

# Chapter 1: Indonesian Housing Policy in the Era of Globalization

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## INTRODUCTION

In the early 1970s, the Government of Indonesia introduced a liberal market-oriented housing policy that focused on growth-oriented urban development. This new housing policy was based on the privatization of the housing sector and prioritized home ownership, factors that initiated the establishment of Indonesia's real estate sector. This new liberal policy also produced a number of negative impacts on housing, particularly in the cities, where the capability to anticipate and prepare for the urbanization process was significantly reduced. In the three decades that followed, the Indonesian government attempted to overcome the negative impacts of these policies by introducing two strategic programmes: one aimed to upgrade housing and settlement and the other subsidized housing.

Between 1980 and 2000 as urbanization in Indonesia reached its peak, its cities failed to address the problems inherent in urbanization, including the availability of adequate, affordable housing. Despite efforts to overcome the issues of poverty and housing for the poor in urban areas, the social discrepancy within the cities grew, resulting in an even bigger problem in new construction of sub-standard housing and an increase in the incidence of squatters in cities. In 2001, which marked the middle of the region's recovery from the Asian Monetary Crisis, the Indonesian government initiated a study called Enabling the Housing market to work in Indonesia (HOMI), which was supported by the World Bank (World Bank 2001). In its final report, in 2002, the HOMI study accepted that for a certain period of time affordable housing could only be delivered through subsidies. At the same time, however, the study maintained the basic concept, that housing can only become more affordable if market distortions could be

addressed. In short, housing market needed to work more efficiently. At the same time, if the housing were to become more affordable, then the housing subsidy could be reduced (Hoek-Smit 2005). The HOMI study's recommendation to reform the housing delivery system was never implemented. So, once again, the need to reform housing policy became the objective of under President Joko Widodo's government (2014-2019). This government integrated the various housing programmes into two "main strategic programmes": City without Slum (Indonesia: Kota Tanpa Kumuh – Kotaku) and the National Affordable Housing Programme (NAHP), both of which had long-term financing in loans from the World Bank. The main question of this chapter is how effective were these two strategic programmes in solving the housing problem in Indonesian cities and what main hurdles did they need to overcome? Further the chapter discusses approaches to affordable housing in the Indonesian context under neo-liberal conditions; it also provides an overview of the related challenges to the implementation of affordable housing on both national and local levels.

## **Urbanization in the Era of Globalization – The Case of Indonesia**

Before continuing with a discussion on housing policy and programmes, it is important to understand that in a newly developing country such as Indonesia the housing problem has a strong relation with the capacity of cities to deal with the impacts of rapid urbanization. The poor condition of housing in a particular city is only one of many problems' cities encounter when they are dealing with rapid urbanization. External factors also influence a particular city's ability to deal with the housing problem, although these factors are not the main reasons for the housing problem. One external factor is global financial restructuring, which has direct impacts on internal factors that are related to all levels of urban structures (Marcuse and van Kempen 2002; Agyeman 2003). This paper points to three transformation processes of globalization and their impacts on urbanization as it relates to affordable housing.

The first transformation is in the relationship between cities within the same country. It should be noted that due to globalization the function of the "national system of cities" has lost its relevance as a tool for states to balance welfare across regions (Young 1990; Harvey 1992). Previously, the "national system of cities" was the instrument national states implemented the most to provide social equity (Kusno 2012). Through state-sponsored interventions, the discrepancies between economic regions could be reduced by improving infrastructure and public services in under developed regions, so as to create "equity in opportunities". Under the neo-liberal economy of the past two decades, the state withdrew

