



Resolving Housing Finance Access for the Poor and Informal

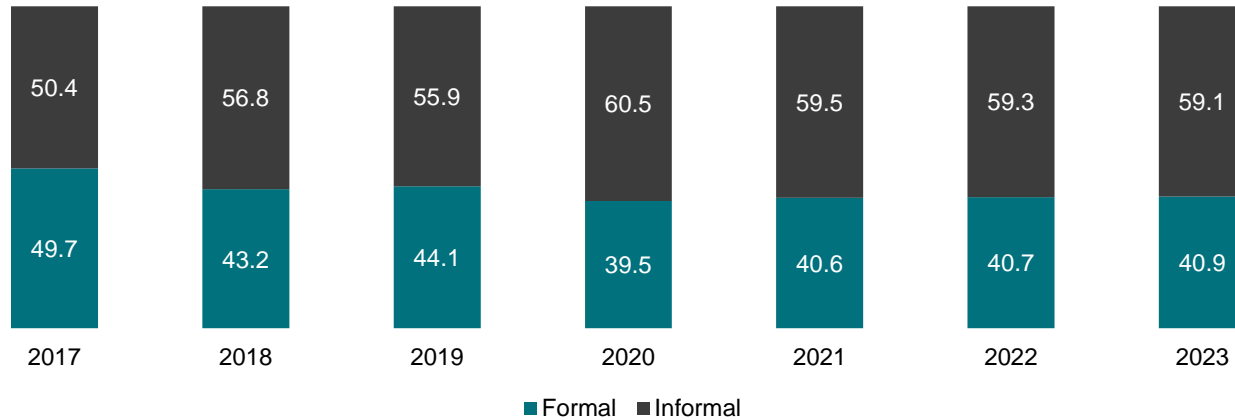
SMF Experience in Indonesia

Berlin, 19 September 2024



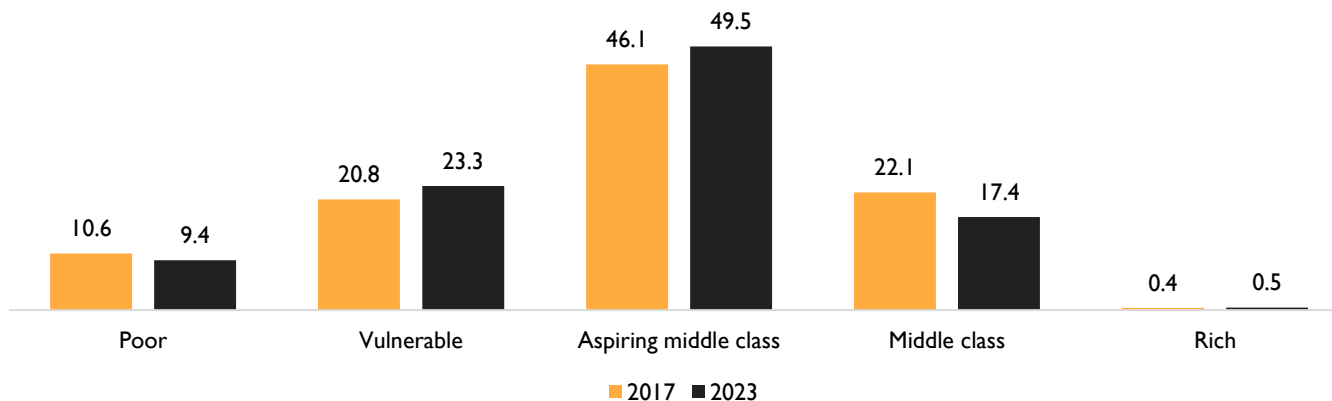
Indonesian socio-economics is characterized by high informality and high aspiring middle income

Workers' Status in Indonesia (%)



Prior to the COVID-19 pandemic, Indonesia was already struggling to reduce its heavy reliance on the informal sector, which currently accounts for approximately 60% of the workforce.

