the children also changes, for example the children have dream and strong eagerness to get higher education and better job than their parents have at present. Accordingly, in the long run, they can live independently from their parents in decent house and have better well-being than their parents. The education will also affect the way of thinking and habits of the parents through intense communication or meeting between the teachers and the parents.

NGOs also argue that government needs to implement pilot project in some areas in Indonesia which integrates all the aspects that influence the effectiveness of affordable and decent housing provision for slum dwellers. The execution of the pilot project can involve various stakeholders. For example, government enhances cooperation with NGOs in doing the training and education for the slum dwellers as well as in carrying out monitoring. The project should also look into wider context of urban development. That means the project should be integrated with the system of activities and infrastructure in surrounding area of the project.

Similar to the perspectives of NGOs, policy makers also realize the needs of continuous effort from government to facilitate the enhancement of the well-being of the relocated slum dwellers. Housing provision for slum dwellers should consider the proximity between job opportunities and dwellings. To control the housing price to be affordable by slum dwellers, government needs to provide incentives for private sector, such as tax deductible for private sector that involve in housing project for slum dwellers. Local governments can also provide their asset of land for housing provision for slum dwellers.

Overall, commitment from government has become the starting point to attain effectiveness in housing provision for slum dwellers. Afterward, the other factors that influence the effectiveness, such as housing design and cultural or local context, can be considered further in executing the housing project for slum dwellers. Local government needs to be encouraged by central government to allocate local budget and engage the other stakeholders in implementing more effective pilot project. The pilot project should also incorporate the accessibility of slum dwellers to housing financial subsidies and supports.

5.3 Accessibility of Slum Dwellers to Housing Financial Subsidies and Supports

Accessibility of slum dwellers to decent housing is mostly influenced by their social and economic characteristic. To enhance their accessibility, the design of housing financial subsidies and supports should be integrated with the project of affordable housing provision for slum dwellers by considering the characteristic of slum dwellers. Various programs and initiatives designed to assist slum dwellers live in decent housing should be integrated through coordination and partnership among stakeholders engaging in housing and urban development sector. As a result, housing financial subsidies and supports can be accessed effectively by slum dwellers and they can live in decent house.

With regard to the problem structuring in to what extent housing finance policy has endorsed the accessibility of slum dwellers to housing financial subsidies and supports, it is important to identify the perspectives from related stakeholders. Under boundary analysis, by considering the scope of the problem and the role significance of the stakeholders, there are five categories of stakeholders that can be distinguished. Those categories of stakeholders are described as follows.

1. Policy Maker

Policy maker formulates the housing finance policy, including housing financial subsidies and supports for low income groups. Nevertheless, the policy implementation is not only intended for slum dwellers in urban areas.

2. Non Government Organization (NGO)

Non government organization which has been participated actively in housing sector usually concerns with the problem of slum area. Various projects have been carried out to help the slum dwellers to get access to decent housing. However, generally they are not integrated yet with projects designed by government. Indeed, government should learn from experience of NGO which is mostly successful in dealing with limited accessibility of slum dwellers to decent housing.

3. Academic Scholar

Academic scholar who has been active in doing research in housing field contribute to development of theory that can be applied in designing and implementing more effective housing finance policy in order to deal with the problem of slum area.

4. Slum Dweller

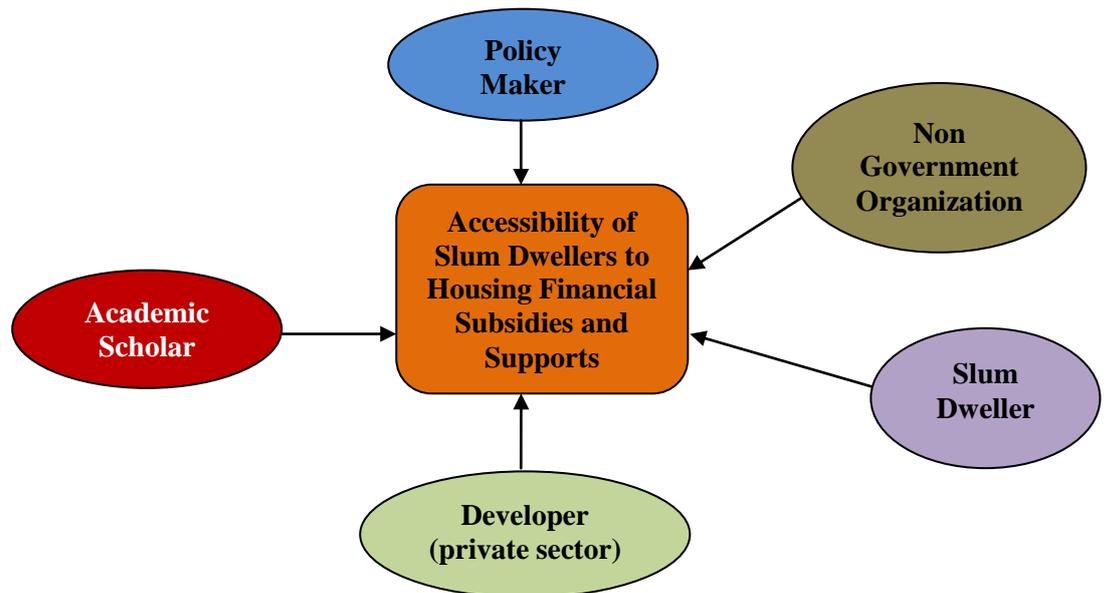
Slum dweller will be the potential beneficiary of the programs related to slum area. Slum dweller should also be the main target group of housing financial subsidies and supports regarding their low affordability on decent housing in urban areas.