from its role as the caretaker of social equity. The national system of cities was displaced by individual competition between cities. Now, each city works in isolation on a platform of global competition where it must concentrate its energy on upgrading its international position through the commoditization of its local assets (including its natural environment and urban land) and human resources (Logan and Harvey 2002; Friedman 2005). The second transformation is the changing relationship between the city and its hinterland. Almost all urbanists maintain the same position regarding the overall dominant position of urban culture (Marcelloni 2007). In general, the city today is no longer the economic and social-cultural centre of its hinterland. The role of the city as a market place for products from the hinterland has been substituted by its position as a globalized city that provides a market for all kinds of consumer products, including the same goods that were previously produced locally, such as vegetables or fruits. In short, the formation of the city and its hinterland as a spatial-ecological entity no longer exists (Marcelloni 2007). Balanced development in the greater metropolitan region cannot be achieved because the conversion of the land use cannot be controlled and the private sector now drives a development that is heedless to a city's spatial-ecological aspect. The third transformation process is in the restructuring of the city itself, which began in Jakarta during the Soeharto regime in the late 1970s. After a short pause due to the 1997-1998 monetary crisis, the spatial restructuring of the inner city accelerated. The original domestic land use in the inner city has continuously been converted into large-scale commercial buildings, sometimes combined with apartment blocks. The subsequent reduction in the housing stock led to a decrease in the inner-city population. Between 1980 and 2004 the urban districts of Gambir and Tanah Abang, which are located in the centre of Jakarta, lost more than 40% of their registered population or from 1.4 to only 0.9 million population over the twenty-five year period (Santoso and Al-Hadar 2004). Lot by lot, land speculators acquired inner city areas with development potential and reassembled these areas into bigger lots that were later developed as commercial superblocs. The first and second transformation produced push factors on the process of urbanization. The impacts of the third transformation are a reduction in the housing stock in the city centre, followed by the city's expansion to the outskirts. Jakarta's city centre is occupied by what Marcuse and van Kempen (2002) call "the new citadels" or "exclusionary enclaves" of the rich and extremely mobile upper class. The hundreds of towers that dot the skyline have shaped Jakarta into an image of a citadel that stands out from the rest of the city (Marcuse and van Kempen 2002). New elites, professionals, and highly paid managers now occupy some areas behind the city centre, and these are all surrounded by historic urban settlements. This mixed

characteristic is typical of the central business districts of many large Asian cities. On the outskirts of the city, the full privatization of urban development has caused the disappearance of an integrated “social-mixed new town”. With literally hundreds of private housing estates, each designed according to its target market, there has been a pattern of uncontrolled growth along with its inherent unpredictable social and irreparable environmental impacts (Harvey 1992).

## **Urbanization and the Problem of Housing**

In a very large country like Indonesia, the characteristics of urbanization such as speed, dimension, gender and the spatial distribution of migrants differ from region to region. Those cities with lower population growth may benefit from incoming migrants, while the majority of the cities with higher population growth may not. This section presents the negative impacts of rapid urbanization on existing urban environments (Santoso 2018a).

Between 1961 and 1971, Indonesia’s population increased from 97.1 to 119.2 million or by more than 20% during the 10-year period. At the end of the 1970s, as the country’s total population growth rate began to decrease its urban population increased at a faster rate than the average overall population. According to the Indonesian Bureau of Statistics, the population of Indonesia between 2000 and 2010 increased by around 1.5% yearly, with the urban population increasing from between 42% and 50.6%. It is expected that the country’s urban population will reach its highest growth rate over the period between 2025 and 2050, from around 182.1 million to approximately 227.7 million. After the year 2050, population growth is expected to gradually decline. But this slower growth in urbanization will not reduce the housing problem. Rather, the cities will face two new issues: the first is the decreasing number of persons living in one household and the second is the need for more urban land coverage. These two factors will have negative impacts on the availability of residential land. The decreasing average household size (i.e., the average number of persons per household) will automatically mean the same population size will create a higher demand for housing units. The need for housing will be determined by the growth in the number of household units. From 2000 to 2010 the number of housing units grew from 21.4 million to 30.0 million units, while the average number of persons per household decreased from 4.1 down to 3.9. The forecast from 2025 to 2050 is for the average number of persons per household to continue to decrease from 3.75 to 3.6 persons per household and, thus, an increase in the number of households from 44.1 to 63.9 million (see Table A). At the same time, a higher income per capita will increase the average size of the housing

unit. Table A shows that as the population is expected to grow by around 90% from 2010 to 2050; the urban land coverage is expected to grow by 115% from 30.600 to 65.280 square kilometre; and, accordingly, the average density will decrease from 39.22 to 34.88 persons per hectare. All of these factors will create additional pressures on housing affordability.

Table A above shows that between 2000 and 2050 the population density of Indonesian cities is predicted to trend downward from an average of 51.59 p/ha in 2000 to 34.88 p/ha in 2050.

