AN EVALUATION OF LOW COST HOUSING PROGRAM (KPR-BTN), A CASE STUDY IN JABOTABEK, INDONESIA

By

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DEDICATION

to my wife, Titin
kids, Uya and Adek
for all their love and support

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ABSTRACT

This paper describes and evaluates the KPR-BTN housing program that is currently delivering about 60,000 low cost housing units per year in urban Indonesia with the aid of the government. The government's objective for this program is to help low and middle income people to obtain houses built by private developers and the government owned corporation, PERUMNAS, by making low interest rate mortgages available for them. The program is first evaluated in the context of post-independence housing policies in Indonesia. Then, its production, distribution and occupant characteristics are examined with a case study in Jabotabek, the most rapidly growing urban area in Indonesia.

This paper shows that, while this program has been making progress in meeting a significant portion of housing demand, it has experienced difficulties in serving its intended beneficiaries, and in controlling the sharp increase in housing prices. Over time, the types of houses being built have become smaller and their locations have tended to spread further out around the cities. This paper suggests that the government should improve and simplify its currently complex regulations, especially in land acquisition procedures.

CHAPTER I. INTRODUCTION

1.1. BACKGROUND

Indonesia is experiencing rapid population growth and, consequently, the need for housing is sharply expanding. With a population of approximately 180 millions in 1990 and an average growth of 1.97 % annually, the need for new housing units until the year of 2000 is predicted to be 850,000 units each year (Kantor Menteri Negara Perumahan Rakyat, 1990b P. 2).

In urban areas, the growth of demand for housing is even higher than the growth in population indicates. Estimates show that the growth of demand for housing in urban areas until the year of 2002 will be 6.6% annually, indicating that approximately 400,000 new housing units have to be provided each year (Lembaga Management, 1987. p. I/1)

This high demand for housing raises two serious problems. First, it should be understood that this potential demand far exceeds the existing capacity of government, private developers or individual efforts to supply. Second, this high demand for housing should also be interpreted carefully since the number of people who can afford to obtain market houses is actually very

low. Therefore, this high number is only a potential and is not an effective demand for housing.

The government of Indonesia is acutely aware of these problems and, with support from some donor communities, the government has set up a number of policies to address these problems. These policies include initiatives to provide subsidies in the form of low interest rate mortgages, to set regulations and guidelines, and to establish institutions responsible for housing matters. However, the government realizes that there is a clear limit to what degree it can do. Therefore, through these efforts, the government is seeking to build up a supportive environment for housing development in which, satisfying the need for housing is expected to be the responsibility of the people themselves.

One the government initiative is the Home Ownership Credit (Kredit Pemilikan Rumah or KPR) program. This program was introduced in 1976 and had become the dominant force in housing development in the formal sector ever since. In this program, the government authorized a state bank, the National Saving Bank (Bank Tabungan Negara or BTN), to grant low interest rate mortgages for low and middle income families to become homeowners. This program is better known as the KPR-BTN program.

The government's objective for this program is to provide low cost housing for low and middle income households in urban areas. The government's standard for low and middle income households is those whose monthly incomes fall between the 20th and 80th percentile of the urban income distribution in Indonesia. Low cost houses are constructed both by the government owned corporation, known as PERUMNAS, and by private developers.

Under this program, private developers are encouraged to develop low cost houses and sell them to the public. Once a household agrees to buy a house, the BTN will provide a mortgage for the household for up to 90 percent of the house price, depending on the type of the house (this money will go directly from the BTN to the developers). The rest, 10 %, remains the responsibility of the household itself (see Figure 1).

The KPR-BTN program has two elements. First, it attempts to increase the ability of low and middle income families to buy low cost houses through 5 to 20 year mortgages with interest rates lower than those in the free market. Second, as the ability of low and middle income people to purchase houses increases, private developers are expected to be more attracted to

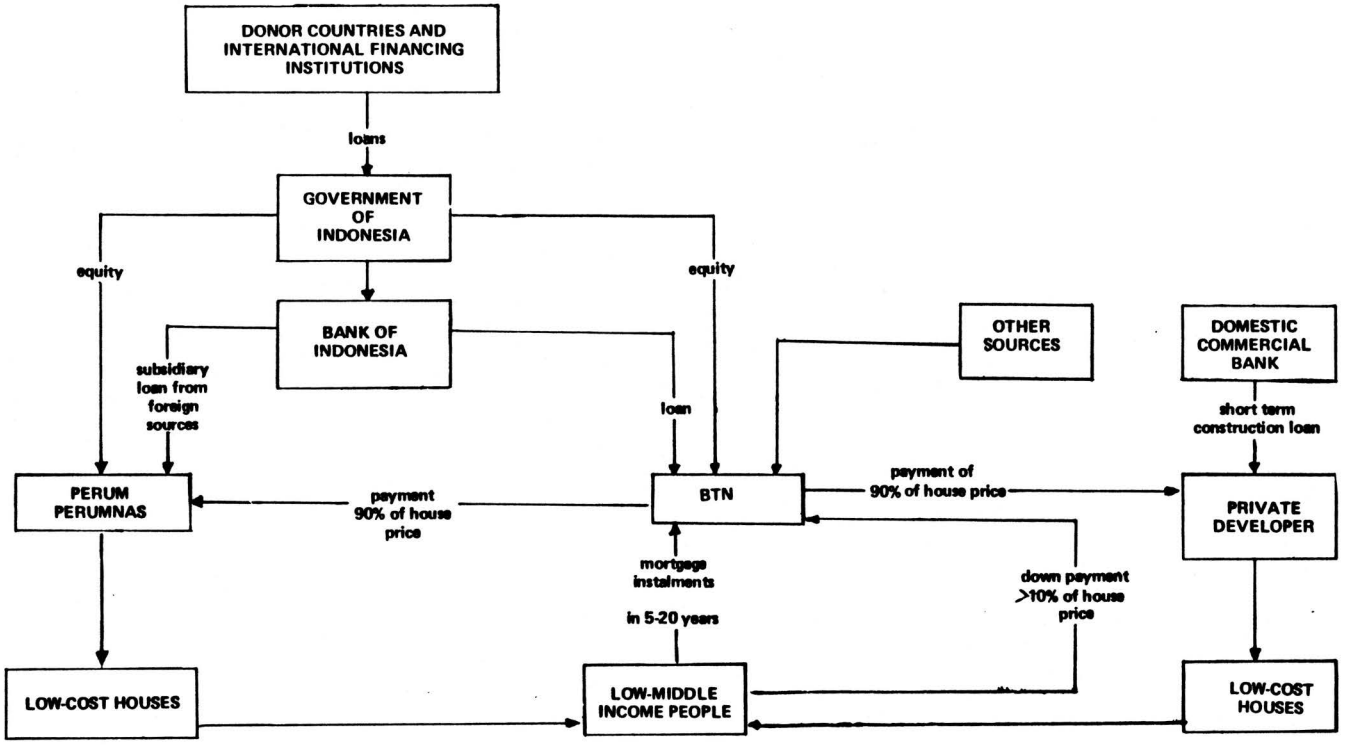


Figure 1. The Organization of the KPR-BTN Program

participation in low cost housing development. The system aims to assure developers that there will be enough people to buy the houses they build.

The KPR-BTN program is fully organized by the government. The government has issued a number of regulations and guidelines through its appropriate institutions. Some of the most influential and important guidelines affecting low cost housing development are the guidelines from the Department of Public Work. These include the Technical Guidelines for Single-level Low Cost Housing, Operational Guidelines for Government Constructions, and the Price List of Indonesian Work Units. Other guidelines include one set by the State Saving bank (BTN) known as Minimum Requirement for Low Cost House and Housing Projects.

These guidelines seek to achieve 2 main purposes which might turn out to be mutually conflicting. These purposes are to stimulate the construction of easily-affordable housing by developers and, at the same time, to protect consumer needs regarding housing quality standards.

The government has also standardized the types of houses to be built under this program. The types of KPR-BTN housing are : T70, T54, T45, T36,T27, T21, T18, T15 and more recently T12.

Type T70, for example, means that the size of building is 70 square meters. The lot size varies depending on the types of house. The minimum lot size is 60 square meters and the maximum size is 200 square meters. In the beginning larger types made up a significant portion of the total. Recently, because of financial constraints, smaller types have become dominant.

In the beginning, civil servants, military personnel, and other public employees were given priority for 75% of the available KPR-BTN houses for the reason that they have stable and easily verifiable incomes (Perum PERUMNAS, 1981 p.13). In 1986, this policy was changed so as to enable employees in the private sectors and self employed persons to have more access to these houses.

From its initiation in 1976 to 1990, the KPR-BTN program has produced approximately 625,000 units of low cost houses or about 41,000 units per year on average. The target number of house to be built under this program has been set by the government for five-year development period (PELITA). Generally, this target is based on an estimation of the ability of the government to provide low interest rate mortgages.

Although, these high volume programs have accomplished much, they are clearly not the whole answer. This study identifies some problems and potential achievements emerging from the KPR-BTN program.

First, the KPR-BTN promotes large scale projects that need relatively large and compact areas. However, it is clear that, the availability of suitable lands in cities for this purpose is very limited. For developers, it is no longer profitable to build KPR-BTN houses within the cities. Therefore there will be a tendency for the distribution of these housing units to spread further out around the cities. This in turn creates some problems for the cities in providing public services.

Many developers also tend to retain a large amount of land for speculative purposes. This makes suitable land less available and its price has increased sharply. This, in turn, pushes up house prices.

Third, the target households for this program are those whose monthly incomes fall between 20th and 80th percentile of the urban income distribution in Indonesia. Those people whose income is lower than the 20th income percentile are not eligible for this program since they are considered unable to

afford to pay the monthly payment (mortgage instalment). Those whose income is above the 80th percentile of the income distribution are considered able to obtain their own houses without government assistance. However, as will be shown in Chapter IV, the actual recipients have tended to be at the higher end of this range.

There are financial constraints that impose on the program. This program is highly dependent on the government's ability to provide low interest rate mortgage subsidies. government finance, however, is definitely limited and, at the same time, house prices have increased sharply. To keep to the target number of units, the sizes of houses produced has had to be scaled down

From the buyers perspective, the availability of low interest mortgages is the key factor affecting their willingness to buy a KPR-BTN house. As long as the people can get such credit from the government, they will tend buy these houses.

This study develops some alternatives to improve this program. It is possible for the government to improve the efficiency of this program through increased competition. For example, it could encourage mortgage lending by other commercial banks besides the BTN. Such an initiative would

foster the creation of a secondary mortgage facility and increase the total volume of funds for the sector. Some steps should also be taken to improve and simplify the currently complex regulations and procedures so that costs and time delays are reduced.

1.2. THE PURPOSE OF THE STUDY

This study attempts to answer the question of how satisfactorily does the KPR-BTN program address low cost housing problems?. To answer this question, the study analysis the effectiveness of the KPR-BTN program by examining its production, distribution, and occupant characteristics.

1.3. RESEARCH METHODOLOGY

Documentary and library research for secondary data are used for part of this study. Data have been obtained from several sources including the BTN, the Office of the State Minister of Public Housing, the Department of Public Work, PERUMNAS, Real Estate Indonesia, the National Land Agency of Indonesia and the Central Bureau of Statistics. Some information was also obtained from previous studies conducted by other researchers. Some developers and others related to the

program were interviewed. 300 questionnaires were also distributed to KPR-BTN home occupants in the study area.