5. Developer (Private Sector)

Some developers have been actively participated in affordable housing project initiated by government. They have many experiences in managing how to build cost effective housing. Besides, they will also get advantage if government can solve the problem of slum areas because some location of slum areas can be found adjacent to housing project for high to middle low income groups.

The stakeholder mapping can be depicted as shown in **Figure 5.1**.

Figure 5. 1 Stakeholder Mapping



From the perspectives of policy maker, the existing design of housing financial subsidies and supports has not been based on area characteristic of the potential beneficiary. Therefore, many of slum dwellers that do not know about housing financial subsidies and supports cannot get benefit from them. National government has not formulated the housing finance policy that can link informal to formal housing financial institution. While slum dwellers need facilitation from other parties to get access to housing mortgage, most informal housing financial institutions do not have adequate financial capacity in assisting them. Because slum dwellers need close access from their house to workplace, government should choose strategic location for affordable housing project to improve the livelihood of the slum dwellers.

Furthermore, policy in providing mortgage insurance facility and housing credit guarantee to enhance the access of slum dwellers to housing mortgage needs to be formulated and implemented by considering the economic characteristic of slum dwellers. Through that policy formulation, slum dwellers can provide down payment that they can afford. However,

regarding their daily income characteristic, government needs to consider the feasibility of paying the installments daily.

From the perspectives of NGO, target group for some types of housing financial subsidies and support which is mostly determined by range of income rate needs to be redefined by considering the affordability index of slum dwellers as well as the number of slum dwellers compared to the total of low income households. In addition, aspect of community empowerment needs to be incorporated in delivering housing financial subsidies and support for the slum dwellers. That is intended to make those government's supports more effective in improving the well-being of the slum dwellers. Community empowerment should be applied in the whole process of housing support provision for slum dwellers.

From the perspectives of academic scholar, housing finance policy should not have orientation in housing ownership sector. With regard to the difficulty in providing affordable housing for slum dwellers in strategic location, government needs to facilitate people who build self-help housing to be rented. Government's support can be given through housing construction assistance for private rental housing owners while government makes agreement with them so that they charge the relocated slum dwellers with rental price below market rate. Through facilitation in land certificate making, government also implicitly help the slum dwellers to get access to credit for housing renovation due to the availability of certificate as collateral. Government also can facilitate the provision of temporary rental housing for slum dwellers with the concept that they can stay there during certain period (for example five years) before they are able to get housing mortgage.

From the perspectives of the slum dwellers, most of them do not know about government's housing financial subsidies and supports for poor people. They expect government to socialize them through electronic media (television) or ward community (neighborhood association). In fact, they have willingness to save their income for housing credit. But, they do not feel secure about getting housing loan from housing cooperatives or microfinance institution because they are afraid of not being able to pay the housing loan. They prefer that government designs particular mechanism for them to save money in order to get access to housing credit. In their view, housing financial subsidies and supports which are suitable for them is housing renovation supports and facilitation to get housing credit.

For slum dwellers, the process of renovation can be carried out collectively by slum area community. Some of them are willing to move to another location to live in affordable and decent housing provided by government if only government relocate them to the location which is strategic for doing economic activities to earn income. In the future, they hope that government gives more financial supports for housing renovation to create more decent

dwelling for them and improve the socialization about the mechanism to get the financial supports.

From the perspectives of developer, government support in providing land asset (land banking), basic infrastructure, simplicity in land acquisition and building permission process, tax and administrative cost reduction is essential to fulfill the needs of slum dwellers on affordable housing. Housing design should accommodate the needs of slum dwellers to do household business to earn income. In addition, government needs to review the standard of minimum housing size of 36 m² because it will imply on the housing cost which slum dwellers are difficult to afford. Developer also has the same perspective with policy maker that slum dwellers need facility of housing credit guarantee.

Following the guidelines in doing cognitive mapping analysis as explained in the **chapter 3**, the first step is to paraphrase the perspectives of stakeholder that have been investigated through interview. Accordingly, perspectives of stakeholders can be distinguished into two contrasting views which are effective and ineffective housing finance policy in endorsing the accessibility of slum dwellers to housing financial subsidies and supports. By understanding those views, the next step to elaborate and plot the views of stakeholders into cognitive mapping could be taken. Those contrasting views can be shown below.

Figure 5.2 Contrasting Views on Housing Finance Policy

Effective Policy	Ineffective Policy
<ul style="list-style-type: none"> - Government support in providing land asset, basic infrastructure, simplicity in land acquisition and building permission process, tax and administrative cost reduction gives benefit to slum dwellers - Financial support in housing renovation is suitable for slum dwellers - Facilitation to get housing loan through microfinance institution or particular mechanism in saving money intended to get access to housing credit can benefit slum dwellers 	<ul style="list-style-type: none"> - Housing finance policy has not considered the area characteristic of housing location of the target group - Housing finance policy has not linked informal to formal housing financial institution - Housing financial subsidies and supports have not considered the access of slum dwellers to improve their income - Housing finance policy should redefine affordability index of the target group - Housing finance policy should also consider rental housing sector - The need of better policy formulation for mortgage insurance facility and housing credit guarantee

In relation to those views, the existing housing finance policy has endorsed the accessibility of slum dwellers to housing financial subsidies and supports provided by national government. However, the effectiveness of existing housing finance policy needs to be improved. The improvement of the housing finance policy should consider the characteristic of slum area as well as social and economic characteristic of slum dwellers. Moreover, slum dwellers need to be facilitated in improving their well-being. That can be reached through applying community empowerment in implementing housing finance policy.