*Table A: Urban Population of Indonesia.*

Year	2000	2010	2025	2050
Population total (Million)	208.8	237.6		
Urban population (Million)	87.7	120.0	170.0	227.7
Percentage (%)	42.0 %	50.6%		
Households (person/unit)	21.4 (4.1)	30.8 (3.9)	44.1 (3.75)	63.9 (3.6)
Urban land coverage (sqkm)	17.000	30.600	45.850	65.280
Density person/Sqkm	5,159	3,922	3,708	3,488

Source: Urban Laboratory Taumanagara (compiled from different sources). The increasing growth of the urban land coverage is calculated following the methods proposed by Angel (Angel 2012).

This reduced density is expected to occur because newly developed urban areas will have a much higher percentage of non-domestic land use, such as land for commercial use and other uses dedicated to urban services. The population density in inner-city areas will decline because of the conversion of existing domestic areas to non-domestic land use (Santoso 2016). Other data show that there will be a big difference between the average urban density nation-wide and the actual densities of large metropolitan cities in Indonesia. Large metropolitan cities, like Jakarta, Bandung, and Surabaya with their high economic growth, have densities of between 70 to 150 persons per hectare. Table B shows that, currently, the average density of six large metropolitan Indonesia cities is 114.86 p/ha, which is more than two to three times higher than the density of average-size cities, which is 34.88 p/ha. The problem of housing in Indonesian cities

cannot be generalized only on the basis of the average city density. Every housing programme must develop appropriate implementation strategies on how to accommodate the different characteristics of these cities.

*Table B: Population Density in Large Metropolitan Cities in Indonesia (2015).*

City	Area (hector)	Population	Density
Jakarta	65.600	10,075,310	153
Bandung	16.700	2,470,802	147
Surabaya	35.000	2,853,661	81
Medan	26.500	2,191,140	83
Bandar Lampung	12.900	960,000	73
Denpasar	12.398	863,000	70
<i>Total 6 cities</i>	<i>169.098</i>	<i>19.412.914</i>	<i>114.86 p/ha</i>
<i>Average Density (from Table A)</i>			<i>34.88</i>

Source: Urban Laboratory Tarumanagara (unpublished data).

## THE INDONESIAN HOUSING POLICY

The Indonesian government's neo-liberal market-oriented housing policy has given absolute priority to the privatization of the housing supply while at the same time supporting the demand for home ownership. This policy has negative impacts on the housing situation in the cities and the capability of these cities to adjust to the urbanization process. Two strategic housing programmes have been introduced to address the negative impact of this neo-liberal urban policy: the first is The Housing & Settlement Upgrading Programme and the National Affordable Housing Programme (NAHAP). The following discusses the implementation of these two housing programmes, with special attention paid to the period 1999 to 2016.

## The Housing & Settlement Upgrading Programme (1999 – 2016)

From 1999 to 2016 the Indonesian government implemented a number of different housing and settlement upgrading programmes. Indonesia's current housing upgrading programme – City Without Slums can be understood as a new variant of housing and settlement upgrading with a similar conception. The following is a summary of the differences between the programmes that were introduced during this period.

In 1999, in the midst of the Asian financial crisis, the Indonesian government implemented a project called Urban Poverty Alleviation (P2KP) (Bahasa: *P2KP: Proyek Penanggulangan Kemiskinan di Perkotaan*). The programme operated until 2006 and consisted of two phases: the rescue phase and the consolidation phase. The basic concept of P2KP was to empower the urban poor to increase their ability to improve their social condition and rise out of poverty. In 2007, P2KP was replaced by a new programme called Empowerment Program for the Urban Population (*PNPM – Program Nasional Pemberdayaan Masyarakat Perkotaan*). The target of this new programme was not limited to the urban poor but it also included the low-income urban community in general. The remarkable characteristics of these two programmes (P2KP and PNPM) was that they focused on empowerment than to investing in the physical aspects of development. In this regard, poverty was understood to be the result of a helplessness that should be overcome through community-based social transformation. Of course, this focus on empowerment was strongly correlated to the fact that the Indonesian state at the time was close to bankrupt.