Population Share by Class

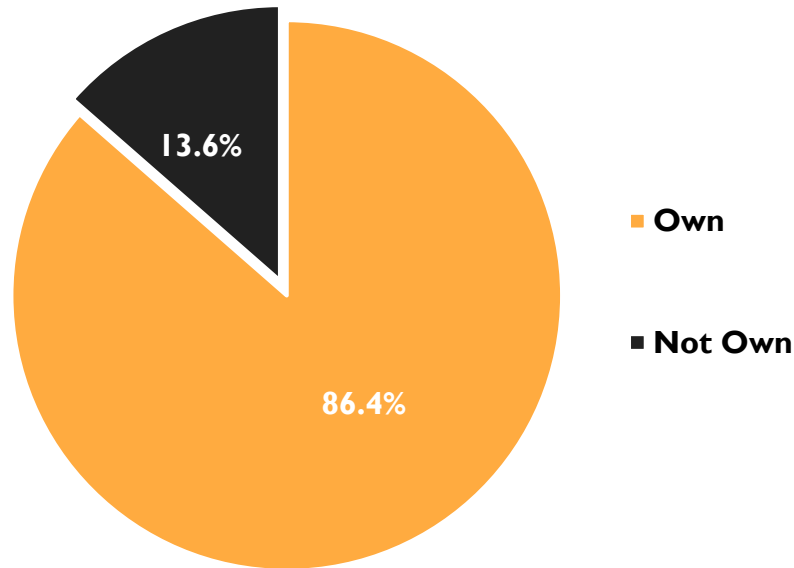


In addition to high informality, Indonesia also faces challenges in expanding its middle-income population. One of the pandemic's scarring effects has been the shrinking of the middle-income group in Indonesia.

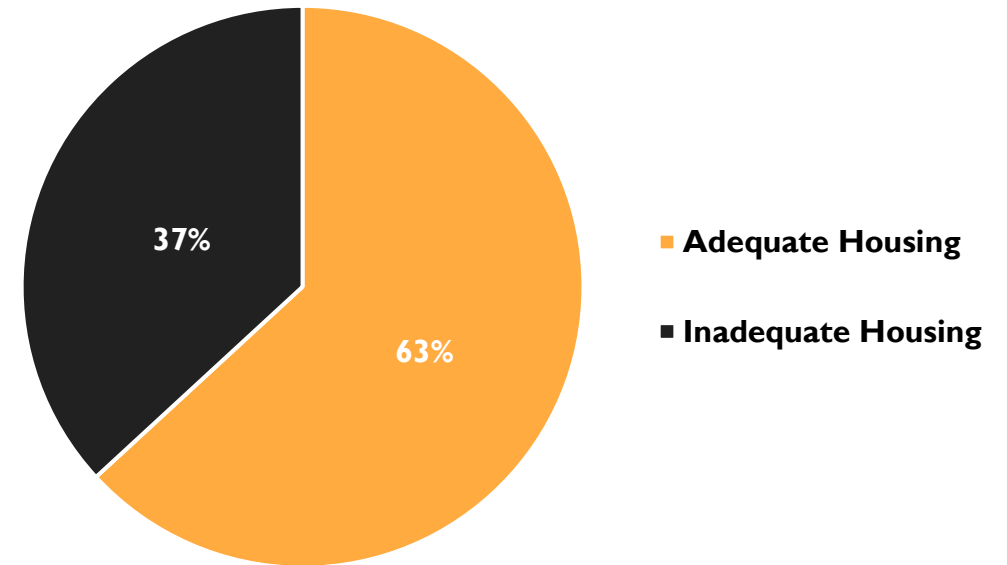
The combination of high informality and a declining middle-income population presents additional challenges, particularly in terms of financial inclusion and access to essential services, such as housing finance.