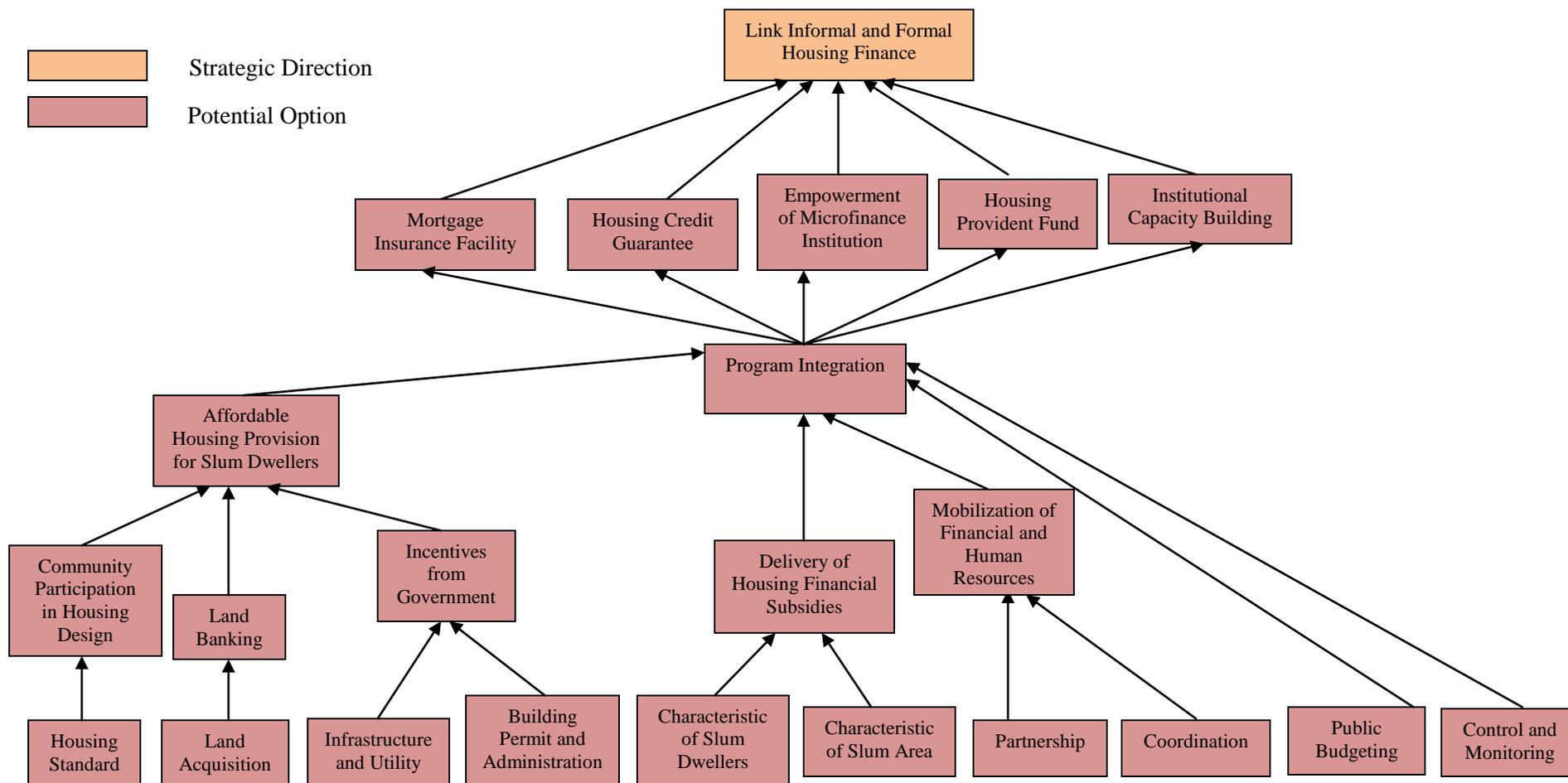
Some perspectives of one stakeholder are intersected or conflicted with of other stakeholder. Through analysing the perspectives of the stakeholders, the orientation to action (strategic directions) could be classified into 2 (two) ways, which are 1) to link informal to formal housing finance (shown by **Figure 5.3**); and 2) to empower slum dwellers (shown by **Figure 5.4**). Inherently, the perspectives of all stakeholders underlie both strategic directions. Subsequently, maps concerning the contrasting views and reflecting various perspectives from identified stakeholders could be made based on first and second strategic direction.

The cognitive map regarding first strategic direction can be shown in **Figure 5.3**. The figure shows that in linking informal and formal housing finance, several potential options need to be considered. The main options are mortgage insurance facility, housing credit guarantee, empowerment of microfinance institution, housing provident fund, and institutional capacity building.

Mortgage insurance facility and housing credit guarantee will allow the slum dwellers to get housing mortgage even they cannot fulfill the requirement of minimum down payment which is 20-30 % from housing price. Mortgage insurance facility will spread the risk of mortgage default with the insurance company. However, the slum dwellers need to pay the insurance premiums for certain period or government can provide subsidy for them in paying the insurance premium. Meanwhile, housing credit guarantee is borne entirely by the third parties (such as government) in case of default by slum dweller.