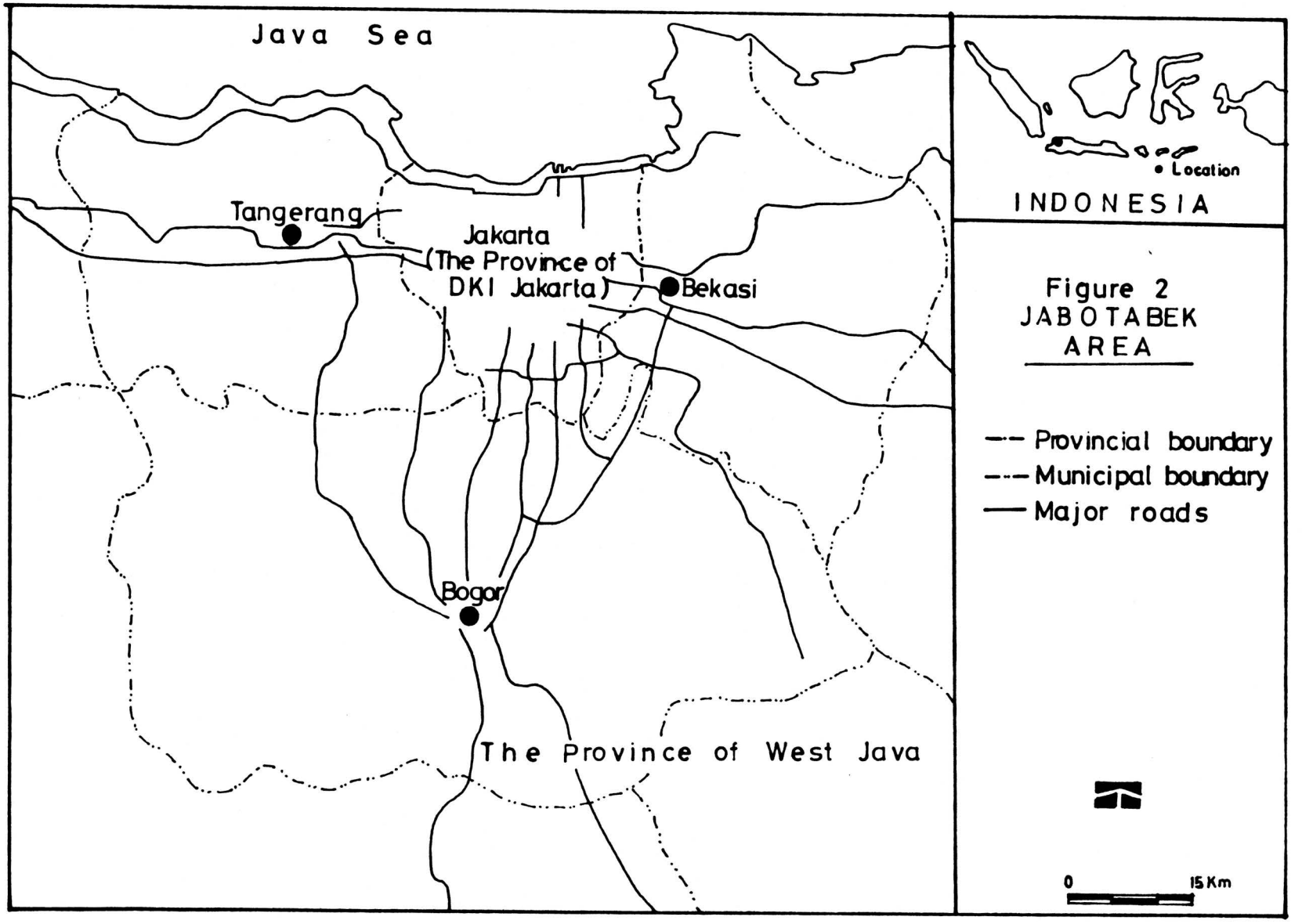
1.4. THE STUDY AREA

The study area is limited to Jakarta, the capital city of Indonesia, and its surrounding areas (see Figure 2). This area is better known as the Jabotabek area, the acronym for Jakarta and its adjacent cities of Bogor, Tangerang and Bekasi. The Jabotabek area is undergoing one of the highest population and housing growth rates in Indonesia. In 1971, the population was 4.75 millions. It increased to 7.26 millions in 1980, averaging a 4.8 % of annual growth. And, by the year 2000 its population is predicted to be 19.9 million people (Lembaga Management, 1987 p. I/5).

The research in the Jabotabek area was undertaken in place from May-August 1991.

1.5. THE OUTLINE OF THE STUDY

This paper will be organized as follows. Chapter I is the introduction. It contains the background and the problems, the purpose, and the methodology of the study. Chapter II is designed to review national housing policies in Indonesia. This


Java Sea
Tangerang
Jakarta
(The Province of
DKI Jakarta)
Bekasi
Bogor
The Province of West Java
Location
INDONESIA
Figure 2
JABOTABEK
AREA
Provincial boundary
Municipal boundary
Major roads
0
15 Km

chapter will also detail the study area and examine the implementation of housing programs in the study area. This chapter concludes that economic and politic stability has enabled the government to conduct ongoing housing programs in a more systematic way than has been the case in the past.

Chapter III provides some analysis of the production and distribution characteristics of the KPR-BTN program. It describes their patterns, output levels and and size tendencies from the initiation of this program in 1976 to 1991. This chapter shows that, while this large program has accomplished much, it clearly is not the whole answer for low cost housing problems. The government has experienced real difficulties in controlling house prices. This has resulted in less effective use of mortgage subsidies and smaller types of houses being built.

Chapter IV examines the characteristics of the KPR-BTN households including their incomes, family size, work places, and how they obtain, pay for, and improve their houses. This chapter concludes that most of the benefits of this program are not going to its intended beneficiaries. Finally, Chapter V, the conclusion, provides both a summary and a possible agenda for the future.

CHAPTER II. NATIONAL HOUSING POLICY

The housing sector in Indonesia has not received adequate attention in the past. Although a number of initiatives were drafted for this sector, political instability, economic difficulties, and lack of government coordination made those efforts largely unused in practice. The present policies try to recover from past failures by putting housing problems into the economic mainstream rather than perceiving them as welfare issues as they were in the past.

This chapter is designed to review the national housing policies of post independence Indonesia with an emphasis on those in place after the 1960's.

2.1. THE EVALUATION OF HOUSING POLICY

At its independence in 1945, Indonesia was a totally new country, both politically and economically immature. The first priority of the new republic was political and economic stability. It was not until the end of 1960's that the government finally became more stable and able to initiate programs in a systematic way. Thus, during this period, the housing sector as well as some others received little government attention.

The history of housing policy in Indonesia began with the Healthy Housing Congress held in 1950 soon after the Independence War ended. Three major conclusions were reached at this congress: the need to establish a housing institution that would be responsible for housing matters: the need to organize a foundation responsible for housing finance, and the need to develop standards for healthy housing (Silas, 1989. p.1)

A housing institution named the Board of Peoples Housing (Jawatan Perumahan Rakyat or JPR) was established in 1952 under the Department of Public Works. In 1954, the government, through this Board, set up the Foundation of Development Finance (Yayasan Kas Pambangunan or YKP) with responsibility for housing finance. The Foundation was subsequently established to act at the provincial level throughout the country and it was chaired by the Chairman of the Provincial Peoples Representatives (Dewan Perwakilan Rakyat Daerah or DPRD).

To finance the activities of this foundation, the government was to establish a state bank: Housing Development Bank (Bank Pembangunan Perumahan). But in reality this bank was never established. Instead, the foundation was financed by the state budget on a financial year basis.

From 1954 to 1964, there were 200 YKPs established across the country, and approximately 12,500 new housing units constructed by this foundation (Kantor Menteri Negara Perumahan Rakyat, 1990b). However, the YKP was eventually terminated in 1964 due to financial constraints. Inflation of the Rupiah, Indonesia's currency, reached 800 % in that year (Silas 1989, p. 8).

Along with the YKP, a research institute was also established in 1954. However, lack of experience, knowledge and skill limited its activities. Some university graduates were sent abroad for training, especially to the US and Scandinavian Countries (Silas 1989 p. 8). The research effort was subsequently recognized and supported by the U.N. and become a Regional Housing Center designed to study housing problems in tropical areas. This brought many housing experts to Indonesia.

Meanwhile, as the War ended, many unattended properties and houses left by Dutch were illegally occupied by people, including some freedom fighters returning to cities. To control this situation, the government ordered local military garrisons to oversee the occupation of these houses by issuing occupation permits (Surat Izin Perumahan or SIP). Under this regime, the government attempted to maintain control over all of these

houses and to rent them to needy people, especially civil servants. Later, the Department of Social Welfare was assigned to take responsibility for this program. Over time, however, this program became ineffective. The funds from the rental system were too limited either to maintain the existing dwellings or to construct new housing units.

Moreover, many provinces also applied their own policies regarding these rental houses. By 1969, all of these houses were sold off, and the system was terminated in that year (Sunario, 1987 P.12).

Financial constraints were a the critical factor limiting the success of early housing policies. Housing programs were highly dependent on government support when the national economy was unstable.

Political instability compounded the economic problems. From 1950-1959 there was widespread opposition from regional movements seeking independence from the central government. Consequently the government was preoccupied with resolving this problem.

Lack of coordination among institutions responsible for housing matters also contributed to the failure of these early housing initiatives. Also, as Silas (1989) mentioned, in the early fifties the military authorities claimed that houses built after the war came under their domain and therefore they also had the right to control their use along with the Department of Social Welfare and the Department of Public Works. Jurisdictional disputes had an impact for years in the absence of strong government coordination.

In response to this situation, in 1964, the government introduced Housing Act No 1/1964. The act overruled all provincial housing policies so as to enable the central government to take control of housing matters in a more coordinated way. The Department of Social Welfare was assigned responsibility for general housing policies. The act also attempted to encourage the private sector to get involved in new housing development. Section 5 of this Act says :

> " Subject to the existing government guidelines, each individual and private enterprise can freely build their house for their home and, or, for their activities". (Housing Act No 1/1964, section 5)

But soon after the act was proclaimed, Indonesia's political stability was once again shaken. Indonesian Communist Party movement attempted to take over the existing government through a coup d'etat on 30 September 1965. The government successfully countered this coup one day later. However, Indonesia's politics changed drastically at this time. Most national policies, including ones regarding housing matters, were reevaluated.

The country entered the New Order period[1], Indonesia's national development has, since then, emphasized political stability. Government initiatives in housing development were very limited. Most efforts in housing sector were focused on research and on development activities such as establishing technical standards for construction and building materials.

In the early 70s, Indonesia's economy and politics became more secure. This enabled the government to initiate more

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1 The political history of post independence Indonesia is divided into four periods. The first is the Independence War Period from 1945 to 1949. The second is the Parliamentary Democracy period from 1950 to 1959 marked by the widespread growth of regional rebellions especially outside the island of Java. The third is the Guided Democracy, later called the Old Order, period, from 1959 to 1966. Following the Communist Party attempted coup d'etat, the fourth, the New Order period began. It started in 1966 and has continued up to the present.

systematic approaches to housing problems. One of the important events in the history of housing and human settlement policy in Indonesia was the National Housing Policy and Development Seminar held in Jakarta in 1971. This seminar was directly guided by Suharto, the second president of Indonesia.

Three major conclusions emerged from this seminar: the need to develop a workable financial system for housing development, the need to establish a manageable institutional system, and the need to create a supportive environment for housing development.

Following this seminar the government of Indonesia established a number of new institutions and restructured others to perform new functions. The new regime was as follows:

1. National Housing Authority (Badan Kordinasi Perumahan Nasional or BKPN) was established by the presidential decree no 35 in 1974 to set overall national housing policy and to coordinate the activities of ministries with a role in housing matters. This body is chaired by the Minister of Public Works and report directly to the President. The executive secretary is the Director General of Housing,

Building and Urban Development (Cipta Karya). Later, in 1982, this institution was chaired by the Minister of the State Ministry of Public Housing.

2. The National Urban development Corporation (Perum Perumahan Nasional or PERUMNAS) was established in June 1974 by the presidential decree no 29. This corporation was to undertake the acquisition and development of urban lands and low cost housing, site and service projects throughout the country. As a government owned corporation, its general policies were set by the Ministry of Public Works and BKPN. Its specific policies were set by its own board of directors, appointed by the President on the recommendation of the Ministry of Public Works. From 1975 to 1982, PERUMNAS was capitalized by direct government contributions on an annual basis. The government contributions ceased in 1982 and the corporation is now financially self-sustaining.