However, turning to the concept of community-based social transformation is not due to the state's lack of funds but on the positive experiences of similar previous programmes that show that even the poorest members of the urban population have significant potential to help themselves rise out of their poor socio-economic and environmental conditions. But there are other reasons behind the government's decision to substitute the PNPM in 2015 with the programme City Without Slums (*Kotaku*). The first is to accommodate the consequences of Decentralization Law No.22/1999, which is later modified several times until its last version, Law No.23/2014, obligates the government to decentralize its administrative structure (Government of the Republic Indonesia 2014). Following the promulgation of this new law, the housing sector becomes the full responsibility of the local governments. The decentralization of the housing sector is also supported through the new Housing and Settlement Area Law (Undang-Undang Tentang Perumahan Dan Kawasan Permukiman, UU no.1/2011) (Government of the Republic Indonesia 2011). Following the spirit of the new

housing law, the main activities of the national housing agencies moved toward capacity building and institutional development. The first initiative of the housing programme City Without Slums is to accommodate the new decentralized structure by giving local governments more authority in the coordination and execution of the housing upgrading programme. The second initiative is to support the first through the mobilization of local financial resources. In line with the concept of empowerment, the national agencies are encouraged to allocate their financial resources more toward capacity building as the aim is to shift the cost of the physical aspects of housing more to local stakeholders, such as local government agencies, CSR (Corporate Social Responsibility), community-based organizations, and NGOs, among others (Management Programme NSUP – *Kotaku*, 2019). The third new innovation in the City Without Slums programme is an establishment of so-called operations and maintenance committee on the neighbourhood/district level; this committee is responsible for managing the housing settlements. One of the explicit tasks of these committees is to prevent the construction of poorly built houses in district areas, under a programme called Transformation Community-based Development Programme, which is introduced in 2019.

These additional innovative components are integrated into the City Without Slums programme. However, the implementation of the additional components is not without problems. First, because of its high grade of complexity, City Without Slums can only be successful if executed by highly experienced specialists. Know-how, such as defining the appropriate size of the upgrading area, understanding the importance of community awareness, understanding the timing for these types of projects and whether and how local governmental institutions should be involved and other prerequisites, can only be delivered by qualified and fully experienced field managers. It is not easy to find persons with the requisite training and experience even though Indonesia already has more than fifty years of experience in carrying out similar programmes. The main weakness of all upgrading programmes is this type of programme cannot significantly influence an increase in the production of affordable housing nor can it prevent the replication of new substandard units outside of these projects' locations (Santoso 2018b).

### **The Subsidized Housing Programme**

The Indonesian government began its first subsidized housing programme in 1976 in the form of reductions in mortgage interest for members of low-income groups. To support the programme the government established Bank Tabungan

Negara (BTN) as a special mortgage bank. Further, the government established the National Urban Development Agency, which is a state-owned developer known as Perumnas. Perumnas develops large-scale housing projects, the units of which can be bought with subsidized mortgage loans from the BTN. During the 1970s and 1980s Perumnas developed several large-scale housing projects, some in the outskirts of Jakarta and other big cities, others as smaller-scale housing projects in the inner city (The Government of the republic of Indonesia 1974). On the whole, Perumnas built approximately 500,000 low incomes housing and apartment units in more than 300 locations spread throughout Indonesia (<http://www.perumnas.id/perum-perumnas>). At the end of the 1980s, when the oil bonanza was over, Perumnas moved away from its original purpose to act as the National Urban Development Corporation. Further, after the monetary crisis of 1997-1998, Perumnas is no longer continued to carry out its particular mission in the housing sector. Its status as a “special enterprise for developing social housing projects” disappeared as it became an ordinary state enterprise with a limited social mission of providing low-interest (subsidized) mortgages (Silas 2005). In recent years there is a plan to revitalize the role of Perumnas as champion in production of low-income housing in particular in relation to provision of land for low income housing, but the plan is never actualized.

The mortgage subsidy programme consists of an allowance that reduces the interest on housing loans for eligible members of a defined target group; here, the government pays the difference between the market interest rate and the actual interest the borrower pays. In implementing this programme, the government works together with private developers. The private developer manages the construction and the new houses are sold at a maximum price only to those who are eligible for the subsidized mortgages. Since the programme began in 1976, it has undergone many revisions, especially since 1999 when housing prices were repeatedly adjusted for inflation. The other problem is in providing financial resources. According to the new version of Decentralization Law No.32/2004, the authority and responsibility of housing affairs should be decentralized to the local government. But years after the first Decentralization law was promulgated in 1999, only a few local administration was able to initiate a low-income housing program (Kusno 2012).