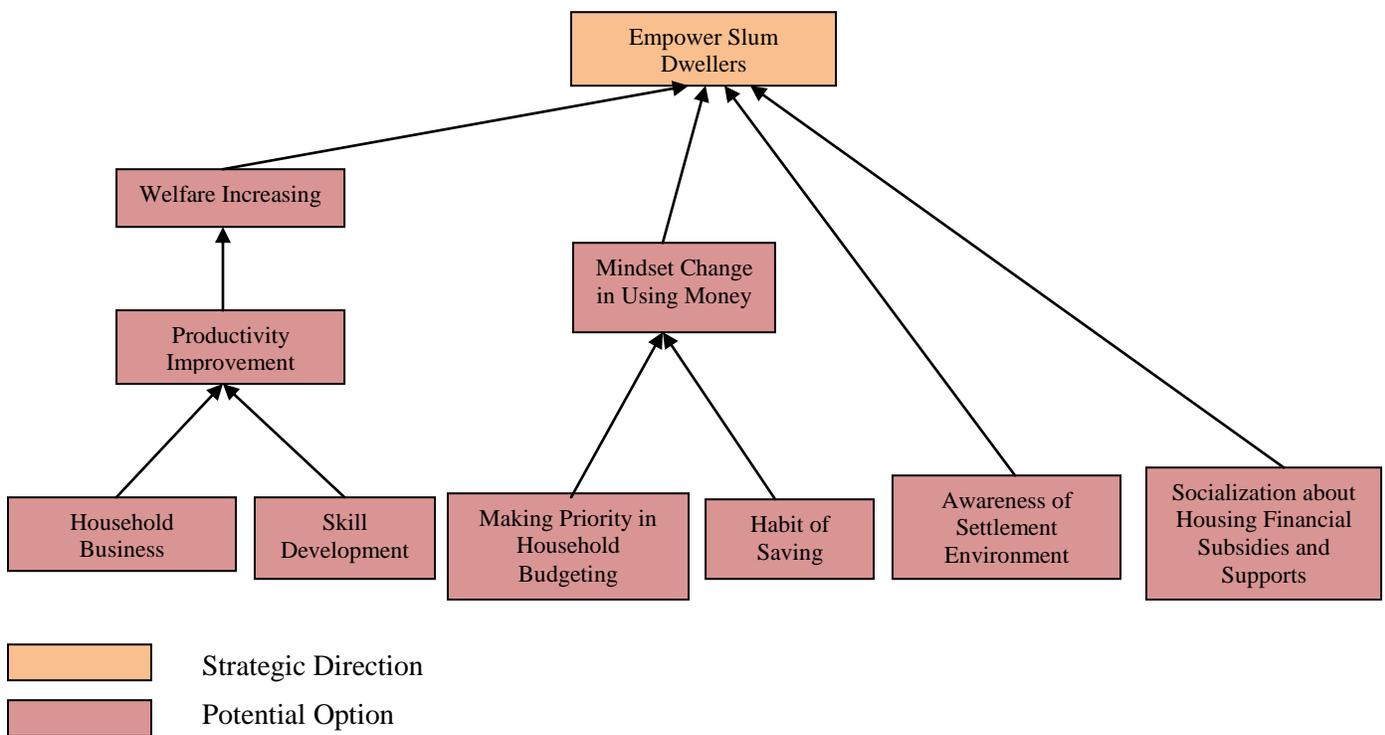
Empowerment of microfinance institution can be done through capital injection from government to strengthen the financial capacity of the microfinance institution. Government can also provide training for microfinance institution in applying prudential system in managing housing finance for slum dwellers. Housing provident fund for slum dwellers can be offered through mobilization of financial and human resources. It should be designed according to the characteristic of slum dwellers in saving money. For example, because they have daily income, it is easier for them to save money on a daily basis. Institutional capacity building can be realized through program integration that involves all stakeholders.