3. In 1975, a mortgage financing institution, the State Saving Bank (Bank Tabungan Negara or BTN), was restructured to provide low interest rate mortgages for low and middle income people. In its fruit few years, the BTN was responsible for mortgage financing for houses built by PERUMNAS. In 1978, the BTN's housing role was expanded

when it was also authorized to provide mortgages for housing units built by private developers. Currently, this bank is financed by the government, the World Bank, the Bank of Indonesia, and its own activities as a state commercial bank.

4. The Office of the Junior Minister of Public Housing (Kantor Menteri Muda Perumahan Rakyat). In 1977 the president appointed a Junior Minister for Housing Affairs to coordinate more closely all activities related to housing matters. The Junior Minister reports directly to the President but also, at the same time, reports to the Minister of Public Works, especially on matters related to PERUMNAS. In 1982, the Office of Junior Minister was upgraded to full state ministry status and named the State Ministry of Public Housing (Menteri Negara Perumahan Rakyat).

5. The Housing Mortgage Corporation (PT. Papan Sejahtera) was established in 1980 by a ministerial decree to provide mortgage financing for middle and higher income people. It set higher interest rates and shorter mortgage terms than the BTN. This semi-private mortgage institution is operated and financially supported by several local and international financial institutions.

Prior to the establishment of these formal institutions, private developers had, in 1972, also established their own organization named Real Estate Indonesia (REI). At the start, private developers in this organization emphasized developing houses for middle and higher income groups. Later, when the KPR-BTN program was introduced in 1976, they were also encouraged by the government to get involve in developing low cost housing for low income people. It is important to note that not every private developer is a member of this organization. It is merely a developer's own decision to join or not.

To summarize, PERUMNAS is responsible for the construction of low cost housing. Private developers, whether or not REI members, construct either or both low cost and high cost houses. The PT. Papan Sejahtera provides mortgage finance for middle and higher income people. The BTN is responsible for providing mortgage finance for low and middle income people to buy houses built by the PERUMNAS or private developers. While the PERUMNAS is financially self sustaining, private developers have part of their housing construction costs financed by appointed state commercial banks.

Along with new housing development programs, the government also established housing rehabilitation programs.

One of them is the Kampung [2] Improvement Program or KIP. The Kampung Improvement Program was instituted in 1969 to upgrade existing residential areas of cities through providing municipal facilities, widening vehicular roads and footpaths, and establishing community wells, public toilets, washing and bathing facilities, garbage bins, health clinics, and primary schools. This program has received extensive World Bank assistance since fiscal year 1973/1974. But, KIP itself does not build or provide loans for housing construction (Perum PERUMNAS 1981).

Similar to the Kampung Improvement Program, many housing rehabilitation programs have also been established for rural areas since 1979. Some of them are the Rural Improvement Program (Proyek Perintis Pemugaran Perumahan Desa or P3D) under the Department of Public Works, the Integrated Rural Housing Rehabilitation Program (Program Pemugaran Perumahan dan Lingkungan Terpadu or P2LDT) under the Department of Internal Affairs, and the Resettlement Program (Proyek Pemukimam Kembali Masyarakat Terasing or

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2 An urban neighborhood characterized by mixed land uses and variety of informal houses, mostly semi permanent buildings. In the countryside, the term kampung and village can generally be used interchangeably. Kampung terminology is used in urban areas to emphasize that the area displays the population and physical characteristics of a village established in the city.

PKMT) under the Department of Social Welfare. All of these ongoing programs are coordinated by the State Ministry of Public Housing.

2.2. THE PROFILE OF THE STUDY AREA

Like many of Indonesia's cities, Jakarta developed in two ways. The older part of the city was formed by the agglomeration of villages and was guided by traditional norms of planning. Later, when the Dutch government established itself, it started another type of city based on a western colonial model. During colonialism, the newer part of the city had a good planning system for Dutch residents, while the rest part of the city was largely neglected. Only after independence, were the two parts of the city merged with each other.

Within months after the Independence War, a committee was formed to examine the borders of the national capital. The municipal administration of Jakarta was established later, in 1950. Then, in 1953, a Jakarta plan was prepared and published. This plan was inherited from the Dutch administration's Town Planning Act of 1948. This plan, however, proved largely ineffective (Forbes, 1990 p. 112).

Meanwhile, after the Independence War was finally over, many freedom fighters and refugees returned to the city to take part in rebuilding the city in a new spirit of freedom. Many of them were previously villagers with no skill or potential to handle living condition in the city. The city in turn was not ready to accommodate them. As a consequence, many of them had to solve their problems, including their need for houses, in their own way. Many illegally occupied vacant and unattended land and houses. As a result, kampungs, scattered across the city, soon emerged and, in population, Jakarta became a global mega city, but one which lacked adequate planning. In 1960, it ranked as the 25th largest city of the World. It had risen to 21st in 1980, and by the year 2000 is forecast to be 12th (United Nation Center for Human Settlements 1987, p.28).

Jakarta's national and international role as the capital of the Republic influenced the way the city developed. Sukarno, the first President, was trained as a civil engineer and took a personal interest in the architectural design and city planning (for instance, he was critical of the ribbon development along the road from Jakarta to the Presidential Palace in Bogor) and ordered the drafting of a plan for the region. After 1959, Jakarta became a component of Sukarno so called "lighthouse-Policy" which aimed to make Indonesia a focus of emerging global forces. The development emphasis for the city was on

prestigious public areas and streets, while residential areas were largely neglected (Suryomiharjo 1977, p.67-77).

In the New Order period, provincial governments were increasingly encouraged to develop urban plans. Jakarta had its first master plan in 1965 and it was published in 1967. This plan emphasized physical development and mapped out a strategy for the period 1965 to 1985. In this plan, the population growth of Jakarta was to be slowed[3], and potential new urban residents were directed to growth centers beyond the city's borders. Sectoral plans were prepared for transport, water supply, sewerage, railways, and toll roads, though the level of coordination between the departments responsible for these activities were very poor (Forbes, 1990, p. 113). In general, although a number of sectoral and spatial plans were drafted for Jakarta, they were largely ignored in practice. In the late 1970s, it became clear that the city-wide planning process was unable to cope with the urbanization process.

The physical growth of Jakarta spilled into its surrounding areas. In 1973 a report, prepared for the Directorate General for

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3 In the mid 1970s, the Governor of the city of Jakarta issued some policies restricting further urban growth in an attempt to make Jakarta a city closed to immigrants.

Human Settlements (Cipta Karya, PU), advocated a metropolitan strategy for Jakarta that included the Jabotabek region.

Following this report Inpres (Presidential Decree) no 13/1976 was issued for a new set of planning control for Jabotabek area. In 1978, a Jabotabek planning team was formed. At the end of 1980, the team completed a Jabotabek metropolitan development plan. In this plan, emphasis was given to the social, economic and financial aspects of urban development, and not merely to the provision of infrastructure.

While the strategy emphasized promoting development of Botabek region, the plan sought to limit the further spread of the city to the south, because of restricted ground water supplies. The planners opted for development to the west through Tangerang and to the east through Bekasi.

However, the Jabotabek plans have never been formally implemented since the government has yet to develop an institutional capability to manage large metropolitan areas such as Jakarta (Jakarta Post, 31 January 1989). The plans have never been approved by the central government, and hence remain as only a series of recommendation.

Although there is no formal functional mechanism for planning Jabotabek as a region, the Jabotabek plans had an important influence on the subsequent master plan for the city of Jakarta.

The second master plan for Jakarta is the Structure Plan (Rencana Umum Tata Ruang, RUTR). This plan is currently guiding the physical development of Jakarta for the period 1985-2005. The Structure Plan was prepared by the Jakarta Regional Planning Board (Bappeda DKI Jakarta) and published in 1987 under the title of Jakarta 2005. It adopts the same spatial form for Jakarta that was delineated in the Jabotabek Plan i.e., directing growth to the east and west. The Botabek region however is not included in this Structure Plan.

Housing renewal and upgrading is one of the important aspects of the Structure Plan. The Kampung Improvement program (KIP) was an innovative scheme for the low-cost upgrading of kampungs. It commenced in Jakarta and later spread to other cities in Indonesia. The Structure Plan incorporates strategies for continued upgrading of housing through urban betterment programs focused on parts of North Jakarta. Element of the program include improvements to infrastructure and health care, and the acquisition of land for public facilities.

It is estimated in the Structure Plan that the number of household in Jakarta will increase from 1.2 million in 1980 to 2.8 million in 2005 meaning that around 1.6 million (or annually, 64,000) new dwellings will need to be constructed during this period. Making provision for these high numbers, while meeting a backlog of need for housing renewal and infrastructure rehabilitation, is the major challenge that the city has to deal with at the present time.

2.3. CONCLUSION

Political and economic stability have enabled the government of Indonesia to initiate more systematic approaches to housing problems since the mid 1970's. These efforts began in 1974 when a housing financial system, institutions responsible for housing matters, and a supportive environment for housing development were established.

It is safe to say that the previous government's initiatives in housing development were less successful. Jakarta, the national capital city, suffered the most. The "Light- house" policy led to neglect of housing problems. It led to Jakarta, during the period of 1950s and 1960s, emerging as a global mega city with some prestigious public buildings surrounded by scattered kampungs. Since this period, one important agenda

item for planning for Jakarta had been the rehabilitation of the kampungs, and creating urban infrastructure, while leaving, for most part, new housing development to the private sector.

There are two interesting concepts that arise from the current housing policies. First, the government no longer attempts to be the sole agent for new housing development. Instead, the government seeks to increase the participation of the private sector. Second, housing is no longer a welfare issue, rather it is an integrated part of national economic liveability. It serves human basic needs and it is an engine of economic growth and employment. The government supports housing development, while recognizing the fact that most people cannot afford to obtain market houses, by making low interest rate mortgages available.

CHAPTER III. HOUSING PRODUCTION AND DISTRIBUTION

The production capability of the KPR-BTN program is determined by the ability of the government to provide low interest rate mortgages and to establish a supportive environment encouraging the participation of developers, private developers in particular.

Although this large program has accomplished much, it is clearly not the whole answer. Over time the increase in mortgage funding provided has become less effective because the greater increase in housing prices has limited the number of houses that can be financed. This has caused the government to introduce policies that force developers to develop smaller, cheaper types of houses. It is only in this way that the volume of houses produced can be maintained.

The cost of land is a critical factor affecting the price of the KPR-BTN housing units. Examination of this issue, however, shows that there is actually enough land for this purpose. The problem is that many developers retain huge amounts of land which may be used for other purposes or be sold off at the right time.

Besides land related problems, lack of coordination in the government's intervention in the form of regulations and provisions has also contributed to the escalation in housing prices. From the developers point of view, the regulations are considered incredibly complex and burdensome. The cost of compliance is simply shifted to the final consumers by increases in selling prices.

This chapter is designed to examine the production and distribution characteristics of the KPR-BTN program in the Jabotabek region. At first, a housing demand assessment will be discussed prior to the examination of the production characteristics of this program. There follows a discussion of the distribution characteristics of KPR-BTN housing projects in the Jabotabek region. Finally, there is an overall analyses and conclusion are drawn.

3.1. HOUSING DEMAND

Indonesia is experiencing rapid population growth and, consequently the need for housing is sharply expanding. With a population of approximately 180 millions in 1990 and an average growth of 1.97% annually, the need for housing units until the year of 2000 is predicted to be 850,000 units each year (Kantor Menteri Negara Perumahan Rakyat, 1990).

In urban areas, the growth of demand for housing is even higher than the growth in population indicates. High rates of urbanization, internal growth within the cities themselves, and a more separated family form all contribute to this high demand for housing. Statistics show that in 1990, the urban population was already more than 55 millions or approximately 31 % of the total population (Department of information, 1990). Furthermore, using the average rate of population growth in urban areas of 4.4 % per year, Struyk (1989) predicted that the urban population would rise from 47 million in 1987 (approximately 26 % of the total population) to 95 million in 2002 (40 % of the total population). Struyk also indicates that in this period, the average family growth rate in urban areas is likely to be 6.6 % annually. By this prediction, the number of urban families will rise from 10.4 millions in 1987 to 25.6 millions in 2002. Furthermore, Ammiruddin in Lembaga Management (1987) estimates that the demand for new housing until 2000 in urban areas will total 400,000 units annually.