Experiences from implementing and operating different housing-subsidy programs between 2005 and 2013 offer the following conclusions: In general, the implementation of the different “top-down” housing programs has been ineffective. The main reason is that on one hand the national institutions could not effectively control what happened on the ground and the local governments cannot carry out their important role as mediator between the stakeholders at the

local level and the government institution at the national level. On the other hand, the national government's financial support was misused as it was seen as an opportunity to earn short-term benefits and not as an opportunity for the decentralization of programme delivery. Local governments and other local players also failed to adjust the programme to the specific conditions of local areas. An indicator for this, among others, is the need to adjust programmes to local conditions such as using local building materials, adjusting housing prices to the local minimum salaries or the UMR (minimal monthly salary), and other considerations. In Jakarta or Surabaya, for example, the actual UMR is around Rp 3.6 million (around US\$ 250), but in some areas in Eastern Indonesia the UMR is valued at only 45-50% of this amount (Santoso 2018a). Further, there was insufficient effort to enable local players to participate in these projects. There was no significant improvement in the awareness of the involved stakeholders about the importance of housing programmes for low-income people living in their communities. The end result of all this is that the goal of transferring housing affairs from the national to the local level utterly failed.

Another important finding is that, in general, the quality of subsidized housing is far from acceptable. Poor coordination between the responsible institutions and the attitudes of profit-oriented contractors and housing developers created situations where the involved players are accusing each other and nobody was doing their homework. The Ministry of Home Affairs has the opinion that in order to decentralize the housing affair, the Ministry of the Public Works and Housing is responsible to empower the local housing stakeholders, but the Ministry of Public Works and Housing has the view that the Ministry of Home Affairs is responsible to do the capacity building of government institutions on local level. The mortgage Bank of BTN has primary interest to distribute the subsidized mortgage to so many clients as possible. In the end, the quality of the products becomes uncontrolled and no involved is willing to take the responsibility that a high percentage of the houses is not full fill the minimal standard. Under the bottom line, the home buyers assumed all of the risks and have to make an extra effort to repair and maintain the condition of their houses. The biggest risk is that if the buyer cannot cover the high cost of depreciation in the early years then they will have to move to another house and will stop paying the mortgage instalments on the original one. The results are a large number of abandoned houses and the rapid increase of non-performing loans by the mortgage bank.

## The Concept of Affordable Housing

The notion of housing affordability became widespread in Europe and North America during the 1980s. In the words of Alain Bertaud, former principal planner at the World Bank and now of New York University, “It is time for planners to abandon general objectives and to focus their efforts on two measurable outcomes that have always mattered: workers’ spatial mobility and housing affordability” (Bertaud 2014). Most of the literature on affordable housing applies to mortgage programmes and many other programmes that exist along the same continuum – from emergency shelters to transitional housing to non-market rentals (also known as “social housing”) to formal and informal rentals, indigenous housing, and ending with affordable home ownership. In many countries, there are affordable housing committees that consist of social-housing experts and government representatives. The Australian National Affordable Housing Summit Group developed their definition of affordable housing as housing that is adequate in standard and location for lower or middle-income households and does not cost so much that a household is unlikely to be able to meet other basic needs on a sustainable basis (ACTU 2012).

In the United Kingdom, affordable housing includes social rental and intermediate housing provided to specified eligible households whose needs are not met by the market. Here, affordability is calculated based on the capacity of those in a specific income group to use a percentage of their disposable income to pay their “total housing cost”. This seems a simple solution but the actual calculation is rather complicated while at the same time it must include a number of factors in the demand and supply side of the housing market, such as the willingness to save and spend money for housing, the number of persons in a particular household, the actual cost of operating/managing a house, the construction cost of the house, the inflation rate, the cost of capital, the cost of utilities, the cost of the depreciation of the building and the quality of the infrastructure, etc. (Gabriel *et al.* 2005).

One of the greatest strengths of following the housing affordability concept is to develop what is called the housing affordability index (HAI). Following a housing affordability index developed by a team at MIT, housing affordability is the ability of a household group to capture the “total cost of occupying the individuals’ housing”, which consists of the cost of rent or mortgage payments along with all of the everyday housing expenditures (MIT Centre for Real Estate, 2019). With regards to affordability, this total housing cost is more relevant than the market price of housing. This statement means that the housing price is indeed a “relative cost” in relation to affordability. Therefore, understanding the

challenges of affordable housing requires understanding trends and disparities in income and wealth. The conventional approach to affordable housing is to measure the relationship between income and the market price of housing. However, a better method of measuring housing affordability has been to consider the percentage household income spent on (total) housing expenditures.