Ownership Backlog and Inadequate Housing In 2023

Homeownership Status



Housing Quality



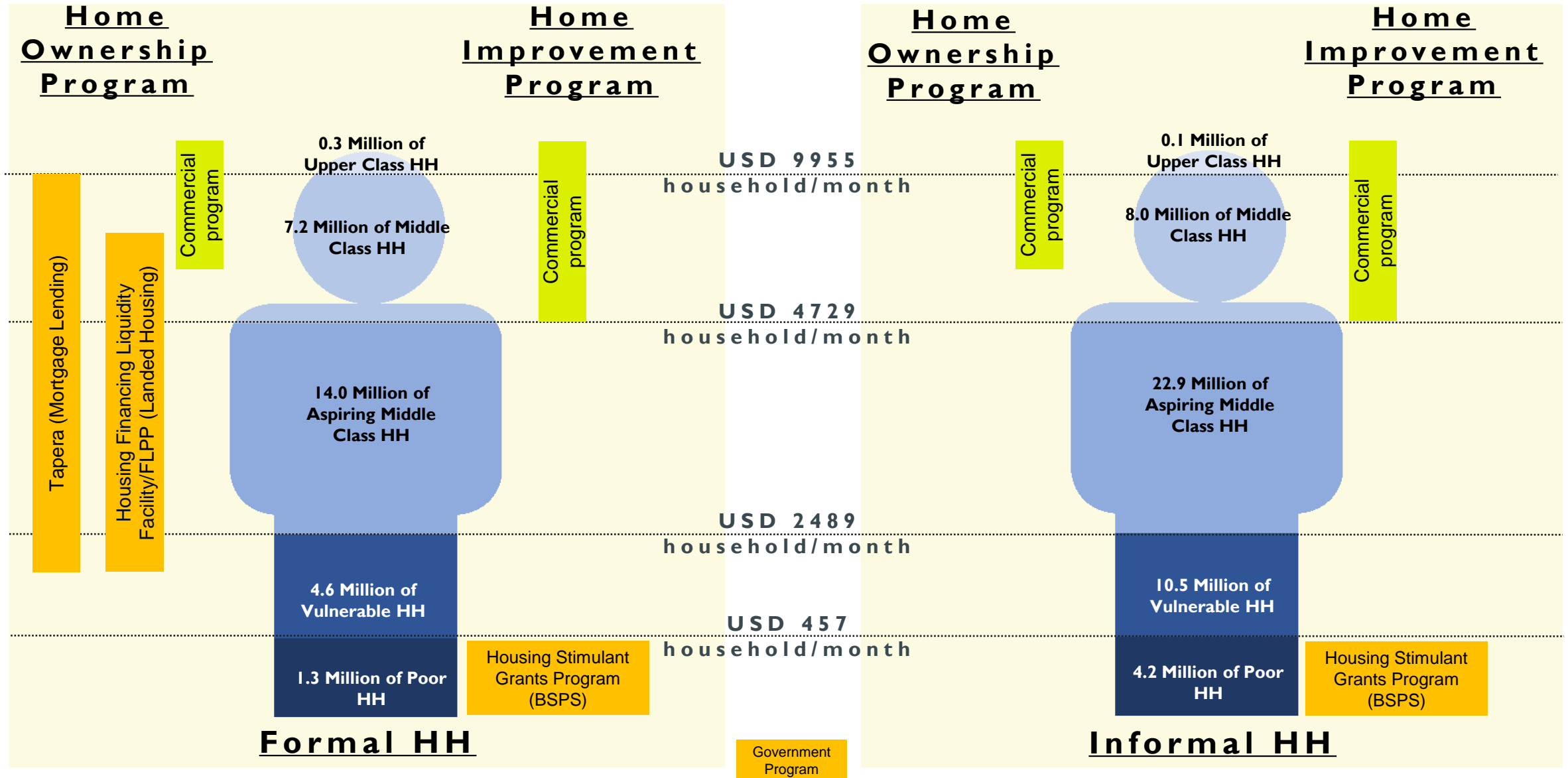
Homeownership

In 2023, Indonesia had 73.1 million households, but 9.9 million (13.6%) households still lack homeownership, indicating a substantial backlog in housing access.