This increase in housing demand will be felt the most in the Jakarta and its surrounding areas. In 1980 the population of Jakarta was 6.4 million. It increased by 3.3 % annually until 1985, and by 1990 was 8.2 million implying a rate of increase of 2.4 % annually from 1980 (Biro Pusat Statistik, 1991). Given the fact that Jakarta is the most dynamically growing area in

Indonesia, these figures are questionable since they are far below the average growth of urban cities in Indonesia of 4.4%. Therefore, it is important to interpret them cautiously. First, the numbers are for the administrative city of Jakarta only and do not include surrounding areas close to the administrative boundary. Tempo (26 January 1991), for example, claims that the result of the last census for Jakarta is accurate only for its population in the night time, whereas its population in day time might total more than 9.1 million meaning that almost 1 million people travel everyday from the surrounding region, Botabek, to do their daily work in Jakarta. The Botabek area has shown a very rapid population growth of 5.2 % annually from 1980 to 1990 (Biro Pusat Statistik 1991).

Table 1. The Population of Jakarta and other Urban Areas in Indonesia and their Projection (million)

	1980	1990	2000
Jakarta	6.4	8.2	10.5[4]
Jabotabek area	7.2	12.2	19.9
Other urban areas	28.6	42.8	74.8
All urban areas	35.8	55.0	94.7

Source: - Biro Pusat Statistik,1990
- Struyk, J Raymond et al. 1989. P 2.15

4. This figure is far below the prediction made by Struyk, 14.9 million in 2002 (Struyk, J Raymond et al. 1989 p. 2.15). However, he has suggested using his estimation carefully since this number includes the population of Jakarta and its surrounding areas close to the Jakarta Administrative boundary.

This study assumes that the demand for new housing can be deduced from the formation of new households. The number of new households can be predicted by dividing the population growth by the average family size. The average family size in Jakarta was 5.6 in 1980. It decreased to 4.7 in 1990. For other Indonesia's urban areas the average family size was 4.9 in 1980 and 4.5 in 1990 (Biro Pusat Statistik, 1990). By the year 2000 family size will be smaller than previous figures. Struyk, J Raymond et al. (1989) uses a family size of 4.4 in their prediction for the number of household for Jakarta in the year 2002. This study uses the same value for Jakarta and the value of 4.5 for other urban areas in estimating the number of households in the year 2000. Table 2 summarizes the number of household in Jakarta, Jabotabek area, and all urban areas. The number of household for Jakarta in 1980 and 1990 are taken from the available data (Biro Pusat Statistik, 1990). The rest are estimated by dividing the population by the average family size.

Table 2. The Number of Households in Jakarta, Jabotabek and all Urban Areas in Indonesia (million).

	1980	1990	2000
Jakarta	1.16	1.82	2.39
Jabotabek area	1.46	2.71	4.42
Other urban areas	5.85	9.51	16.62
All urban areas	7.31	12.22	21.04

Source : - Biro Pusat Statistik, 1990, and estimate by the study

From this table, the new housing demand for Jakarta is predicted to be 1.23 million units for the period from 1980 to 2000 meaning approximately 61,500 extra housing units will be needed each year. For the Jabotabek area, the housing demand is 2.96 millions units for the same period or roughly 148,000 housing units each year. These figures place the Jabotabek as the fastest growing area for housing demand in the country accounting for more than 25 % percent of total housing demand for all urban areas, which is 686,500 units per year. If the calculation is made for the period from 1990 to 2000, the housing demand for Jakarta, Jabotabek area, and all urban areas is 57,000, 171,000 and 882,000 units respectively.

Keep in mind, however, that this prediction of housing demand is made to accommodate new household formation only, and not to include the housing demand for rehabilitation and replacement of existing houses that can no longer be repaired due to severe damage or other causes. The rehabilitation and replacement demand for existing houses is significant. For example, Kantor Menteri Negara Perumahan Rakyat (1990b) estimates that replacement of existing housing can account for 100,000 dwellings in Indonesia each year. In the Jakarta area, this amount is predicted to be 22 percent of total housing demand each year. Adding this figure, it is estimated that the

total housing demand for the city of Jakarta could reach more than 70,000 housing units each year[5].

3.2. HOUSING PRODUCTION

Housing production in Indonesia can be categorized into two broad sectors. The first is the formal sector in which housing and related infrastructure are produced in accordance with government regulations. This sector uses both private and public developers (PERUMNAS). The second is the informal sector, in which housing units are produced by individuals or other builders. The formal sector is expected to contribute 25 % to total housing production leaving the rest, 75 percent, to the informal sector (Djamain, 1990).

The KPR-BTN falls into the first category. This program dominates housing development in the formal sector generating almost 75 % of total formal housing production. There have been more than 625,000 housing units built under the KPR-BTN program from its establishment in 1976 until 1990 (see Table 4).

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5. For detail see Struyk et.al. 1989. Proyek Study Kebijaksanaan Perumahan, Laporan Ahir (Draft). The Urban Institute and Hasfarm Dian Konsultan. Jakarta. p. 2.12-2.20. These authors also suggested to see Katsura, H., and Alisjahbana. 1988. Housing Needs and Investment in Urban Indonesia, 1987 to 2002: Preliminary Estimates. Jakarta: Housing Policy Studies Project, paper B/2

As was mentioned in Chapter II, the number and the type of housing units to be developed through the KPR-BTN program are targeted by the government within a five-year development period (PELITA). Generally, the calculation of this target is based on an estimate of the ability of the government to provide low interest rate mortgages. Table 3 shows the number of targeted units for this program from PELITA III to PELITA V (there is no information regarding the target units in PELITA I and II)

Table 3. The Target Number of Housing Units for the KPR-BTN Program from PELITA III to PELITA V in Indonesia (unit)

	PERUMNAS	Private developers	Total
Pelita III (1979-84)	120,000	30,000	150,000
Pelita IV (1984-89)	140,000	160,000	300,000
Pelita V (1989-94)	120,000	330,000	450,000

Source: - Kantor Menteri Negara Perumahan Rakyat, 1990.

Table 3 provides two interesting figures. First, the government is trying to increase production by 150,000 housing units per PELITA. This is a strong indication that the government is becoming more active in the housing industry. Second, the largest portion of housing development has shifted from the PERUMNAS to private developers meaning that the involvement of private developers is becoming more important in the

government's agenda. The reality of these targets is shown in Table 4 which shows those units built by the PERUMNAS and private developers utilizing the KPR-BTN facilities. For comparison, units other than KPR-BTN housing are provided[6].

It can be seen from Table 4 that, for the last ten years, the average growth in housing production in the formal sector has been approximately 78,000 housing units per year, whereas the contribution of the KPR- BTN program was roughly 57,000 per year. It also can be seen that the KPR-BTN program contributes almost 75 % of total housing development in formal sector, 25 % is built by PERUMNAS and 50 % by private developers, whereas other KPR-BTN housing has 25% of the total. Although these figures represent only approximately 12 % of the total housing demand in Indonesia, they indicate significant growth. Data from 1984 to 1990 for instance, show that housing production by both PERUMNAS and private developers grew approximately 17 % per year (see also Table 10).

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6. These figures represent the number of housing units built by private developers, members of the Real Estate Indonesia Association utilizing <u>non</u> KPR-BTN facilities. The consumers of this kind of housing are financed by PT. Papan Sejahtera or other state commercial Banks with a higher interest rate and shorter term mortgages.

Table 4. Housing Production in the Formal Sector in Indonesia from 1976 to 1990 (unit)

Year	KPR-BTN		Non KPR-BTN	Total
	PERUMNAS	Private Developers		
1974-75	0	0	0	0
1975-76	2,068	0	0	2,068
1976-77	3,176	17	489	3,682
1977-78	14,081	543	586	15,210
1978-79	31,345	2,182	685	34,212
Sub total PELITA II	50,670	2,742	1,760	55,172
1979-80	26,243	6,115	3,997	36,355
1980-81	14,700	13,526	10,442	38,668
1981-82	10,203	22,218	7,118	39,539
1982-83	17,214	28,713	36,685	82,612
1983-84	12,263	33,563	118,440	164,266
sub total PELITA III	81,323	104,563	176,682	362,568
1984-85	10,516	36,804	5,258	52,578
1985-86	15,072	54,521	8,560	78,153
1986-87	12,886	21,006	4,716	38,608
1987-88	21,193	56,486	10,572	88,251
1988-89	9,914	86,175	9,674	105,763
Sub total PELITA IV	69,581	255,052	38,780	363,413
PELITA V				
1989-90	3,537	52,198	2,266	58,001
Total	205,111	414,555	214,23	833,896
percentage	24.6	49.8	25.6	100

Source: - Kantor Menteri Negara Perumahan Rakyat, 1989 and 1990
- BTN, 1991

PERUMNAS has been experiencing a real problem in achieving its PELITA's target. As can be seen in Table 4, its production peaked in 1978. Many observers believe that, part of this difficulty results from an inadequate housing market strategy. In its early years, PERUMNAS operated under the assumption that it could easily sell all of the housing units it produced. Viewed in this light, its only problem was how to produce housing. This production orientation lead PERUMNAS to concentrate on finding and acquiring sites and building housing.

PERUMNAS is, in fact, facing a serious problem of unsold but completed housing units. The PERUMNAS inventory of unsold housing stood at approximately 10,000 in 1986, and by 1989 the inventory of unsold units expanded to reach more than 25,000 units (Dowall,1989 p.3). In some cities, this condition has forced PERUMNAS to sell its housing units to local governments or other interested parties for lower than cost prices.

In contrast, private developers have done well. Not only have they developed the number of houses the government has targeted for them but they have also taken over some of the PERUMNAS burden. This suggests that involvement in this program is profitable for private developers . It can be assumed that private developers are capable of managing their housing construction and marketing programs in a way that allows them

to build and sell these kinds of houses on a profitable basis regardless of the government regulations that have been imposed to them. It is different for PERUMNAS. Its participation is constrained by its mission as a state owned corporation with a social welfare component to its program.

Figure 3 shows the number of housing unit built and sold by PERUMNAS and private developers utilizing the KPR-BTN facilities since 1976

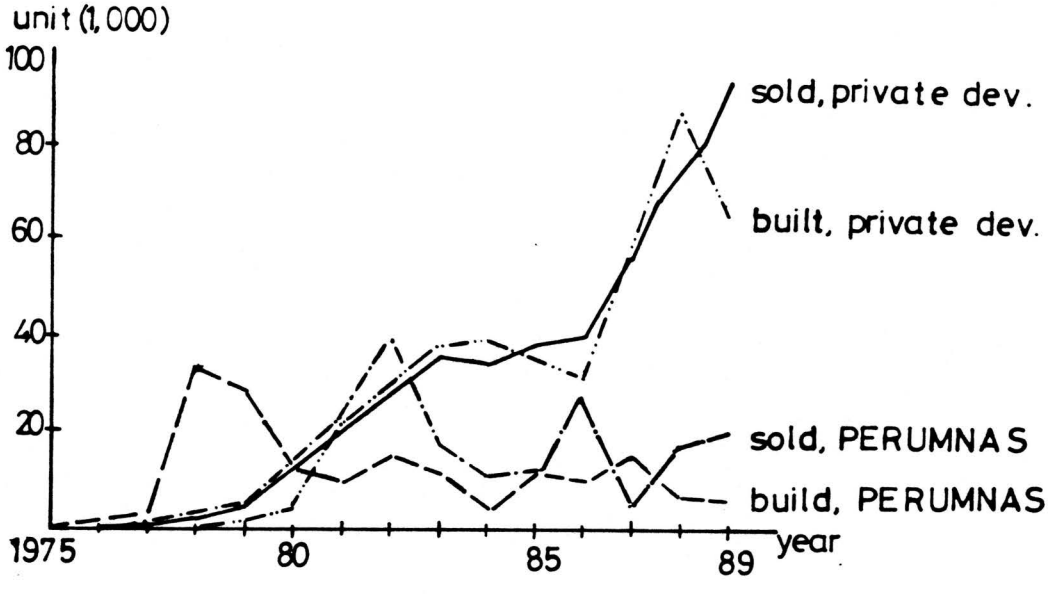

Figure 3. Houses Built and Sold by Private Developers and PERUMNAS

3.3. HOUSING PRICE

The KPR-BTN program has been quite successful in meeting its PELITA's target. However, this success is at some cost. Over time , the government has increased its support in the form of low interest rates for housing mortgages. Table 5 provides the cumulative number of housing unit sold by private developers and the cumulative amount of mortgage financing provided by the BTN for those houses since 1982.

