

**MICRO FINANCE INSTITUTION FOR HOUSING FINANCING IN INDONESIA****Merisa Kurniasari \*, Rahardiyani Ari Wicahyo, Rika Kisnarini, Dewi Septanti, Happy Ratna Santosa**

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**DOI: 10.5281/zenodo.807809****Keywords:** microfinance institution, housing finance, management.**Abstract**

Microfinance institutions are one of the efforts of the government to give the right to low-income communities in the fulfillment of the need for housing. The program of special microfinance institutions for housing discussed in this study is microcredit housing. This research is a descriptive-qualitative research that compiles between microfinance institutions in Indonesia and in other developing countries in relation to housing microcredit program. It is found that from some aspects of comparability, other developing countries are better prepared in terms of micro housing microcredit program management than Indonesia.

**Introduction**

The phenomenon of urban growth and development has an impact on the increase of urban population which is increasing every year especially in big cities in Indonesia. Rapid urbanization rates make urban housing demand rapidly increasing while land availability becomes increasingly scarce and expensive (Soenarno, 2004 in Tyas and Endah, 2008). Unlike in developed countries, housing is built by low-income communities with little or no financial support from commercial institutions or banks. Adequate housing financing has been recognized as the most important factor of home production because it can help the community in obtaining housing components, such as land, infrastructure, and building materials (Sheuya, 2007).

Housing conditions in Indonesia in 2014 is a backlog of 7.6 million units based on the concept of occupancy while based on the concept of ownership occurs backlog of 13.5 million units and as many as 3.4 million units of houses entered in the category of uninhabitable home (Directorate of Planning Provision Housing, 2015). Low-income community (MBR) is the cause of the still large number of uninhabitable houses in Indonesia due to low affordability in building or buying houses. With the increasing demand for housing, the government's responsibility as a provider is huge and the government's ability to provide subsidized housing financing is limited.

The relief effort for MBR communities by the government in basic housing procurement is through a housing micro credit program. The implementation of housing micro credit program in Indonesia has been started since 2006 which was implemented on the idea of the State Ministry of Public Housing (Kemenpera). In the implementation of housing micro-credit, the government cooperates with several micro finance institutions such as Rural Credit Agency (BPR), PT. Pegadaian, Jamsostek, and Cooperatives. But the distribution of microcredit has not run well or even not running properly. As in PT Pegadaian which has a program KREMADA (Housing Credit Swadaya) which is not implemented. Therefore, this study aims to examine the implementation of micro-credit housing program in Indonesia.

**Theoretical Framework****Housing Development Financing**

Problems in housing finance are also not only on the construction of houses, but also on the construction of infrastructure, facilities and utilities that support the housing environment. To bridge the problem of limited low-income communities access to formal financing sources, the government has established a Secondary Mortgage Facility (SMF) that plays a role in providing long-term funding sources. This system is much more



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efficient than the general bank financing system, because this system is able to connect the housing finance market with capital markets that have unlimited financial resources. It is expected that this housing finance system will be able to provide the widest access to the community, including MBR, to obtain cheap mortgages (Murbaintoro, 2004).

If this system has gone well, where the secondary market of housing finance in Indonesia has been created, then the primary market will also automatically become very efficient. House prices are becoming cheaper and affordable as supply increases. Mortgages become cheap because there is a large and sustainable funding from the capital market. In addition, in this system, the emergence of mortgage brokers and mortgage companies that can act as a KPR (originator) distributor so that people are more free to make choices (Murbaintoro, 2004).

The authorities in handling this matter are Deputy of Kemenpera for Self-Housing Sector which then facilitate by giving Stimulant Development of Self-Housing Development (BSP2S). The goal is to encourage the fulfillment of housing needs for low-income communities through Micro Finance Institutions (MFIs) and improvement of housing quality through the strengthening of community groups. As for the low-income communities who do not have access to financing sources, the facilitation is one of them in the form of Self-Supported Micro Credit Syariah Loan (Depkominfo, 2005).

Housing finance and microfinance has substantial potential, but is stifled by a dearth of finance. The recent economic crisis has further tightened the supply of financing for housing and construction globally. Many international donors have shied away from riskier types of lending, such as housing, and the cascading effect has forced local financial institutions to limit mortgage finance, which is viewed as a riskier and longer term product. Non-deposit taking mortgage finance companies are particularly constrained as they require a sustainable source of long-term funding to expand their lending activities (Shorebank International, 2010).

Institutions offering traditional mortgage finance and housing microfinance are both in need of longer term funding sources to match the longer terms of the underlying housing portfolios, however there are different risks and profiles associated with each type of institution. Institutions offering traditional mortgage finance would largely be commercial banks, specialized non-bank finance companies, or savings and loans or other types of cooperatives. The capital needs for these providers would tend to be larger and for a longer term, given the underlying terms of traditional mortgage loans (Shorebank International, 2010).