Housing Quality

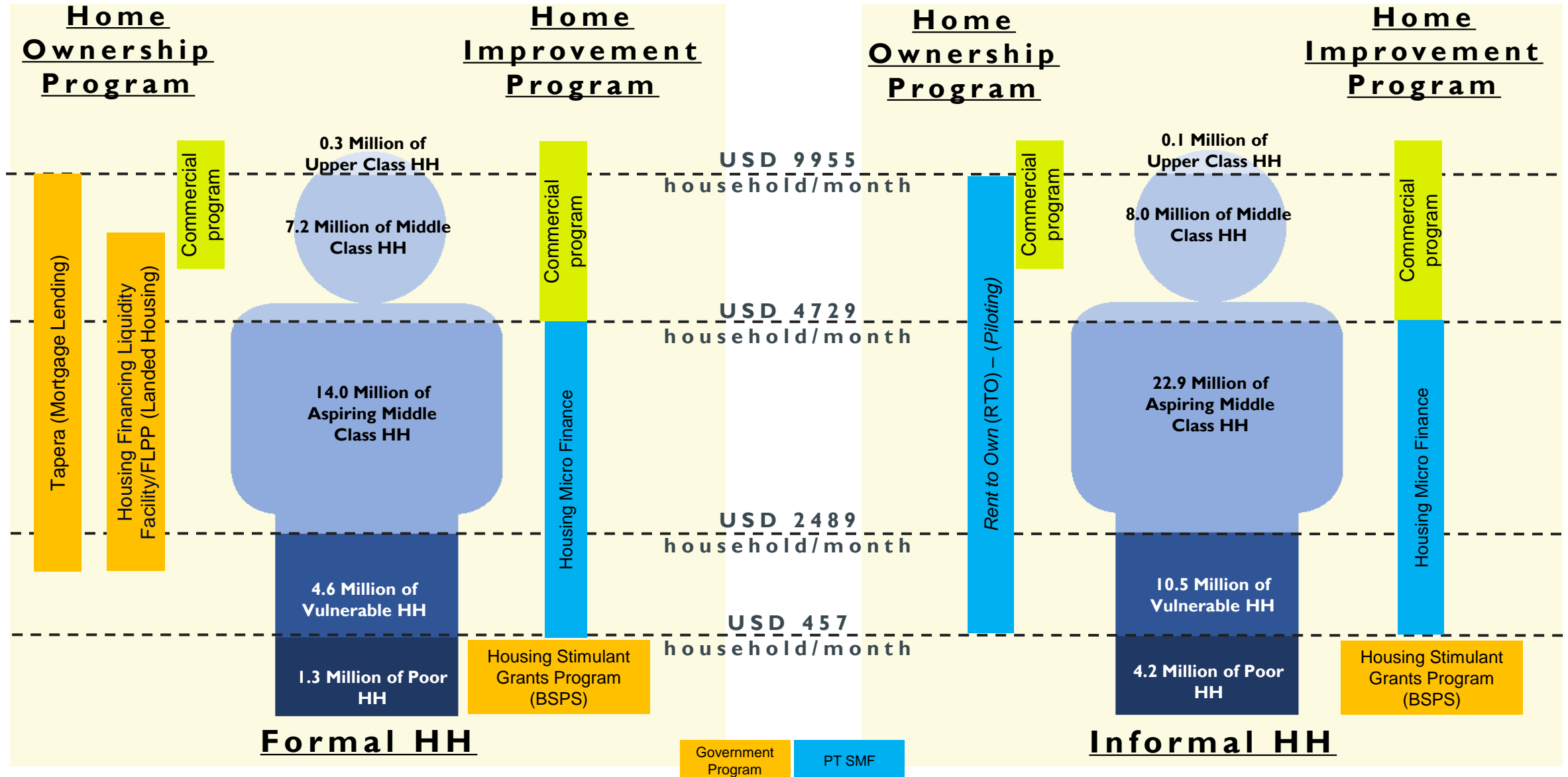
Out of 73.1 million households, only 46.2 million live in homes that meet adequacy standards, leaving 26.9 million households (37%) in inadequate housing conditions, often characterized by poor infrastructure and overcrowding.