Table 5. The Cumulative Number of Housing Units Sold by Private Developers and the Amount of Mortgage Lending from 1982 to 1989

Year	Cumulative unit	Unit increase (%)	Cumulative mortgage lending (million Rps)	Mortgage increase (%)
1982	135,422		370,889	
1983	186,260	37	579,071	56
1984	227,588	22	790,308	36
1985	281,165	23	1,106,870	40
1986	349,338	24	1,467,639	32
1987	408,814	17	1,727,222	18
1988	498,900	22	2,127,928	23
1989	612,498	23	2,668,519	25

Source : Kantor Menteri Negara Perumahan Rakyat, 1990

Table 5 shows that the growth of the amount of mortgage funding provided each year is higher than the growth in the number of houses built. Although data for 1987 to 1989 show

mortgage lending increasing at the same rate as the that of houses being built, it should be kept in mind that the units built for this period were dominated by smaller types of housing (see Table 6). In other words, less money should be needed per unit.

Table 6. The Type and Number of KPR-BTN Housing units Built by Private Developers from 1984 to 1989

Type	1984	1985	1986-87	1989	total
T15	0	15	8,162	118	8,295
T18	0	0	932	723	1,655
T21	0	0	21,378	31,864	53,242
T27	0	0	5,784	10,669	16,453
T36	4,854	4,650	31,634	37,359	78,488
T45	8,320	8,310	12,455	10,010	39,095
T54	8,400	7,450	463	689	17,002
T70	15,000	12,000	22	207	27,229

Source:- Kantor Menteri Negara Perumahan Rakyat, 1990
- Lembaga Management, 1987

The sharp increase in housing prices is a major problem limiting the number of houses that can be built. The price of a house type T36 in Botabek area for instance, tripled from 1,910,000 rps in 1983 to 5,676,000 rps in 1985 and then steeply increased to 11,029,000 rps in 1990. More complete data on housing prices in the Jabotabek region is provided in Table 7.

Although the price of the KPR-BTN housing is controlled or standardized by the government which sets the maximum selling price, this provision is largely unused in practice. The

standard itself is quite fluid and adjusts to the increase of prices of building materials, land, and building construction costs. In other words, prices actually cannot be separated from market pressures regardless of the government's efforts to control them. This condition has led the government to adjust the standard maximum selling price almost every year by allowing a significant increase.

Table 7 . Sample of KPR-BTN Housing Units Price in the Botabek Region (1000 rps)

Type of house	1983	1985	1988	1990
T15	n.a	2,300	2,500	3,600
T18	n.a	2,800	3,132	5,076
T21	1,029	3,350	3,900	5,600
T27	n.a	n.a	6,548	8,731
T36	1,910	5,676	7,960	11,029
T45	2,310	n.a	9,270	13,230
T54	n.a	7,750	10,485	15,900
T70	n.a	12,950	17,940	20,370

Source: - From various sources including the questionnaire

There are numerous factors causing difficulties for the government in its attempts to control the KPR-BTN housing prices. Land is one of the critical factors determining the price of the KPR-BTN housing. Over time suitable land is becoming less available and, consequently its price is increasing rapidly. For example, the price per square meter of land in a remote area within the Botabek region has increased from 1,500 rps in 1988

to 5,000 rps in 1990, while in one of Jakarta's CBD areas, for the same period, the price per square meter of land has increased from 1 million Rps to 4 million Rps (Yudohusodo, 1990).

The sharply increasing price of land has made land speculation a very attractive business for speculators, including the developers themselves. It is likely that most of them retain huge amounts of land, which can later be sold or used for other purposes that are more profitable than the KPR-BTN housing projects. The Ministry of Public Housing (1990) for example, reveals that there is an indication that there have been thousands of hectares of land that have been retained by many developers. This is possible since the location permits for housing projects can be sold without housing development having taken place.

To demonstrate this tendency, this study includes information on the amount of land that has location permits for KPR-BTN housing and the area that has actually been used for KPR-BTN housing construction (see Table 8). The information on land that has the location permits is obtained from the data base of the National Land Agency (unpublished data). The land area that has actually been used for housing construction is calculated in this study after considering the existing guidelines,

which set aside 40 % of housing project land for neighborhood facilities and infrastructure.

Table 8. Available Land Based on the Location Permits Issued and Estimated area of Land that has been Developed

	Bogor	Tangerang	Bekasi	Total
Number of Houses built[7]	41,336	50,216	52,378	143,930
Area of available land with permits (Ha)[8]	1,033	12,196	1,202	14,331
Estimated area of land developed (Ha)[9]	690	836	874	2,400

Source : - Data base of The National Land Agency (Unpublished Data, Monitoring up to January 1988) and further calculation by the Study.

Since the size of lots varies from 60 to 200 square meters depending on the type of house, this study uses a 100 square meter size as the average size for the reason that at the present time most housing projects being built are dominated by

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7. 1988 figures

8. Area of land based on location permits issued up to January 1988.

9. Area of land used for the KPR-BTN housing Projects. This figures is obtained as follows (take Bogor for an example):
Number of houses x average size of Lot (M^2)
41,336 houses x 100 M^2 = 413.4 Ha
since 40 % of area is designed for Infrastructures and other neighborhood facilities, the total area used for the KPR-BTN housing project becomes: 1.67 x 413.4 Ha = 690.3 ha

type T36 houses which have a lot size of 96 square meters. There is no information available concerning the precise area that has been used for KPR-BTN housing. Thus, the results from this calculation should be used cautiously since they are not precise. However they are adequate to show that the area of land with location permits issued for KPR-BTN housing far exceeds the amount of land that has actually been used.

Besides the price of land, building materials and other building construction related costs have also escalated significantly, but not as much as the increase in land prices. According to some developers (Lembaga Management, 1987), the cost of land, building materials and labor in the Jabotabek region as a percentage of the total is 50 : 35: and 15 % respectively, while the annual increase of each of the cost components could reach 40 %, 5% and 10 % .

These findings, once again, indicate that land prices are a very critical component driving up prices for KPR-BTN housing units over time. The price of land is extremely difficult to manage since it is the result of interaction between demand and supply in a market system. The volatile price of land has made the price of the KPR-BTN housing units hard for government to control.

Government action has also been a factor in making the price of the KPR-BTN housing difficult to control. There are many direct and indirect government regulations regarding this program. Besides technical guidelines from the government, there are also some 43 other formal prerequisites needed by developers in order to achieve permits for this kind of project (Lembaga Management 1987). These provisions generally attempt to provide guidelines concerning housing construction, housing environment, infrastructure, and neighborhood facilities.

These technical standards and formal requirements affect the production cost faced by the developer in two ways: they increase the direct cost of purchasing materials and building construction, and they increase procedural and bureaucratic elements, thereby increasing administration costs and delaying the process. Developers may opt either to increase the price of the housing units they offer or to follow the guidelines in such a way as to reduce the quality of housing they construct.

The next factor, still from the government side, is the lack of preparation of most local municipalities for these housing projects. For instance, most infrastructure and neighborhood facilities such as roads and sewerage have to be constructed by the developers, either PERUMNAS or the private developers

involved, since the local municipalities are not prepared to supply them at the needed time and place. Moreover, when projects are finished, houses sold and all necessary infrastructure and neighborhood facilities provided, developers should hand the project over to a local municipality to maintain the infrastructure and facilities. But in reality, the developer has to carry the burden of upkeep for a period of time since the local municipalities are invariably not ready to take over the facilities. Most developers are acutely aware of this condition and incorporate the expense by increasing the sale price of housing they offer to the public.

3.4. HOUSING DISTRIBUTION

While government controls have emphasized unit type or size and price, the distribution of projects has received less government attention. Although there are some government regulations concerning the location of KPR-BTN housing projects, those regulations are largely unused in practice leaving the locations to be generally determined by the developers.

There are some government provisions concerning the location of the KPR-BTN housing projects. Basically these require that if a KPR-BTN housing project is in an urban area, it must conform with the City Master Plan (Rencana Umum Tata

Kota or RUTK) of the a city in which it is to be located. And if the location is in a rural/suburb area, it should conform with the District Basic Outline Plan (Pola Dasar Pembangunan Daerah or POLDAS).

As a general rule, the location for new housing should not contradict any city master plan or District Outline Plan. It should also avoid using high quality farm land and it should be free from noise, air, and water pollution.

While these provisions seem straightforward, they are nevertheless difficult to follow. A report from the National Land Agency (1990) for example reveals that there have been 246 housing development locations in the Botabek area, including the KPR-BTN, which do not conform to these suitability concepts. Furthermore, this report shows that until 1989 the area of high quality farm land converted to housing, including the KPR-BTN housing in Bogor, Tangerang and Bekasi had reached 347 Ha, 8,273 Ha, and 1,664 Ha respectively.

A field study by Lembaga Management (1987) also indicated that most of developers, either small or large scale, sought developable residential areas by themselves. This means that the locations for KPR-BTN housing are not set by the government. Developers are generally in possession of lands

well before planning to develop low cost housing construction with KPR-BTN facilities.

Most of the KPR-BTN housing projects are located in Jabotabek region. This is reasonable since this is the highest population growth region in Indonesia. In the Jabotabek region itself, most of these projects are located in the Botabek region which surrounds the city of Jakarta. Table 9 indicates the distribution of housing development in the formal sector in the Jabotabek. In can be seen from Table 9 that, there have been 247,909 KPR-BTN housing units built in Jabotabek region and, within the Jabotabek region itself, almost 90 % or 222,826 of the KPR-BTN housing units are located in the Botabek region (See also Table 10).

Table 9. KPR-BTN Housing Units Built in the Jabotabek Region and all Urban Areas Until 1989

	KPR-BTN		Total
	PERUMNAS	Private developers	
Jakarta	11,316	13,767	25,083
Botabek	48,831	173,995	222,826
Jabotabek	60,147	187,762	247,909
All Urban Areas	205,111	414,555	619,666

Source: - Kantor Menteri Negara Perumahan Rakyat, 1990
- Biro Pusat Statistik, 1990

Furthermore, the annual additions to the stock of KPR-BTN housing in Metropolitan Jakarta is minimal, while in the Botabek region growth remains very high. Table 10 shows that the average annual growth in the stock of KPR-BTN housing development in Jakarta since 1984 is 2.4 % while in Jabotabek this growth is 29.0 % and the Botabek region has the highest growth averaging 37.0% annually.

Table 10. The Cumulative Number of the KPR-BTN Housing Units Built in the Jabotabek Region and All Urban Areas Since 1984.

Year	Jakarta	Botabek	Jabotabek	Total Urban Areas
1984	22,252	49,035	71,287	286,618
1985	22,955	91,025	113,980	362,221
1986	23,609	106,539	130,148	390,103
1987	24,225	143,930	168,155	467,782
1988	24,225	181,005	205,230	563,831
1989	25,083	222,826	247,909	619,666
annual average Growth (%)	2.4	37.0	29.0	16.6

Source : - Kantor Menteri Negara Perumahan Rakyat, 1990
- Biro Pusat Statistik, 1985-1990

Table 11 and Figure 4 give the distribution of KPR-BTN housing projects in the Jabotabek region. Table 11 provides information on the distance of the KPR-BTN housing locations from the administrative boundary of metropolitan Jakarta using the example of the Tangerang area between 1985 and 1988.

Figure 4 shows the distribution of the KPR-BTN for the Jabotabek areas until 1988. Both pieces of information show the same tendency for the location of the KPR-BTN housing projects to become more spread out and further from the city of Jakarta over time.