Further, if the market-oriented way of thinking is to understand buying housing as an act of property investment, then its quality should be measured in the relation to the amount of the investment and the actual value of the property. The core idea of this approach is to define affordability in relation to the local-specific conditions. In Indonesia, both the minimum wage (Indonesia: UMR) and living costs are very strong local-specific conditions where the high percentage of people whose incomes are less than 60% of the median income is very city specific (Rodda 1994).

The other strong influencing factor is the dynamic of the world economy. Since 2000 the world has experienced an unprecedented boom in house prices not only in magnitude and duration but also in the synchronization of these factors across countries. Never before have house prices risen so fast, for so long, in so many countries. Prices have doubled in many countries. In Ireland housing prices nearly tripled as the country became a target of foreign investors. When the biggest financial bubble in history burst in 2008, this wreaked havoc on the housing market globally.

By 2011 home prices in Ireland had plunged by 45% from their peak in 2007. In the United States prices fell by 34% while foreclosures increased exponentially. In Spain and Denmark home prices dropped by 15%. However, in spite of the bust, home prices continue to be overvalued by about 25% or more in Australia, Belgium, Canada, France, New Zealand, Britain, the Netherlands, Spain, and Sweden (Cox and Pavletich 2012). Many researchers argue that income inequality is partly to blame for the shortage of affordable housing. This same condition can be found in globalized cities in Europe, Australia, and Asia: In many of these globalized metropolitan cities a new form of “illegal rental condition” is sprouting up and in a situation city administration have failed to control. Typically, only legal, permitted, and separate housing is considered when calculating the cost of housing. The low rental costs for a room in a family home or an illegal garage conversion or a college dormitory are generally excluded from the calculation, no matter how many people in an area live in such situations. In cities like Singapore or Hongkong, we find that home owners have subdivided their apartments in order to make it more affordable. In many cases the home owner are renting all the bed rooms and they only keep the living room for them.

Faced with few affordable options, many people attempt to find less-expensive housing by buying or renting farther from the city centre. But long commutes often result in higher transportation costs which erase any savings on shelter. Some call this the “drive until you qualify” approach, which causes far-flung development and forces people to drive long distances to get to work, to buy groceries, to take their children to school, or to engage in other activities. A well-located dwelling might save significant household travel costs and therefore improve not only family economics but also the overall quality of family life. The trend is going more toward sacrificing domestic life for a “better” house; but this is not the case of a minimum-wage worker in an industrial factory on the outskirts of Jakarta. These workers normally share a rental accommodation with friends so as to reduce their dwelling cost as much as possible. This is because migrant workers want to save money for their family who are still living in their home villages, so they spend as little as possible on their own housing.

The conclusion is that the housing affordability index follows the dynamics of the market. In many countries, housing is becoming less affordable because the market economy is causing social inequality to deepen. This is causing home seekers to lower their expectations as much as possible; it is also the real reason we are seeing increasing incidences of poor squatters in high-density urban areas across large metropolitan areas world-wide. All of this is the consequence of integrating the housing sector within the market economy.

## **THE DIFFICULTIES TO IMPLEMENT NAHP IN INDONESIA**

The idea of housing affordability is to move away from housing programmes as part of a “social-corrective” programme and toward integrating a housing delivery system into the market mechanism. There is no housing policy that addresses the problem of the production of substandard houses; as long as there is a demand, these types of housing will continue to be produced. Following the concept of the neo-liberal housing concept, housing has become more unaffordable through a so called “market distortion”. The HOMI study (2001) had the goal of dealing with this distortion by enabling the Indonesian housing market to work properly. Here, the assumption was that the market distortion should be addressed before the housing market can work more efficiently and be able to supply more affordable housing at a reasonable standard of quality. The HOMI study accepted the importance of the relationship between housing and social disparity and also recognizes the importance of subsidized housing programmes. But as housing becomes more affordable, the subsidy should be reduced simul-

taneously. Marja Hoek-Smit, the leader of the HOMI study, repeatedly underlined the importance of gradually reducing subsidy programmes following an increase in market efficiency (Hoek-Smit 2005). Alain Bartaud also noted that the core of the housing problem is in how to integrate the housing delivery system into the market mechanism. The weakness of the HOMI study is that the study does not recognize the importance of the local characteristics of the housing problem.