Existing Housing Finance Program in Indonesia



Source: Susenas March 2023, calculated by PT SMF

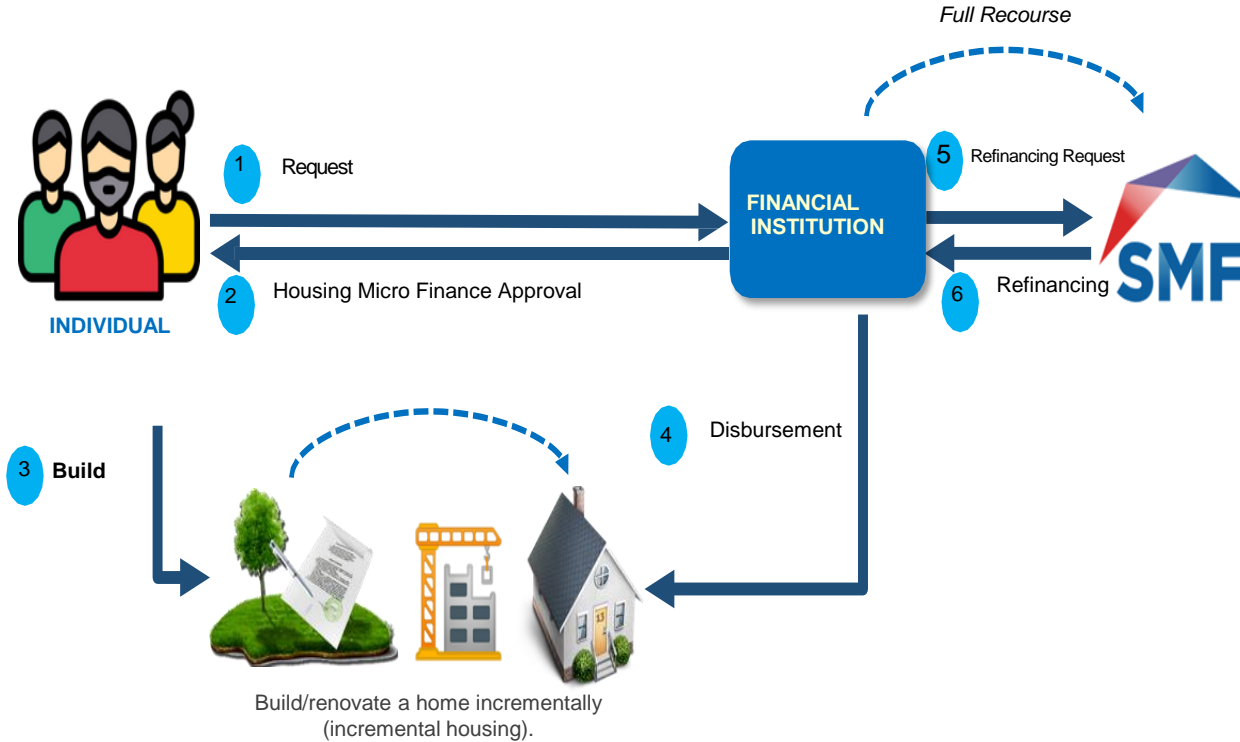
Existing Housing Finance Program in Indonesia



Source: Susenas March 2023, calculated by PT SMF

Housing Micro Finance

Scheme



Features



Purpose

Build/renovate a home incrementally (incremental housing) which targeted to **fixed and non-fixed** income segment



Tenor

Max. 5 years



Rate

In accordance with the policies of the financial institution



Limit

Rp50 Million



LTV

In accordance with the policies of the financial institution



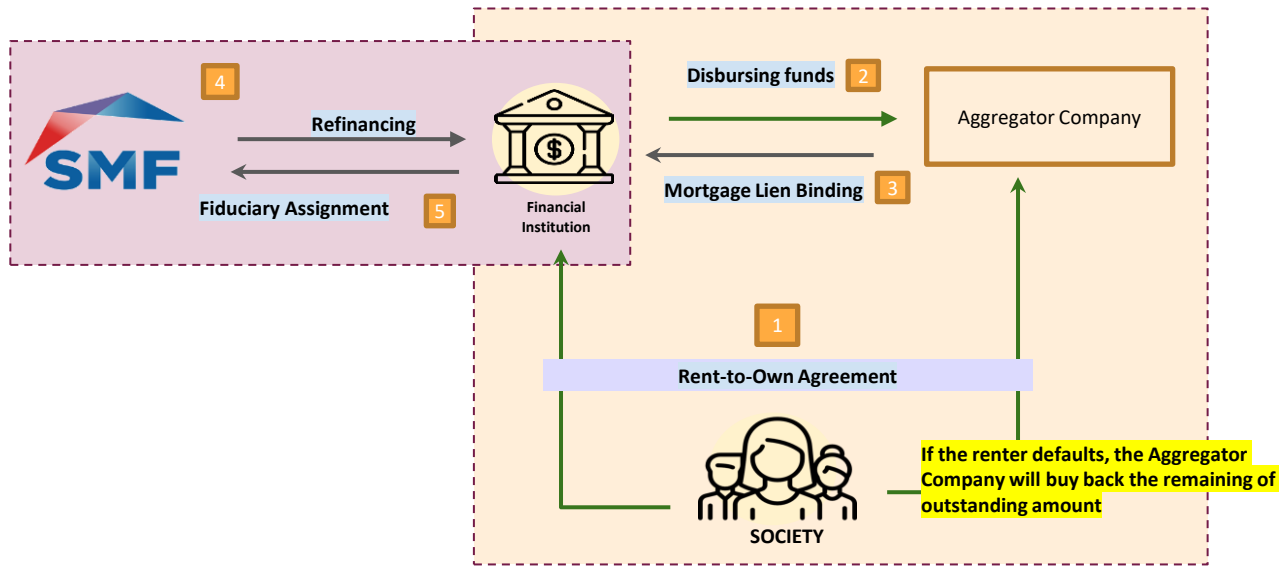
Insurance

Life Insurance

At present, the demand for residential renovations is crucial. According to the Susenas March 2023 survey, 26.9 million of households reside in inadequate housing. Consequently, there is a need for alternative product to bolster the housing finance market."