Institutions providing housing microfinance products, on the other hand, are predominantly microfinance institutions that range from for-profit, Tier I institutions to non-profit Tier II and Tier III MFIs, and cooperatives. In some cases commercial banks and credit unions are offering housing microfinance loans as well as mortgage products. However, given the underlying term of housing microfinance loans tends to range from six months to three years on average, with much smaller transaction sizes, the borrowing need for the financial institution would be smaller and for a shorter term than for a bank seeking funding for mortgages (Shorebank International, 2010).

### Micro Housing Loans

In the study of housing microcredit programs, there are several definitions of Housing Microfinance (HMF) programs taken based on some best practice literature from several developing countries, including the following:

1. Housing micro-credit program is a form of small lending to the economically weak community, with small and limited nominal loans, with short-term borrowing rates typically between 2 - 10 years, and is well suited for the process of improving the quality of community dwelling (Ferguson, 1999).
2. Housing micro-credit program is a financial service in the form of money loan to the community especially low-income communities for renovation, new home construction, land acquisition, and basic infrastructure (CGAP, 2003).



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3. Housing micro-credit program is an asset based on community development strategy which is intended to assist MBR to invest in physical capital (housing) so as to increase its productivity, and fulfill other life necessities (ANC Economic Transformation Committee, 2005).

Based on the Regulation of the State Minister of Public Housing. 05 / PERMEN / M / 2007, housing micro credit is a part of Simple Healthy Housing Credit (KPRSH) implemented with government subsidy, and referred to as Micro Credit Development / Repair of Subsidized Self-Help, with the definition of credit Issued by the Credit Issuer Institution to low-income communities in the framework of the construction or improvement of houses carried out independently. The characteristics of the loan value is relatively small and the loan term is relatively short up to 4 (four) years. The definition is different from some of the definitions mentioned above. For implementation in some developing countries, microfinance housing is for home improvement, new housing construction, land acquisition and infrastructure provision, while in Indonesia, a new housing microcredit program is aimed at building new homes and home improvement costs to become a habitable viable housing.

### Research Method

- Qualitative descriptive analysis  
With this qualitative descriptive analysis, it can be known the related institutions, functions and roles of each stakeholder. The data collection method used in this analysis process is to examine the existing literature such as journals and books on housing finance.
- Comparative descriptive analysis  
In this analysis, there is a comparison between the institutions in the implementation of micro housing loans by each micro finance institution. In addition, it is also compared to best practices of micro housing implementation in some developing countries.

### Results and discussion

The following is a brief overview of microfinance institutions and existing micro-credit programs, taking one of the micro institutions that are PT. Pegadaian (pawnshop). Vision Pegadaian is an integrated business solution, especially pawn-based that has always been a market leader and micro-based fiduciary always be the best for the middle class down. With Mission:

- Providing financing the fastest, easiest, safer and always provide guidance to the middle class business down to encourage economic growth.
- Ensure equity of services and infrastructure that provide convenience and convenience throughout the Pawnshop in preparing to become a regional player and remain the primary choice of the community.
- Helping the Government in improving the welfare of lower middle class people and carrying out other business in order to optimize the company's resources.

Pegadaian program related to housing finance is to realize a comfortable dream home with loans for renovation and construction of new homes. Loans (credit) provided to low-income communities for renovation or building needs. Clients belonging to low-income people are those who earn less than 2 million rupiahs per month. The Customer is incorporated into a business group.

However, the program did not go well, there was no community who signed up for the housing finance program from this pawnshop so that this program is eliminated (State of Pegadaian Office Area Surabaya, 2017). This is by Ridwan (2004) caused by readiness of the MFI which still experiencing some obstacles, in terms of:

1. Human resources, namely the inadequacy of educated and professional human resources.
2. Management, concerning human resources and ability to develop entrepreneurship culture and soul (entrepreneurship) which is still relatively weak.
3. Financial, namely the capital (fund) is still small and limited.
4. Trustment, which is the level of public confidence is still low.

In fact, micro-housing agencies in Indonesia have been established and implemented when Indonesia is in dire straits due to changes in political power, changes in state administration, and democratization in 1998. The Ministry of Cooperatives and the Office of the Minister of Housing and Settlements has made an agreement to



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conduct special coaching to cooperatives engaged in housing and settlement. But in carrying out its function is often hindered by the existence of distrust, for example, cooperative managers who feel cheated by developers or partners feel cheated members of the board and management of cooperatives that act as developers. In addition, the discipline of the management in the program and the principle of cooperatives is still low, the discipline of members to their obligations are still lacking and the leadership of the cooperative management is also still needs to be addressed (Kuswartojo et al., 2005).