From the different concepts of affordable housing mentioned above, it can be concluded that housing expenditure, income and local economic conditions are the most critical indicators of the housing affordability index. By consequence, the factors that influence the HAI at the local level should be observed. That is, each local area or region should have its own specific HAI; otherwise, this measure would not give us the real picture of the housing problem. All of the three above-mentioned indicators are strong, depending on the local economic situation. Housing is, in general, a local matter. The quality of the housing in a particular city is strongly determined by the willingness and ability of the local stakeholders involved in the housing delivery system and not by the extent of the financial subsidy. If the willingness to provide a housing delivery system at a reasonable standard does not exist at the local level, then no national government can change that. Even if the City Without Slums are to be successful in establishing a housing management committee, if social equitability cannot be achieved then nobody will be able to avoid the incidence of new miserable squatters springing up somewhere else in the city.

Indeed, the Indonesian national government must play several essential roles to support the decentralization of the housing sector. With regards to the limited availability of financial resources for housing, many experts in Indonesia are of the opinion that this should be the core of housing policy on the national level. In particular, the necessary long-term financial resources cannot be transferred to institutions that operate at the local level (LPPPI 2015). Although the nature of housing development is a long-term enterprise, with people building houses to last for 40 to 75 years or longer, it is not easy to mobilize funding. The availability of a long-term housing fund can protect housing production from the ups and downs of national and global economic cycles. Further, government policy should protect investments in the housing sector from short-term speculative manoeuvres.

The concept of affordable housing is seen as an individual act of buying a house as an investment (in property), which is a domestic affair. A person's housing stock is an individual asset that can be used as a collateral guarantee to borrow money from a bank. Also owning a house enables a person to become

involved in the process of capital accumulation. Affordable housing needs can be addressed through public policy instruments that focus on the demand side of the market and programmes that help households reach the necessary financial benchmarks that make housing affordable. National policies define banking and mortgage lending practices, and taxation and regulatory measures that affect the cost of building materials and professional practices (i.e., real estate transactions). The purchasing power of individual households can be enhanced to a certain degree through tax and fiscal policies that result in reducing the cost of mortgages and the cost of borrowing. Public policy may include the implementation of subsidy programmes and incentives for average households. The national government must also develop a platform for a housing information system, and this should be installed in every city that wants to deal with housing problems. The information provided should also include the socio-economic conditions of people who are working and living outside the market system.

Furthermore, in relation to enabling housing stakeholders, the national government should help cities form housing affordability committees. Other issues where there still needs to be national-agency interventions regarding local stakeholders are: the management skills needed to ensure the quality of the design and construction of social housing. The trend today is to sacrifice quality for lower cost. This has an impact on reducing the lifetime of the product. The development of technology is also relevant as it can increase quality and avoid higher costs. Making use of local-specific building materials and traditional building cultures are possibilities that move in this direction.

But what national government cannot do is protect the housing market and the quality of new construction from the negative impacts of the rise and fall of the global economy. In all globalized cities, the appearance of foreign workers with much higher incomes that sometimes allow for investments in housing has had an impact on the over-proportional increases in rental costs and housing prices, especially where city governments allow foreigners to buy these properties.

## **FINAL REMARKS**

In the mid-1970's the Indonesian government began to establish liberal housing policies that privatized the national housing delivery system and prioritized housing ownership. In the same time, the government introduced two strategic programmes whose goals were to upgrade substandard housing and provide mortgage subsidies to members of low-income groups. Three decades later,

Indonesians must accept the reality that the condition of low-cost housing has become worse than ever. Although the Indonesian economy was continuing to grow, during that time, this did not automatically make housing more affordable. After the end of Soeharto regime, in 1998, the Indonesian government increased its efforts to eliminate substandard housing, especially in urban areas. At the same time, it also attempted to increase the efficiency of housing production and the number of subsidized housing programmes. But 15 years later, the Indonesian government should realize that the problem of housing in the cities cannot be solved by permanently increasing housing subsidies and upgrading substandard homes. Indonesia has to learn that the problem of housing can be solved only if the production of new substandard housing can be stopped; this calls for a big effort to make housing more affordable. To achieve those goals, the Indonesian government introduced two new housing programmes: City Without Slums and The National Affordable Housing Programme, both of which have long-term financial backing from the World Bank. This chapter shows that these two programmes can be successfully implemented only if two main problems can be overcome: the first is to enable stakeholders in local housing to assume leadership positions in a decentralized housing delivery system; the second is to find a way to control the main factor, which is to make housing more affordable in the present market-oriented economic system where there is a gap between housing expenditure and the disposal incomes of people who need housing. This latter objective can only be achieved if social inequality can be overcome.

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