Rent To Own (RTO)

Scheme



***Aggregator Company:**
"The company as the owner of the asset and guarantor in the event of default"

Features



Purpose

Loans/Financing for Home Ownership Services, prioritizing non-fixed income segment.



Tenor

Max. 20 years



Limit

Rp1 Billion



Rental fee

Fixed monthly for a certain period as agreed



Insurance

Insurance for loss of residential assets (fire insurance) - (the cost will be borne by the Aggregator Company as the owner of the Asset)

Target Segments

1 Low Income (MBR)

2 Unserved or rejected non-fixed income MBRs for subsidized housing facilities

3 Single individuals or newly formed families seeking housing close to activity centers

Challenges in HMF and RTO Implementation



In Indonesia, microfinance products are designed as productive loans for low-income households and are heavily subsidized by the government, making them both accessible and affordable, particularly for poor and vulnerable families.

In the case of housing microfinance, SMF has improved accessibility by creating the product, but since it operates with commercial interest rates, affordability remains a significant challenge.



Regarding the RTO program, the Financial Services Authority (OJK) has raised concerns about the sustainability of the aggregator company. Due to these concerns, OJK is not yet convinced that the RTO program is safe for consumers.

The main issue is ensuring that the aggregator company can continue to operate and manage assets for the entire duration of the RTO agreement, which can last up to 20 years.

Conclusion and Path Forward



Addressing the Housing Finance Gap

- Current FLPP effectively serve formal, middle-income workers.
- Informal workers, comprising 60% of the workforce, are underserved.
- While BPSP can serve the poor households, however its coverage is limited
- SMF's Housing Microfinance (HMF) and Rent-to-Own (RTO) programs are key solutions for underserved segmentations



Challenges Ahead

- **Affordability:** HMF's commercial interest rates limit accessibility for low-income households.
- **Sustainability:** Ensuring the long-term viability of the RTO aggregator company remains crucial.



The Role of International Collaboration

- Learning from countries with similar housing finance challenges is essential.
- Opportunities to adapt successful models for regulatory frameworks, financial strategies, and sustainability.



We invite insights and collaboration on:

- Adapting regulatory frameworks to better support RTO and HMF.
- Improving financial models to make housing more affordable.
- Ensuring sustainability of key institutions like the RTO aggregator company.



Thank You



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Company Profile

The 1945 Constitution of the Republic Indonesia Article 28H Section 1

“Every person is entitled to live prosperous physically and spiritually, to have a place to reside, and to acquire a good and healthy living environment as well as be entitled to obtain health care”



“The urge to catch up with the needs of 12 million housing backlogs is so enormous, but the ability to use the State Budget alone, will not be able to catch up quickly”

Securitization Summit 2022

The government has limited funds to support housing finance, especially for subsidy programs for Low-Income People (MBR), so the presence of a Special Mission Vehicle (SMV) is needed to overcome this



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AAA(idn) Fitch
SMV Fiscal Tools



100% owned by
Indonesia Government through
Ministry of Finance (MoF)

Authorized Capital IDR 27 Trillion
Paid-in Capital IDR 14.3 Trillion

Established since 22 July 2005

MISSION VISION

To become one of the **main entities in the housing finance ecosystem** that supports the provision, ownership and occupancy of decent and affordable homes for all Indonesian families

- Taking a role as Government’s Special Mission Vehicle and Agent of Development in Housing Financing
- To promote and develop the sustainable secondary mortgage market
- To provide the source of fund in the housing financing and ownership
- Support the Government’s Sustainable Development Goals Program
- Develop synergies with housing finance stakeholders and provide superior services with good governance

PRODUCTS

- Securitization
- Housing Financing (Conventional and Sharia)
- Bonds and EBA-SP Issuance
- Training, Advisory, and IT Services
- Special Assignment from Government