Table 11. Number of KPR-BTN Housing Projects by Distance from the Jakarta Administrative Boundary in Tangerang

Distance (Km)	1985	1986	1987	1988
less than 5	12	6	3	4
5 - 10	8	11	4	5
10 - 15	7	9	9	8
more than 15	2	6	8	8

Source: Data Base of the National Land Agency, monitoring up to 1988

This tendency occurs for several reasons. In the first place, it is related to the availability and price of land. Land price is definitely higher in Jakarta than in Bogor, Tangerang, and Bekasi. Generally it can be said that the purchasing price of land per square meter in the Jakarta area is 3.5 times higher than that in Bogor, Tangerang, and Bekasi (Lembaga Management, 1987). This is to be expected, since the intensity of demand for space within metropolitan Jakarta has resulted in competition from other productive economic activities and this ultimately makes land less available and more expensive for housing.

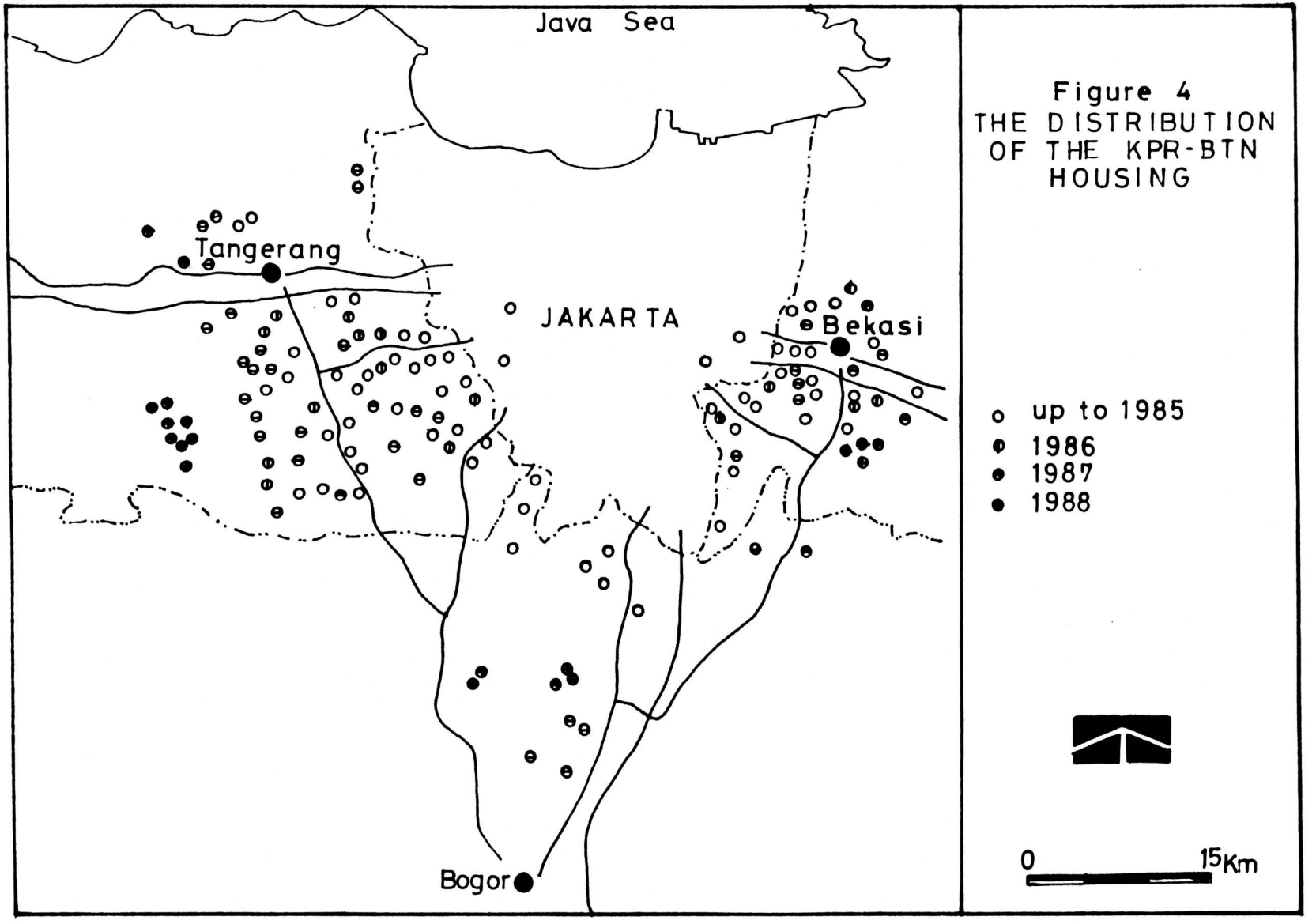

Figure 4
THE DISTRIBUTION OF THE KPR-BTN HOUSING

Along with the higher price of land in Jakarta, the local government provisions have contributed to dispersed development around the city of Jakarta. For instance, the policy on location permits differs between regions. In Jakarta, the local government requires that developers must have control or occupy at least 60 % of the area desired before a location permit can be issued. This regulation is intended to ensure that the location permit is not used for speculative purposes, since the permits can be sold without the developers having to build any buildings/houses.

Outside Jakarta, location permits can be given without requiring that developers control 60 % of the land needed. For developers, the effect is to make the relative cost of obtaining land much higher in the city of Jakarta than in the surrounding area because of the need to acquire land or control of the land in advance of permit application. The result is that the lower price of land and less strong permit provisions in Botabek lead to the dispersal of KPR-BTN housing locations in the surroundings and on the outskirts of metropolitan Jakarta.

3.5. KPR-BTN HOUSING PRODUCTION AND DISTRIBUTION: ANALYSIS AND CONCLUSION

It is safe to say that the effectiveness of the KPR-BTN program is determined by three sets of factors. The first set is related to the ability of government to provide low interest rates for housing mortgages. The second factor is related to the government's ability to establish a supportive environment to promote the participation of developers, while at the same time, protecting the basic purposes of the program in enabling low income people to become homeowners. This, in turn, depends on how well the government balances the various interests of government, developers and prospective homeowners. The third factor is the developer's performance itself.

The availability of mortgages is clearly the limiting factor for the production of housing utilizing the KPR-BTN program. Developers, either PERUMNAS or private developers will not build unless the government or the BTN will ensure the availability of mortgages. In this case, the number of house to be built falls within the range of the amount set by mortgage finance that government is willing to provide. In this way, the availability of mortgage limits the number of houses that can be built through this system. It increases the affordability of the housing and

assures the developers that there will be enough people to buy the houses they build.

Viewed in this light, as long as there is enough government support in the form of housing mortgages, and given the fact that housing demand remains high, developers actually do not need to make much effort in marketing. The system ensures an implicit excess demand or waiting list for all housing produced under this program. The major problem for developers is finding and acquiring sites for housing construction.

PERUMNAS is far less successful in producing and selling its houses than private developers, regardless of the fact that the government treatment of PERUMNAS and of private developers is comparable. This implies that the performance of developers, either PERUMNAS or private developers, is also a critical factor in the effectiveness of the housing program. As long as the government can sustain developer participation, particularly that of private developers , this kind of program seems to be capable of meeting a significant portion of the low cost housing demand.

There has been a dramatic shift in the size of housing units built through the KPR-BTN housing program from larger types to smaller ones. This reflects the government's commitment to

increase the affordability of housing. Assuming that housing quality is the same, and it is, houses of small types are less expensive to produce than the large types. Small types are also more desirable for low income people. At the same time, they also offer more effective use of government resources since, for the same budget, more small than large houses can be built.

The shift to the smaller size houses has not, however, resulted from a conscious desire for more effective use of resources. Rather, it reflects an effort to maintain the target number of units produced. In response to the sharp increases in house prices, government initiatives that force developers to build smaller, less costly types of houses have been introduced so that the number of houses built can be maintained. For example, in 1986 the government introduced a provision that 70 % of a developer's proposal using the BTN facilities should consist of units less than or equal in size to Type 36. It is in this context that the shift toward small types has occurred.

Although the target number of housing units has been maintained, this success is at some cost. Over time, the increase in the number of houses built requires ever larger amounts of subsidized mortgages.

The increase in housing supply through this program has not resulted in decreasing or even stabilizing the prices of houses. The explanation is quite simple. The latent demand for housing remains very high regardless of the huge effort to increase supply.

Land price is one of the critical factors determining the price of the KPR-BTN housing. Close examination shows that the amount of land available has actually been sufficient. The number of location permits approved, for example, has provided for a developable area that far exceeds the area of land that is actually needed by this program. This means that there is still plenty of location-permitted land which has not yet been built on. The Head of the West Java Provincial Office of the National Land Board (1989) claims that theoretically the KPR-BTN does not need any more land for housing development until the end of the PELITA V in 1994.

For the government, the policy of producing moderately priced housing units is a high priority. Large volume production of housing units through this program is only possible in the suburbs rather than within metropolitan Jakarta. It is difficult for the government to make provisions that would restrict the spread of development because this may cause the production of this kind of housing to decline, either because it would push

up land and construction costs and consequently make potential projects no longer attractive for developers or the price of housing would rise beyond the level affordable for most potential buyers.

Overall, the KPR-BTN housing program has been making progress. Housing production has significantly increased over time. Success is at significant cost in the form of low interest rate mortgage assistance. The program also fosters private sector development activity as the prime contributor to urban development and it creates job opportunities.

CHAPTER IV. OCCUPANT CHARACTERISTICS

Households in KPR-BTN housing units are generally young, of small size, and have a higher income than average urban households. Clearly, they do not represent the target household groups for this program. Thus, there is a question whether this program has experienced a real problem in serving its intended clients. This chapter is designed to discuss this question.

Prior to the discussion, this chapter will first introduce some information on major occupant characteristics such as income, occupation, previous home, family size, age, and education. This information was obtained from a questionnaire survey. Finally, this chapter will examine the benefits of this program to the people moving to the KPR-BTN housing units.

4.1. OCCUPANT CHARACTERISTICS

For this study, 300 questionnaires were distributed to KPR-BTN households in the Jabotabek region. The questionnaires were given to the households either directly or by dropping the questionnaires into their mail boxes. Each questionnaire had a self-return envelope and stamp. The targeted respondents are grouped into three main categories as follows:

- 100 questionnaires for type T21 and T27
- 100 questionnaires for type T36 and T45
- 100 questionnaires for type T70

Some 136 respondents returned the questionnaires. The study assumes that the number of the sample is appropriate to draw some general conclusions for the purposes of this study. The distribution of respondents and their responses are presented in the following discussion.

4.1.1. Income Characteristics.

Table 12 shows the income range for both household head and households, and the number of households which fall within the income ranges for each type of house. The term "head income" describes the income of the head of the family, usually the father and the applicant for the KPR-BTN housing[10]. The household income describes total family income, usually head of family and spouse.

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10. In order to make the questionnaire simple and easy to fill in, the study did not limit who should fill in the questionnaire. However it is common in Indonesia that the head of family is the father. Thus the study assumes that he is the applicant for the KPR-BTN housing.

Table 12. The Number of Respondents by Household Head and Household Income and by Type of House in the Study Area

Monthly Income (1000 rps)	Head Income					Household Income				
	T21	T27	T36	T45	T70	T21	T27	T36	T45	T70
< 100	1	6	4							
100-199	3		8	16	27				9	
200-299		3	5	4	18				5	5
300-399		4				4	9	6	6	11
400-500					13			4		12
> 500		7			17		11	7		47
Total	4	20	17	20	75	4	20	17	20	75

Source: - Questionnaire, May-August, 1991

In general, the higher the income the larger the type of house a household bought. The income of the household head does not show a strong relationship with the size of house, whereas the total household income does.

In addition, it can also be said KPR-BTN household incomes are substantially higher than the average urban household income. Monthly urban household income was estimated at 150,000 rps in 1989 (Struyk,J. Raymond et al., 1989. P. 9.16). Although, at present, there is no estimation on the average urban household income for 1991, it can be assumed that the KPR-BTN household income for 1991 is still far higher than that of urban households in general. Note, for example, that the

80th percentile of the urban income distribution for 1990 is estimated at 300,000 rps (Kantor Menteri Negara Perumahan Rakyat, 1991. P.4)[11], while most KPR-BTN household incomes are above 300,000 rps.