Figure 5.3 Cognitive Map Regarding First Strategic Direction



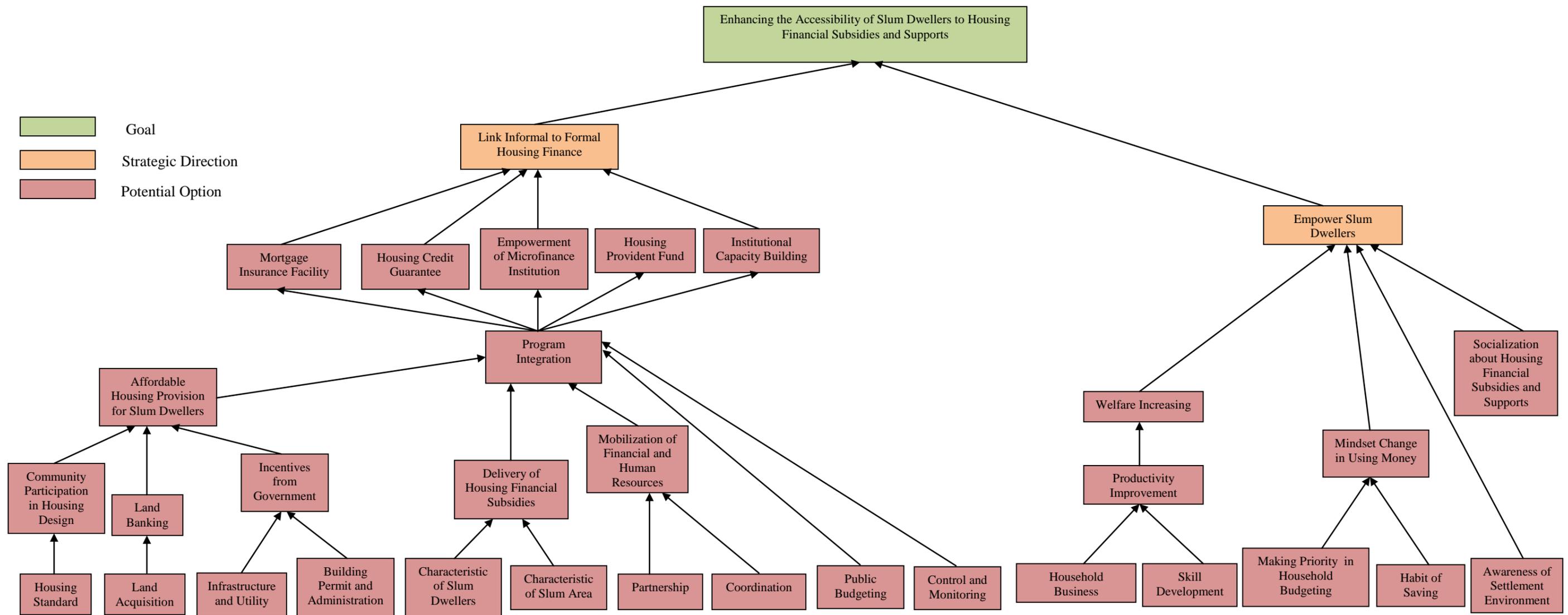
The cognitive map regarding second strategic direction can be shown in **Figure 5. 4**. The figure shows that in empowering slum dwellers, several potential options need to be taken into account to support the effectiveness and sustainability of housing finance focused for slum dwellers. The main options are welfare increasing, mindset change in using money, awareness of settlement environment, and socialization about housing financial subsidies and supports. Welfare increasing can be achieved through productivity improvement in doing household business and skill development. Mindset of slum dwellers in using money should be changed, especially in making priority in household budgeting and developing habit of saving.

Figure 5.4 Cognitive Map Regarding Second Strategic Direction



By merging both maps which reflect first and second strategic direction shown in **Figure 5.3 and 5.4**, the whole outcome of cognitive mapping in structuring the problem of housing finance policy regarding accessibility of slum dwellers to housing financial subsidies and supports can be shown below (**Figure 5.5**). The cognitive mapping result shows that the goal of enhancing the accessibility of slum dwellers is not only the matter of housing finance but also the matter of the empowerment of slum dwellers. That means affordable housing finance mechanism for slum dwellers should incorporate social characteristic of slum dwellers.