COUNTERPARTIES



Commercial
Bank



Sharia
Bank



Regional
Development
Bank & Rural
Bank



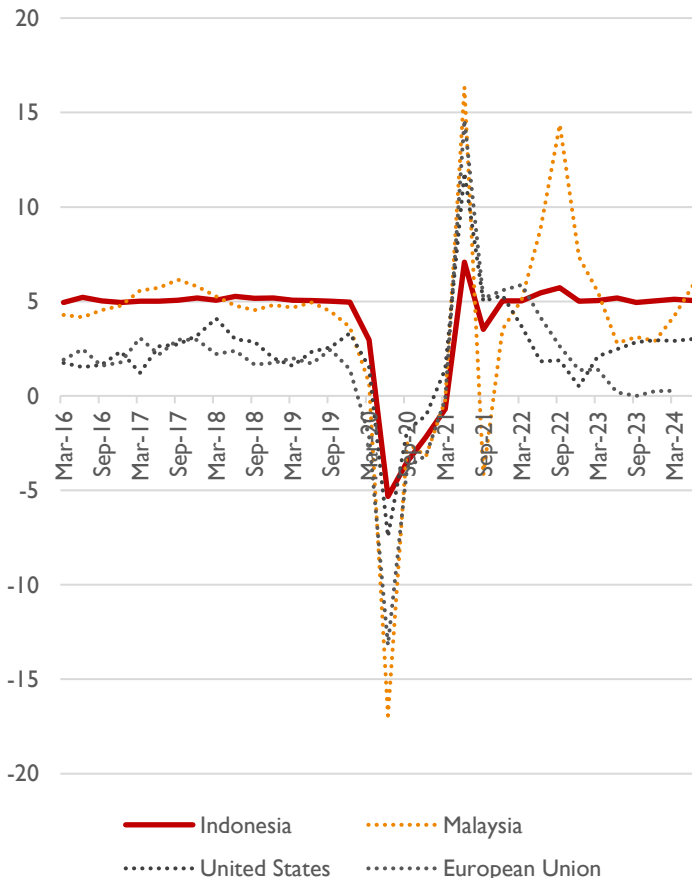
Multifinance



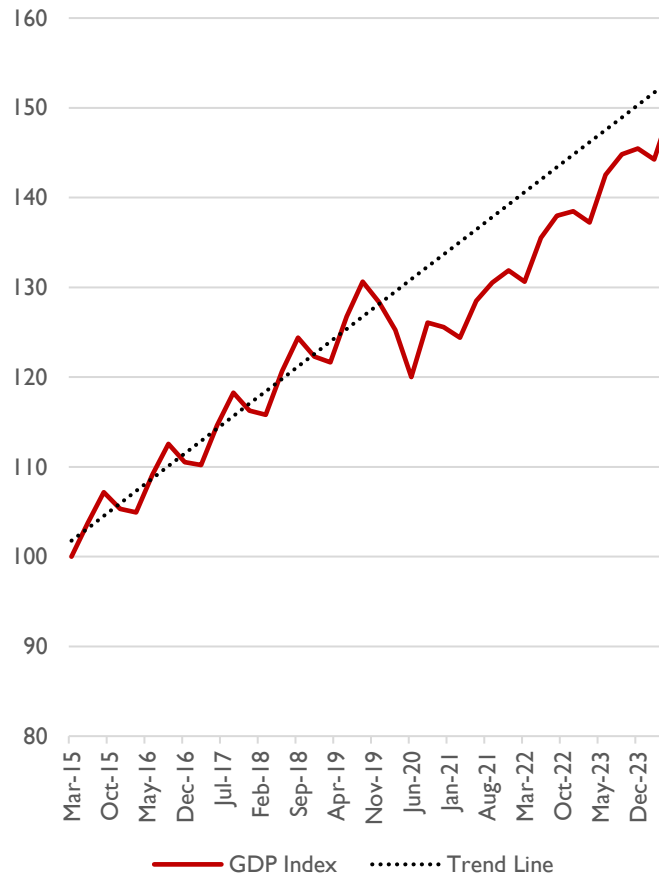
Other Financial
Institutions

Stable economic growth but still has a long way to go to return its pre-pandemic growth path

Indonesia's GDP growth is stable at a 5%



Pre-pandemic trend vs. actual path



In recent years, Indonesia has demonstrated considerable resilience, maintaining stable economic growth despite facing significant global uncertainties.

The country's GDP growth rate, consistently around 5%, has outpaced many of its regional peers. This performance is largely underpinned by strong domestic consumption from aspiring middle class and middle class, both of which play a crucial role in driving overall economic activity.

However, it is essential to recognize that Indonesia's current growth trajectory remains below pre-pandemic levels, signaling an incomplete recovery from the disruptions caused by COVID-19.