4.1.2. Occupation

Data from the questionnaires show that civil servants form the major component of the KPR-BTN occupants making up almost 75 % of the total number of respondents. This result is not surprising. When this program was first introduced in 1976, civil servants and other public employees were given priority as applicants for 75 % of the available houses (Perum PERUMNAS, 1981. P. 13). The priority system was employed because civil servants had stable and easily verifiable incomes.

It was not until 1986, that this policy changed. The new policy has enabled employees of the private sector and self employed persons to have a greater chance of getting KPR-BTN mortgages. It is likely, however, that the majority of financing

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11. There are many different estimates of household incomes. For more discussion, see: Kantor Menteri Perumahan Rakyat, 1990b. Pembangunan Perumahan Tahun 1990, p. 202-203, and Struyk, J. Raymond et al. 1989a. Housing Policies Studies Project. "Laporan Ahir (Draft)". p.8.14-8.27.

will continue to go to civil servants and civil servant will continue to be an attractive market for developers.

4.1.3. Previous Home

Almost 74 % of KPR-BTN households in Botabek region come from the city of Jakarta. Approximately, 25 % of respondents come from the Botabek region itself, and less than 1 % come from outside Jabotabek. In addition, almost 90 % of the respondents in the Botabek area work in Jakarta (see Table 13). This suggests that having a KPR-BTN housing unit appears highly desirable, even though for many it means a move further out of city and extra time and money for transportation.

Table 13. The Number of KPR-BTN Respondents in the Jabotabek Area Based on Current Work Place and Previous Home

Present home	Current work place		Previous home		
	Jakarta	Botabek	Jakarta	Botabek	Outside Jabotabek
Jakarta	29	1	26	2	1
Bogor	11	3	15		
Tangerang	57	4	48	22	1
Bekasi	19	2	15	6	
Total	126	10	104	30	2

Source: - Questionnaire, May-August 1991

4.1.4. Other Characteristics

Other characteristics of the KPR-BTN households are provided in Table 14. This table shows that the average family size of KPR-BTN households is 3.74 which is far below the average urban household size in Jabotabek of 4.5. In addition, the households are generally young, dominated by those households whose heads are between 31-35 years old. Heads are also well educated. Almost 37% have a university degree.

Table 14. The Number of Respondents by Family size, Age, and Education

Size	Number	Age	Number	Education	Number
2	21	< 25		Elementary	17
3	25	25-30	35	Junior High School	24
4	58	31-35	47	Senior High School	45
>5	32	36-40	28	University	50
		41-45	21		
(means= 3.74)		> 45	5		
Total=	136		136		136

Source: - Questionnaire, May-August, 1991.

4.2. AFFORDABILITY

In terms of affordability, there are two necessary conditions for access to KPR-BTN facilities. These are ability

to pay the down payment and ability to meet the monthly instalments. But there is only one limitation on eligibility: household incomes must not exceed the maximum limit set by the BTN[12].

As discussed in the previous chapters, one of the principal objectives of the KPR-BTN program is to increase the housing supply for low and middle income households. From its establishment in 1976, the program has specifically been targeted to serve households whose monthly income is between the 20th and 80th percentiles of the urban income distribution in Indonesia (Batubara, C. 1983. p.7). Those households whose monthly income is lower than the 20 th income percentile are not eligible for this program since they are considered unable to afford to pay the monthly payments. Those households whose income is above the 80th income percentile are considered able to obtain their own houses without government assistance.

In April 1990 this policy changed. There are two major provisions in the new policy. First, the maximum household monthly income for housing types more basic than or equal to T21 is set at 450,000 rps which approximately corresponds with

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12. Other general requirements for the prospective buyers are: the applicant is an Indonesian citizen, married, between 21-60 years old , and currently not owning a house.

the 93rd percentile of the urban income distribution (Kantor Menteri Negara Perumahan Rakyat, 1991. p. 4). For the more substantial types T21 to T70 the maximum household monthly income is 900,000 rps. In addition, the new policy limits the government interest rate subsidies to housing type T21 or the more basic types.

With the new policy, the government has implicitly decided that households whose income falls within the 20th to 80th percentile range of the urban income distribution are to be eligible only for small types of houses, type T21 or smaller. Those households whose income is lower than the 80 th percentile are no longer considered able to afford houses larger than type T21. This is a dramatic shift from past practice in which those whose monthly income was between the 20th and 80th percentile of the income distribution were expected to be able to afford houses of all types.

There are several government initiatives attempting, directly or indirectly, to address this problem. Interest rates and down payments, for example, have been made lower for small types of houses than for the larger types (See Table 15). The government has also introduced a down payment-saving scheme which is designed to help low income households to make down payments for KPR-BTN houses.

Table 15. Interest Rates (I) and Down Payments (dp) for the KPR-BTN Housing (Percent)

type	up to 1986[13]		January 1989[a]		April 1989[b]		March 1990[c]	
	I	dp	I	dp	I	dp	I	dp
T15	5	10	9	10	12	10	12	10
T18	5	10	9	10	12	10	12	10
T21	5	10	9	10	12	15	12	10
T27	5	20	12	20	16	25	*	*
T36	9	20	12	20	16	25	*	*
T45	9	25	15	25	16	30	*	*
T54	9	25	15	25	18	30	*	*
T70	9	40	15	40	18	40	*	*

* : Not specifically regulated,
based on market mechanism and execution banks

Source: a. Ministerial Decree of the Minister of Public Housing No: 01/KPTS/89. January 1989
b. Ministerial Decree of the Minister of Public Housing No:08/KPTS/89. April 1989
c. Ministerial Decree of the Minister of Public Housing No:02/KPTS/90. March 1990

Prior 1986, the maximum income limit was adjusted to the salary of a civil servant at echelon IV. This limit was not clear since the salary of a civil servant at this echelon varies widely.

13. - Basically, up to March 1986, the interest rates for KPR-BTN housing were set at two levels. Those units built by PERUMNAS had an interest rate of 5 % - 9 % annually depending on the tenure of the applicant as a civil servant, while those units built by private developers had an interest rate of 9 % annually.

- See also the Ministerial decree of the Minister of Public Housing No 8/KPTS/1985 (Perum PERUMNAS, 1987. "Annual Report 85-87". P. 8).

In 1986, the maximum income limit of an applicant was set at 300,000 rps. By 1990 the maximum income limit had been raised drastically to 900,000 rps for house up to type T70 and 450,000 rps for houses up to type T21. In addition, to support these changes, the government also encouraged developers to focus on developing small types of housing with the expectation that higher income group would not be interest in these kinds of houses.

There are several reasons why this program has experienced a real problem in serving its targeted income groups. The first is related to the escalating price of the houses produced. The second is related to lack of effective government enforcement of the maximum household income guideline, which has resulted in developers offering their houses to more affluent people.

4.2.1. The Price Option

Table 16 shows the minimum monthly income of households able to obtain a KPR-BTN unit for different types of houses, assuming that households use the maximum allowable KPR-BTN facilities so as to obtain the maximum amount of housing ownership credit allowed by BTN while paying the lowest allowable amount of down payment, and taking the

longest available mortgage term of 20 years. The interest rate and maximum credit in Table 16 are based on 1990 figures before the new provisions applied in April 1990 came into effect. The minimum monthly instalment is calculated based on the interest rate (annuity). The minimum income is the minimum instalment multiplied by four.

Table 16. The Interest Rate, Maximum Credit, Minimum Instalment and Minimum Income for each Housing Type

Type	Interest rates(%)	Maximum Credit	Minimum instalment	Minimum Income
T15	12	3,410,000	38,043	152,172
T18	12	3,930,000	43,845	175,380
T21	12	4,230,000	47,191	188,764
T27	16	4,690,000	65,920	263,680
T36	16	6,120,000	86,020	344,080
T45	18	6,920,000	107,732	430,928
T54	18	7,970,000	124,078	496,312
T70	18	8,150,000	126,881	507,244

Source: Kantor Menteri Negara Perumahan Rakyat, 1991a.

In general, Table 16 shows that minimum income of a household able to qualify for each kind of house is significantly higher than the predicted range of the 20 th to 80 th percentile of the urban income distribution in 1990. For 1990, the government estimated that the 80 th percentile of the urban income distribution at 300,000 rps. Assuming that this estimate is correct and given the regulation that the monthly instalment

should not exceed one fourth of a household's monthly income (Kantor Menteri Negara Perumahan Rakyat, 1990a. p.9), the monthly instalment for a household at the 80 th percentile of the urban income distribution should be approximately 75.000 rps. A household with this amount of income can only afford a house of type T27 or smaller.

Thus, based on housing price, the actual household group eligible for these housing units has shifted from the percentile range of the 20th to the 80 th of the urban income distribution. Thus the people who can actually afford to buy KPR-BTN housing units are not in the low income group.

This situation becomes even clearer when the new provisions of April 1990, as shown in Table 17, are taken into account. Table 17 demonstrates average price, interest rate, and minimum monthly instalments for some types of KPR-BTN housing units offered by private developers in the period of field survey for this study in the Botabek area (May-August 1991).

4.2.2. The Developer Option

The absence of a clear government provision regarding the maximum limit for qualifying household income has contributed to the problems of KPR-BTN in serving its target households.

Table 17. Housing Price, Interest Rate, Minimum Instalment and Minimum Income for Some Types of KPR-BTN Housing Unit in the Botabek Area

Type	Housing price	Interest rate	minimum instalment	minimum income necessary
T21	6,340,000	12	65,160	269,640
T36	9,350,000	21	149,430	590,720
T45	11,740,000	23	176,000	704,000

Source: Field survey, May-August, 1991

Lack of government control with respect to this matter has allowed developers the option of offering their houses to higher income people.

As mentioned earlier, prior to 1986, there was no clear regulation regarding the maximum limit to qualifying monthly income. The only regulation during this period was that the monthly income of the applicant, not the total household income, was not to exceed the salary of a civil servant of echelon IV. This limit was very uncertain. In 1985, for example, this salary could be 97,000 rps or higher, even up to 431,000 rps, depending on many factors including household size and duration of the civil service employment (Struyk, J Raymond et al., 1989. P. 9.9)

In 1986 the government set the maximum income of an applicant at 300,000 rps. The limit, however, does not clearly state whether the income is the applicant income or total household income. The applicant does not necessarily have to verify the total household income unless his single income is not enough to make the household eligible for a mortgage (Struyk et at., 1989 p. 9.21). Clearly, the limitation that income is not to exceed 300,000 rps may or may not refer to the total household income. As can be seen from Table 12, the head income and the total household income can differ substantially.

As discussed in Chapter III, the development of the KPR-BTN housing program is dominated by private developers. As profit-based enterprises and the first screeners for qualifying the prospective buyers, private developers are likely to want to offer the houses they have built to relatively high income families. It is reasonable, for instance, to expect higher income households rather than lower income ones, to request additional work or extras from the developers. Extra work or superior materials means additional revenue for private developers.

Furthermore, although BTN will become the sole agent responsible for the eligibility of a household for a mortgage, private developers may expect that better off households are

likely to have less difficulties serving a mortgage than are lower income households.

4.3. BENEFIT TO PEOPLE MOVING TO BTN UNIT.

Benefits to people moving to KPR-BTN units can be in the form of better quality housing at a relatively low price, greater security of tenure, and lower mortgage interest rates.

4.3.1 Housing Benefits

Housing benefits, for people moving to KPR-BTN units, in the form of higher housing quality are substantial. The housing quality of KPR-BTN units is standardized by government provisions concerning the standard of construction, and the level of equipment for physical-environmental, infrastructure and neighborhood facilities. Although, developers may appear to do work that departs from this standard, strong complaints from occupants about poor performance of their dwellings are infrequent. Either they regard their dwellings as urgently needed and substandard work is therefore tolerated, or they consider the quality of the houses acceptable given the cost.

Lembaga Management (1987. p.IV/3) who surveyed occupant's responses to their dwellings, found that most problems concern the wooden parts of houses, cracked walls, broken roofs, and smaller items such as door handles or water taps. (There were also occupants who reported that their door keys also fitted their neighbors houses). This survey, however, concluded that most occupants respond to these problems by making necessary improvements by themselves.