Figure 5.5 The Outcome of Cognitive Mapping



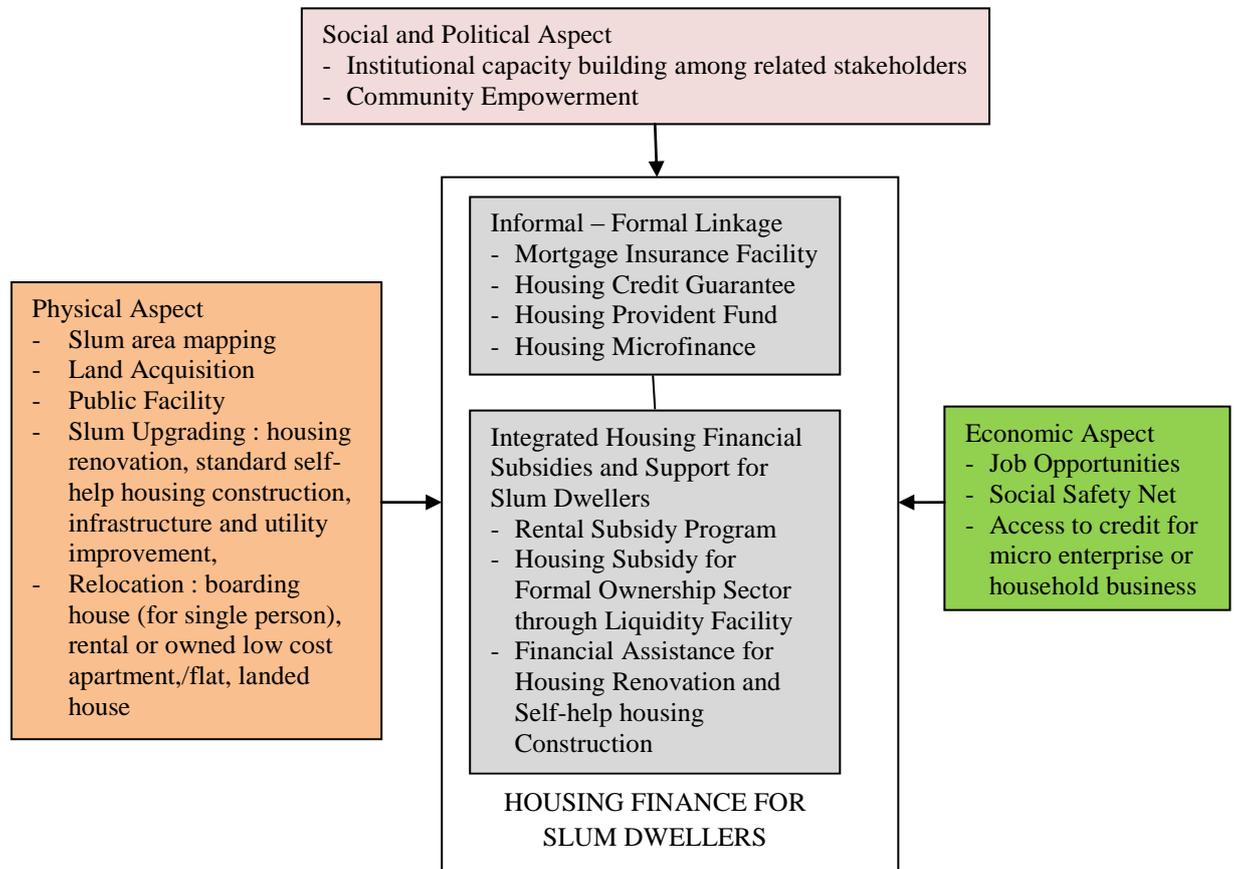
5.4 Concluding Remarks

With regard to the characteristic of slum dwellers, the delivery of housing financial subsidies and supports should distinguish between slum dwellers that own land and build self-help housing and slum dwellers that rent the house which is self-help built by other parties. Technical and financial assistance for housing renovation is more suitable for the first category of slum dwellers. Rental subsidy program that has been developed in Netherlands then can be applied for the second category of slum dwellers. Moreover, government needs to facilitate the slum dwellers to get access to housing mortgage.

Affordable housing provision for slum dwellers will be more effective if government can create program integration in dealing with the problems of slum area. Besides, delivery of housing financial subsidies incorporated in affordable housing project needs to focus on slum area. Housing financial subsidies which are recently delivered through the mechanism of liquidity facility can be accessed effectively by slum dwellers if government has formulated appropriate policy in linking informal and formal housing finance.

Housing finance system for slum dwellers needs to be endorsed by integration of social and political, physical, and economic aspect. That can be depicted by **Figure 5.6**.

Figure 5.6 Housing Finance System for Slum Dwellers



Social and political aspect includes institutional capacity building among related stakeholders and community empowerment. Control and monitoring is embedded in the process of institutional capacity building. Economic aspect is mainly related to the access of slum dwellers to increase their economic welfare. It may include job opportunities, social safety net, and access to credit for micro enterprise or household business. Physical aspect is mainly related to the physical project of housing provision of slum dwellers. It may include slum area mapping, land acquisition, public facility provision, slum upgrading project or housing relocation project.

Informal and formal linkage can be applied through developing the proper formulation of mortgage insurance facility, housing credit guarantee, housing provident fund, and housing microfinance. Additionally, integrated housing financial subsidies and support should be incorporated in the linkage. Housing financial subsidies and support can be provided through rental subsidy program, housing subsidy for formal ownership sector through liquidity facility mechanism, and financial assistance for housing renovation and self-help housing construction.

Nonetheless, some questions still arise regarding research findings explained in this chapter. What is the implication of those findings on theoretical issue of affordable housing mechanism? What recommendation can be given for policy makers? What should be developed in future research? The answers of those questions will be given in the next chapter.

CHAPTER 6

CONCLUSION AND RECOMMENDATION

The previous chapters have provided insight on affordable housing finance for slum dwellers in urban areas. While **chapter 5** has focused on answering research questions related to the characteristic of slum dwellers, effectiveness of affordable housing provision for slum dwellers, and the accessibility of slum dwellers to housing financial subsidies and supports, this chapter will conclude comprehensively the answers of all the research questions. It also provides recommendation for theory and practice.

6.1 Conclusion

The objective of this research is to give recommendation for the improvement of housing finance policy in order to enhance the access of slum dwellers to housing financial subsidies and supports. To achieve this objective, five research questions have been formulated. By applying qualitative approach in doing data collection and data analysis, the answers of those research questions have been obtained. The following paragraphs of this section will explain the research findings based on research questions.

The characteristic of slum dwellers in urban areas in Indonesia

Poverty and urbanization have many things to do with the existence of slum dwellers in urban areas in Indonesia. The slum dwellers live in substandard housing which mostly is located in the dangerous location, does not have adequate utility or infrastructure, but close to the center of economic activities. They work in the informal sector which does not require high skill and education to be able to survive in urban areas. Because of the characteristic of their income which is low, non-fixed, and daily income, they have limited access to formal housing mortgage. Generally, there are two categories of slum dwellers which are 1) people who own the land (mostly they are native residents), but usually they do not have clear land certificate, 2) people who rent the self-help housing (mostly they are migrants).

The concept of housing finance in providing affordable housing for the slum dwellers

With reference to the theoretical concept, the problem of housing affordability has affected the well being of slum dwellers. Affordable housing provision for slum dwellers should be placed in the context of power and justice in urban planning. Consequently, government should intervene in enhancing the accessibility of slum dwellers to affordable and decent housing. Housing microfinance has been developed as alternative to assist the slum dwellers

in getting access to housing finance for renovation or self-help housing. Government also can provide various housing financial subsidies and supports that can be benefitted by the slum dwellers. Housing financial subsidies and support can be provided through 1) housing allowances or subsidies, 2) incentives through provision of land, basic infrastructure, and services, 3) financial and technical assistance in slum upgrading, and 4) social housing provision. Each of those financial subsidies and supports has strengths and weaknesses. Therefore, the design of housing financial subsidies and support should be adjusted with political aspect, the capacity of government's budget for housing sector, and social and economic characteristic of slum dwellers. In Netherlands, affordable housing for low income groups is mostly provided through social housing sector. Rental subsidy program has become the major tool in assisting low income groups to live in decent house. The experience of Netherlands can be applied in the case of Indonesia; however Indonesia has different degree of complexity in housing problems. Accordingly, what can be learned from Netherlands is not sufficient to cope with the problem of accessibility of slum dwellers to decent housing.