The problem of the existence of cooperatives in Indonesia which development is not rapid due to the people of Indonesia who have the wrong perception. It was said the Rector of the Indonesian Cooperative Institute (Ikopin), Burhanuddin Abdullah. The perception of Indonesian society about cooperatives is an institution whose activities are only in the field of financial savings and loan. In fact, cooperatives are more focused on the real sector such as one Housing Cooperative. Perception is what causes cooperatives in Indonesia is not growing rapidly, even tends to decline (State of Rector of the Indonesian Cooperative Institute in In the 35th Ikopin Anniversary Press Conference at Ikopin Jatinangor Campus, 2017).

Comparison of the implementation of micro credit housing in Indonesia in general with best practices from several developing countries, which is described in the table 1.

**Table 1. Comparison for implementation of housing micro credit in Indonesia and others countries**

Aspects	Indonesia	India	Phillipines
Use Intended for	Home improvement (renovation) Building a new home (new home construction)	Home improvement (renovation) Building a new home (new home construction) Land acquisition	Home improvement (renovation) Building a new home (new home construction)
Program Objectives	Low Income Communities	Near poor urban households, who derive their incomes primarily from formal employment and who also reside on formally titled land often have access to consumer credit companies and some banks	Near poor urban households, who derive their incomes primarily from formal employment and who also reside on formally titled land often have access to consumer credit companies and some banks
Credit Distribution Method	Individual or Group	Individual (household)	Groups (collective) with members of at least 5 families
Institutional Forms	Pure from the government (Kemenpera)	Government (Sewa Bank) and NGO (MHF Corporation)	Government (CARD Bank) and Community initiatives (Payatas Scavenger's Association)
Coordination	Between the government (Kemenpera) with the implementing MFI in the region. Coordination only covers the implementation of the program from the government and there is no effort to accommodate MBR aspirations.	Between the government, implementing MFI and community. There is also a discussion forum on health, nutrition, organizational administration and environmental preservation.	Coordination with the community takes precedence with the aim to accommodate community aspirations and counseling to them in an effort to improve the quality of life.



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From the comparison in table 1, it is found that microfinance institutions in micro-credit programs both in Indonesia and developing countries are equally aimed at low income people, while in terms of their use in Indonesia the micro-credit program only serves the renovation of houses and the construction of new houses. In Other developing countries already include services in land acquisition. The institutional form in Indonesia is entirely pure from the government while the institutions in other developing countries already include initiatives from the community. In terms of coordination, microfinance institutions in Indonesia only cover the implementation of the program from the government and there is no effort to accommodate low income community aspirations.

The microfinance institution for housing is needed to assist various activities, especially those related to the development of housing procurement organizations, the procurement of land and infrastructure and the problems related to the technical development of houses. In the field of funding there are already BTN as a government's banks that handle mortgages and mortgage loans, but there is less coordination with other agencies that help low-income communities. Thus, the role of the government as an enabler can not be implemented in accordance with prevailing government policy. Existing government policies and laws emphasize the importance of the participation of low-income communities in housing procurement, the government will play a major role as an enabler. However, existing laws, government regulations, implementing regulations, institutional frameworks and government programs still do not support government policy. As well as local governments, because of the lack of clarity of rules, authority and limitations of funds, can not perform the duties and authorities that are the responsibility. This makes it difficult to implement the government policy.

Microcredit is one of the alternatives to meet the needs of occupancy in Indonesia which the majority of the population is low income. This effort is very helpful because:

- a. Housing construction can be done gradually in accordance with the economic capacity of the community;
- b. Can exploit the potential of building materials and local culture, so it can be cheaper and efficient and preserve the environment;
- c. Provide opportunities for informal income communities to gain access to loans in groups;
- d. Loans can be made gradually because of the small scale and short term, so as to provide education to the community about the process of grouping and is responsible for its obligations;
- e. Provide an alternative to the community to own a house (besides who conducted through the housing industry).

### Conclusion

Housing microfinance is the microfinance industry's well-tailored response to the vast and relatively untapped housing finance market among low- and very low-income households. Comparative of some aspects found that micro finance institution through micro-credit program for housing in Indonesia its implementation still not run well. It can be seen from the program at one of micro finance institution that is PT Pegadaian about Self Housing Credit which do not run due to several things. One of them low Public interest due to lack of socialization conducted. The function of guidance and assistance for low income communities should be submitted to micro institutions in the form of cooperatives or foundations with clear arrangements and directions so as not to wait for the policy of the central government so that the time required in the procurement of houses to be longer.

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