Occupant turnover among KPR-BTN housing units appears to substantially lower than that occurring in other owner-occupied housing in urban areas (Struyk, 1989a. p 32). This indicates that the projects turn out to be desirable for most of the occupants. This is a positive outcome.

In addition, BTN occupants are likely to enjoy some clear improvements in living condition as a result of moving to BTN units. Specifically, the sharing of dwellings and utilities such as toilets, baths, and kitchen facilities essentially disappears.

The greater security inherent in housing ownership could be the most important factor attracting householders to make improvement to their homes. The questionnaire discovered that almost 74 % of the respondents had made home improvements since they moved into KPR-BTN housing. The improvements

mostly consist of adding extra rooms, replacing front fences, wall plastering, installing ceiling covers, and small repairs.

4.3.2. Income Benefits

The most significant income benefits to people moving into KPR-BTN housing units clearly stem from the subsidy provided in the form of low interest rate mortgages and the relatively low prices for the housing supplied. In the early 1980's, for example, when interest rates for this program were set between 5% and 9 %, the interest rate in the market was 18% (Perum PERUMNAS, 1981. p.13). Also, in the period between 1990-1991, the interest rate for mortgages for houses of type T21 or smaller was 12 %, whereas in the market, the interest rate for loans from commercial banks ranged between 23% and 25 % depending on the period and the amount of loans.

In addition, although the program has been experiencing problems in controlling the price of its housing units and although the standardized maximum selling price is quite flexible, the existence of some controls at least means that no housing unit can be sold at a price higher than the maximum selling price set by the government. As a result, KPR-BTN house prices are lower than would be the case without any government controls.

Household expenditure for housing in urban areas was estimated to average 17.4 % of gross income in 1980. It increased to 22 % in 1987 (Raharjo, 1991. p.6-8). Rent for a room or a house in private rental accommodation is typically the largest component of a household's expenditure and is a consumption expenditure that reduces their ability to make savings. The questionnaire for this study found that approximately 47 % of households currently occupying the KPR-BTN units were previously staying in private rental accommodation and paid rents between 25% and 35 % of their income at that time[14].

The occupants of the KPR-BTN units also benefit from a tolerant policy if they cannot make their monthly mortgage payments at the right time. Of course, it is an "unwanted" benefit but it is widely used. It was found in the questionnaire, that almost 63% of respondents had experienced difficulty in making their payments. In fact, some of them responded that their late payments had stood for 18 months. Civil servants were by far the largest group of those who experienced

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14. The rest, 53 % of respondents, stated that previously they lived either with parents or other relatives. A few lived in accommodation provided by their work unit/institutions. Most of them, however, do not state how much of their income at that time was spent for these kinds of accommodation.

difficulty in making instalments at the right time, making up almost 96% of total.

The KPR-BTN program has a long record of late payment. In March 1988 the late payment backlog amounted to 84 billion rps (Kantor Menteri Negara Perumahan Raykat, 1988. P.6). Although this amounts to only 5 % of the total value of the BTN mortgages that the government has provided, it is roughly 21% of the mortgage finance available in 1988. It does, of course, affect government funding for the housing industry.

Overdue loan accounts were not strongly pursued. In early 1989, for instance, the Office of the State Ministry of Public Housing announced that it would raise the interest rates for the mortgages of those who were persistently late in making payments and it would impose additional penalties on the worst offenders (Struyk, J. Raymond et al., 1989. P.29). Interestingly, the government also thought it necessary to provide some incentives including payment deductions and prizes to those who had a good record on payment.

Although this policy is an improvement, it is clearly not the whole answer. The amount of overdue payments only declined to 58 billion rps by December 1989 (Kantor Menteri Negara

Perumahan Rakyat, 1990a. P.5), and by June 1991 the amount still stood at 45 billion rps (KOMPAS, 7 August 1991).

There is no reported case of a KPR-BTN household being evicted for reason of late payment. This is a strong indication that occupants of this housing continue to benefit from not being strongly pursued if they cannot make their payments at the right time. This is different from other state commercial banks which may and do impose severe penalties including repossession.

4.4. CONCLUSION.

Benefits to people moving to the KPR-BTN housing units are substantial. Higher housing quality, more tenure security, and low interest rate mortgages are some of the prime benefits of this program.

Findings show, however, that a large part of the benefits of the program are not going to the intended beneficiaries. Households in KPR-BTN housing units are generally young, with small size families, relatively well educated, and have a higher income than most urban households. They clearly do not represent the target population for this program. The conclusion

is that this program has experienced a real problem in serving its target population.

In the past, there was a strong claim from the government that this program would serve the target households, those whose incomes fall between the 20th and 80th of percentile of the urban income distribution. Overtime, however, the actual recipients have tended to be in a higher range. This shift is reflected in the current government policy that households whose monthly incomes fall within that range can only be eligible for units smaller than or belonging to type T21.

It is in this context, that the latest amendment to government policy has taken place. The new policy set the maximum limit of total household income for housing type 21 or smaller at 450,000 rps and only these types of houses will be eligible for low interest rate subsidy. Developers are also encouraged to build more houses of these sizes. The purpose is clear, to prevent high income people being beneficiaries of the program, or at least make it less attractive to them.

The absence of a clear government provision regarding the maximum income limit of a qualifying household has contributed to the persistent problem of benefits being directed to higher income households. From its initiation in 1976, the

announced intention of the program was to serve those groups with modest incomes who could manage home ownership, by setting the maximum income eligibility in accordance with the salary of a civil servant at echelon IV. This limit, however, has been largely ignored in practice . Also, the 1986 provision limiting maximum income to 300,000 rps does not clearly state whether this limit applies for a single applicant's income or a total household income.

Lack of government control of this matter has been translated into the option for developers of directing their offerings to higher income people. Higher income people tend to generate higher revenue and profits than low and moderate income buyers. They are likely to ask for extra work, and are not likely to have serious problems in meeting minimum BTN income requirements.

CHAPTER V. CONCLUSION

The KPR-BTN program is a standardized housing program in the formal sector. The program was introduced by the government as a response to the demand for housing in urban areas. This demand appears to be very high due to a high rate of urbanization, internal growth within the cities themselves, and a move toward disaggregation of extended families into individual households.

Although demand for low cost housing appears to be high, the effective demand is quite low since the number of people who are able to obtain market houses is very limited. The KPR-BTN program is a response to this condition. Through this program, the government seeks to increase the ability of people to become homeowners by making low interest rate mortgages available for them.

The KPR-BTN program, as it is defined, is an appropriate strategy to provide low cost housing. The government's objective for this program is to provide low cost housing for low and middle income urban households, approximately corresponding to the 20th to 80th percentile of the urban income distribution. These households are considered to need

government assistance to secure house mortgages. The KPR-BTN also induces partnership between the government and private sector. Prior to the KPR-BTN program period the government had attempted to become the sole agent for housing development in the formal sector.

Since it was initiated in 1976, the KPR-BTN program has become the dominant force in housing development in the formal sector, accounting for 75% of total housing production in this sector. The program has contributed almost 57,000 housing units per year across the country with output showing an average increase of 17% per year.

The success, however, is at some cost. Over time, the increase in number of the houses built has required larger amounts of subsidized mortgages. At the same time, the housing units being built have become smaller, meaning that, in real terms, less money should be needed per unit.

The major factor inducing these changes is the sharp increase in house prices. The price for type T36 housing in the Jabotabek region, for example, increased almost six times from 1983 to 1990. Although the government has attempted to control housing prices by setting a maximum selling price, this provision is largely ignored in practice. The maximum standard itself is

quite fluid and adjusts to price increases for building materials, land, and building construction. Thus, price actually can not be separated from market pressures regardless of government efforts to control it. This inflationary condition has caused the government to adjust the standard maximum selling price almost every year.

Land price is one of the critical factors determining the price of the KPR-BTN housing. Over time, suitable land is becoming less available and, consequently its price has increased rapidly. For the Jabotabek area, land prices have increased at a 40 % annual rate, while building materials and other building construction related costs increased 5 % and 10 % respectively. The sharp increase in land prices has been accompanied by land speculation by the developers themselves as well as others, and, it is likely that most of them hold huge amounts of lands. Close examination shows that the amount of land available has actually been sufficient to meet production expectations. The number of location permits approved , for example, has provided a total developable area that far exceeds the area of land that is actually needed by this program.

Besides land related problems, lack of coordination in the government's intervention, regulations and provisions has also contributed to the escalation in housing prices. The developers

consider that these regulations are incredibly complex and burdensome. Naturally , they shift these burdens to the final consumers by increasing their selling prices.

There has been a dramatic shift in the size of housing units built through the KPR-BTN program from larger types to smaller ones. This shift is a response to sharp increases in housing prices. As an attempt to sustain the rate of housing production, the government set regulations forcing developers to build smaller, less costly types of houses. This policy also reflects the government's commitment to increasing the affordability of housing, making houses more desirable for low income people. It also offers more effective use of government resources since more small than large houses can be build within a fixed budget.

Over time, there has been a tendency for KPR-BTN locations to spread farther out around the city of Jakarta. This tendency is a consequence of the absence of strict regulations governing location for KPR-BTN developments. Developers obtain site locations by themselves. In practice, most are already in the possession of the lands they wish to use before they prepare plans for the KPR-BTN program.

The KPR-BTN program has failed to meet one of its key objectives - to serve its target groups. A large part of benefits

of the program are not going to the intended beneficiaries. Households in KPR-BTN housing units are generally young, of small size, relatively well educated, and have a higher income than most urban households. They clearly do not represent the target population for this program.

The difficulty the program has had in serving its target beneficiaries is partly caused by the fact that houses are sold at prices that are too expensive for these income groups to meet the required mortgage payments. A household whose monthly income falls between 20th and 80th percentile of the urban income distribution can only afford a house of type T21 or smaller. This is a dramatic shift from what was expected when the program was introduced - households whose incomes fall in this range were predicted to be eligible for and able to afford all types of houses produced.

The failure to serve the target groups is also caused by the lack of effective enforcement of maximum household income guidelines. This has lead to developers offering their houses to more affluent people.

5.1. THE AGENDA FOR THE FUTURE

Land, its availability and price, is critical for the success of the KPR-BTN program. Some developers possess land permits but are unwilling to, or incapable of constructing houses. By controlling the permits, however, they can close the opportunity for other developers to construct houses within the same area, and, as a result drive up land prices around the location. The existing provision regarding this matter enables developers to continually extend the validity of their location permits (the Ministerial Decree of the Minister of Internal Affair No. 3/1987 section 8a). The government needs to review this provision. It is reasonable to think that developers should be given a certain period of time in which to start planning and construction. If a developer does not meet this limit, the location permit should automatically become no longer valid with no renewal possible.

The ability of government to provide low interest rates for mortgages is also a critical factor for this program. This kind of mortgage is still possible since the BTN receives low interest loans from various sources including the government, the Bank of Indonesia, and the Word Bank. However, wherever possible the government should encourage efficiency in this program through increased competition. For example, it could encourage mortgage lending by other commercial banks besides the BTN.

Such an initiative would foster the creation of a secondary mortgage facility and increase the total volume of funds for the sector. But for this policy to be possible, interest rates for mortgages for this program and in the free market need to be at more or less the same level. This effort, however, should not be directed to increase the interest rates of mortgages to the free market levels, rather, it should be directed toward reducing the market rate of interest level which currently is very high. (This is, of course, a more global and long term strategy which is much dependent on national economic well being, the rate of inflation, and competition for investment funds).

In the near future, some steps should be taken to improve the effectiveness of this program. Stricter penalties to those offenders who continually make late payment for their mortgages would improve the program's poor record on loan repayment, which in turn would make mortgages more available to other needy people. Some steps should also be taken to improve and simplify existing regulations and procedures so as to reduce unnecessary costs and time delays. This effort could be focused on simplifying the currently complex land titling and acquisition procedures.

Overall, the KPR-BTN program has been making progress. It has an enviable record of inducing a major expansion in high

quality housing production for urban Indonesia. As long as the government can sustain the ongoing developer participation, among private developers in particular, this program seems to be capable of meeting a significant portion of housing demand.

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