The effectiveness of affordable and housing provision for slum dwellers

The effectiveness of affordable and decent housing provision for slum dwellers is influenced by several factors. Those factors are culture or local context, the location of housing provision project, political and institutional aspect. Aspiration of slum dwellers should be accommodated in housing provision project. Community empowerment should be applied in the whole process of housing provision for slum dwellers. Reliable and accountable control and monitoring mechanism is required in sustaining the effectiveness of housing provision for slum dwellers.

To what extent the existing policy of housing finance has endorsed the accessibility of slum dwellers to housing financial subsidies and supports

Government has formulated housing finance regulation and provided housing financial subsidies and supports for low income groups in the framework of scenario of housing development for 2005-2025, including in effort to shape city without slums. Nevertheless, regulation regarding mortgage insurance should be modified to be focused on slum dwellers because of limited budget of national government. Mechanism of liquidity facility should be able to link to slum dwellers. SMF and housing provident fund needs to be established well in institutional setting to reach the slum dwellers. Moreover, the effectiveness of housing financial subsidies and support provided through stimulants for self-help housing development, slum upgrading program, and financial assistance for social rehabilitation of slum area in helping slum dwellers to get more access to decent housing should be enhanced.

Government intrinsically has provided technical and financial assistance for housing renovation and self-help housing construction that can be benefitted by slum dwellers. However, linking informal and formal housing finance as well as empowering slum dwellers is required to enhance their accessibility to housing financial subsidies and support in effort to accelerate the eradication of slum areas.

The improvement of housing finance policy

The improvement of housing finance policy can be achieved through applying linkage program in housing finance system. Linkage program can be designed through developing mortgage insurance facility, housing credit guarantee, housing provident fund, and housing microfinance. Moreover, linkage program should be integrated with housing financial subsidies and supports for slum dwellers. Integration of social and political, physical, and economic aspect needs to be considered in developing the mechanism of informal-formal linkage program.

6.2 Recommendation

In this section, I provide ways forward related to this research topic by considering conclusion described previously. I will discuss the implication of this research on theory. I will also offer practical recommendation for improving housing finance policy in Indonesia. In the end, I will give suggestion for further research related to this topic by taking into consideration the weakness and scope limitation in this research.

Research Implication on Theory

Reflecting on the theoretical concept on housing affordability, social vulnerability and economic characteristic of slum dwellers have been the major factor that influences affordability and accessibility of slum dwellers to decent housing. The failure of government to consider justice in urban planning has made poor people have limited access to decent housing. Consequently, poor people are forced to live in slum areas. They do not have enough capital or resources to be able to live in formal decent housing supplied through urban land use planning which leads to capital accumulation.

Government tends to direct urban planning towards the entrepreneurial interest that triggers the rapid increasing of housing price in strategic location where job opportunities are concentrated. Meanwhile, poor people cannot afford housing close to the availability of job opportunities for them as well as transportation cost derived from far distance from the location of provided affordable housing to workplace. However, considering right to the city,

although poor people who live in slum areas have minimum capital, they also deserve to get fair share in urban space especially for decent shelter.

Regarding that, government needs to provide housing assistance and social safety net to enhance the affordability and accessibility of slum dwellers to decent housing. However, as finding of the research has confirmed the theory, to achieve the effectiveness of government's support, productivity improvement and the increasing of well-being of slum dwellers need to be incorporated in affordable housing provision for slum dwellers.

Housing finance usually does not look into area context. Therefore, the design of housing finance policy is mostly based on economic calculation, such as housing affordability index or income rate. Meanwhile, in assisting slum dwellers to get more access to decent housing, various aspects need to be considered in formulating housing finance policy. This research has come up with the result that housing finance system for slum dwellers should incorporate the integration among social and political, physical, and economic aspect. Finding in this research is in line with the theoretical concept that developing institutional capacity and housing finance system has become fundamental part in improving accessibility of low income groups in urban areas to affordable housing. Hence, this research has implication on the theory related to housing finance mechanism for slum dwellers.

Research Implication on Policy

Regarding the context of Indonesia, this research has offered insight for planner and policy maker on how to enhance the effectiveness of affordable housing provision for slum dwellers and to improve access of slum dwellers to housing financial subsidies and supports. In order to enhance housing finance policy, criteria for target groups of housing financial subsidies and supports needs to be redefined and specified more clearly. Control and monitoring should be embedded in the implementation of housing finance policy. Some regulations, for example mortgage insurance, liquidity facility, stimulants for self-help housing development, should be modified by prioritizing the urgency of slum dwellers to live in decent house in urban areas.

Policy maker needs to formulate national housing finance policy that facilitates the linkage between informal and formal financial institution in housing finance system. Program integration and institutional capacity building among related stakeholders is essential to be applied in implementing housing finance policy that can give more access for slum dwellers to live in decent housing sustainably.

First, government should develop partnership with NGOs, developers, and financial institution in designing and implementing linkage program to enhance the access of slum

dwellers to housing mortgage. Subsequently, local government should be encouraged by national government to apply the linkage program. In addition, government also needs to formulate special mechanism for slum dwellers in paying down payment and installments for housing mortgage. The mechanism certainly needs to consider the regional context as well as social and economic characteristic of slum dwellers.

Suggestion for Further Research

This research, however, has weakness and scope limitation that need to be handled in further research related to this topic. Time and resource limitation in doing fieldwork for gathering data and information has contributed to the weakness of this research. Regarding that, sample survey to explore the detail characteristic of slum dwellers, especially about their ability to pay the down payment and installments for housing mortgage is impossible to do. Nevertheless, interview with several number of slum dwellers has been carried out to identify the characteristic of slum dwellers and their perspectives on housing financial subsidies and supports. Besides, in relation to research methodology, individual bias (subjectivity) sometimes cannot be avoided during data collection and data analysis. However, this research has tried to manage that limitation by doing cross-checking between collected primary and secondary data and information.

The scope limitation in this research also has implication on the need to do further research related to the topic of housing finance for slum dwellers. Because the scope of the research is national level, regional characteristic which is different from one area to another area has not been examined in this research. Besides, this research is not focused on single housing finance policy. Therefore, further research can be focused on evaluating particular policy. Suggestion that can be offered for further research include the application of linkage program in particular area in Indonesia to cope with slum area problems, evaluation on liquidity facility mechanism to reach slum dwellers, redefinition of target group of particular housing financial subsidies and supports, institutional capacity building in housing provident fund for slum dwellers, etc.

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 Regulation of Ministry of Housing No.15/Permen/M/2010 on Implementation Guidelines for Affordable Housing Provision with Liquidity Facility Support for Housing Mortgage

APPENDIX I

DETAIL SCHEDULE OF THE FIELDWORK

Target	Planned Schedule	Adjusted Schedule
Secondary Data Collection : - Office of Central Bureau of Statistic - Office of Ministry of Housing - Office of Ministry of Social Affairs - Office of Coordinating Ministry for People's Welfare	09 May - 14 May	09 May – 19 May
- Interview with Academic Scholars from ITB - Interview with Academic Scholars from UI - Interview with representatives from Habitat for Humanity Indonesia	16 May – 20 May	- Interview with Academic Scholars from ITB (26 May) - Interview with Academic Scholars from UI (31 May) - Interview with representatives from Habitat for Humanity Indonesia (27 May)
- Interview with representatives from Buddha Tzu Chi - Interview with representatives from APERSI - Interview with representatives from REI	23 May – 27 May	- Interview with representatives from Buddha Tzu Chi (25 May) - Interview with representatives from APERSI (27 May) - Interview with representatives from REI (23 May and 25 May)
- Interview with policy makers in Ministry of Housing - Data Compilation and Analysis	30 May – 5 June	- Interview with policy makers in Ministry of Housing (20 May) - Data Compilation and Analysis (29 May – 4 June) - Interview and Observation to Slum Dwellers (2 June)

APPENDIX II

LIST OF IN DEPTH INTERVIEWEES

Name of Institution	No.	Proposed Interviewee	Adjusted Interviewee
Ministry of Housing	1.	Eddy Pujianto	Eddy Pujianto
	2.	Budiono Subambang	Didik Sunardi
	3.		Eko Heri Poerwanto
Bandung Institute of Technology/ITB (Academic Scholar)	1.	Nia Pontoh	Nia Pontoh
University of Indonesia/UI (Academic Scholar)	1.	Antoni Sihombing	Azrar Hadi
Habitat for Humanity Indonesia	1.	Ester	Leopold
Buddha Tzu Chi	1.	Tri Budiharjo	Hong Tjhin
Association of Housing Developers of Indonesia (APERSI)	1.	H. Bambang Yuwono	Ainoor Kardiman
Real Estate of Indonesia (REI)	1.	Rio Mastapura	Johanes Tulung
	2.		Rizal Isky Rusli

APPENDIX III

BROAD OUTLINE OF IN-DEPTH INTERVIEW QUESTION

1. What do you think about recent preferred housing policy approach in Indonesia? Does it tend to homeownership or rental housing sector? What is the implication of that approach concerning the existence of slum dwellers in urban areas in Indonesia?
2. What factors influence the effectiveness of affordable and decent housing provision for slum dwellers?
3. What is your opinion about existing housing finance policy with regard to endorse the accessibility of slum dwellers to existing housing financial subsidies and supports? What kind of housing financial subsidies and supports are more suitable for slum dwellers? How should the mechanism of housing financial subsidies and supports be implemented to be more effective in reaching the slum dwellers?
4. What should be improved in housing finance policy to enhance the access of slum dwellers to housing financial subsidies and supports?

APPENDIX IV

OUTLINE OF SEMI-STRUCTURED INTERVIEW QUESTION

1. Identity
 - a. Name :
 - b. Address :
2. How long have you stayed in Jakarta? Where did you come from?
3. Characteristic of Slum Dwellers
 - a. Income rate :
 - b. Occupation :
 - c. Housing Location :
 - d. Housing Size :
 - e. Number of Occupants :
 - f. Type of Land Tenure :
 - g. Adequacy of Utility :
 - h. Housing Type/Condition :
4. What is your preference for housing? Rental housing or Owned housing?
5. Do you have willingness to own a decent house?
6. How is your ability to pay down payment for housing mortgage?
7. How is your ability to pay in installments for housing mortgage?
8. Do you know about government's housing financial subsidies and supports for poor people?
9. What do you think about housing cooperatives and housing saving of people?
10. What kind of housing financial subsidies and supports are suitable for you?
11. Are you willing to move to another location to live in affordable and decent housing provided by government? If the answer is no, what is the reason?
12. What do you expect from government regarding housing financial subsidies and supports in the future?

APPENDIX V

OBSERVATION PICTURE

Location : Kemandoran Slum Area, Jakarta, Indonesia

Date of Observation : June 2, 2011

The Condition of Housing and Settlement Environment in Slum Area

