

## Ex-Ante Evaluation (for Japanese ODA Loan)

### Private Sector Partnership and Finance Department, JICA

#### 1. Name of the Project

Country: Republic of Indonesia (Indonesia)

Project: Project for Affordable Housing Finance for Low-Middle Income Households

L/A signing date: June 28, 2022

#### 2. Background and Necessity of the Project

##### (1) Current State and Issues of the Housing Sector in Indonesia and the Priority of the Project

In Indonesia, due to population growth, the formation of new households, and migration to cities, there is an annual demand for between 820,000 to 1 million houses, while the private sector only supplies around 400,000 housing units a year, so the housing supply shortage has become an issue. In the housing market, only around 40% of households who want to buy a house are able to buy a home, while two thirds of the remaining 60% are unable to buy a house without subsidies, and the remaining one third, the group of the lowest income level find themselves in a situation where it's very difficult to buy a house. As a result of this, it is estimated that 71% of all housing in Indonesia is built by the citizens themselves (Source: World Bank 2017), but they do not obtain permission for land use for these self-built houses and they tend to be built on riverbanks or along the coast, which are areas that have a high-risk of natural disasters. In addition, due to the spread of COVID-19, improving living conditions with sanitary housing has become increasingly important to avoid crowded living conditions without sanitation in order to prevent the spread of COVID-19 virus.

The National Medium-Term Development Plan, announced by the Indonesian government in January 2015, made eliminating the gap in supply and demand for housing one of its priority areas, and in particular promoted the policies of providing housing for low and middle income households and rectifying regional disparities. The government set forth policies to promote the supply of housing, including a specific measure announced in 2015 to supply one million houses (with 70% of the houses for low and middle income persons, and 30% for other groups) in its One Million Houses Program. On the other hand, the supply of housing loans to low and middle income households is limited, due to the difficulty

in acquiring low-interest and long-term loans from domestic financial institutions, which hinders the promotion of housing purchases. In 2021, the balance of housing loans was 546 trillion rupiahs, or 3.24% of GDP, which is a lower level than that of neighboring countries like Singapore (50%), Thailand (22%), and the Philippines (4%).

The Indonesian government set forth a policy to promote low-interest and long-term housing loans to low and middle income households by giving subsidies to domestic financial institutions, and in FY 2021 subsidized loans were given out to 157,000 households. In addition, the government has secured a government budget for FY 2022 that expanded this subsidy to around 320,000 households, as part of an economic stimulus program for COVID-19. However, this subsidy is only for households that have a monthly income of eight million rupiahs or less, so not all low- or middle-income earners' housing loans qualify for a subsidy. In fact, around 60% of the company's housing loans are subsidized, while the remaining 40% are unsubsidized. Although it cannot be said to be sufficient to meet the increasing domestic housing purchasing needs, projects like this that mobilize private funds to promote housing loans are an important step in meeting the expanding market demands.

In these circumstances, this project will help provide housing loans to low and middle income households through a long-term loan to BTN, a state-owned local financial institution. Housing loans, including those for low and middle income households, is the main business of BTN, which is a central financial institution in the Indonesian housing finance sector, with about 39% share of the domestic housing loan market, and this plan to promote the purchasing of houses for low and middle income households through this bank is in line with the Indonesian government's policies mentioned above.

## **(2) Japan and JICA's Policies and Operations in the Housing Sector in Indonesia**

"Support for the creation of a safe and just society through balanced development" is listed as a priority area in JICA's Country Analysis Paper for the Republic of Indonesia (June 2018), and Japan's Development Cooperative Policies for the Republic of Indonesia (September 2019) also stipulate this as an important area. As this project promotes the provision of housing to low and middle income households it is in line with these policies and analyses. In addition, as this project involves improving financial access in Indonesia in the ASEAN

region through a loan to a financial institution with the aim of increasing housing loans to low and middle income households, it comes under the Initiative on Overseas Loans and Investments for ASEAN.

### **3. Project Description**

#### (1) Project Objectives

This project aims to increase the provision of housing loans to low and middle income households in Indonesia through a loan to BTN, a local financial institution in the Republic of Indonesia, and hence revitalize the housing loans market and contribute to improving the living standards of low and middle income households.

#### (2) Project Site/Target Area

All the regions of Indonesia

#### (3) Beneficiaries of this Project

Individuals with a monthly household income of 12 million rupiahs or less.

#### (4) Project Components

The loan is necessary to fund the purchasing of houses for those in the low and middle income groups, and it will be set aside by BTN for housing loans to low and middle income households. The specific definition of low and middle income persons who are eligible are those people whose monthly household income is 12 million rupiahs or less.

#### (5) Total Project Cost

11.6 billion yen

#### (6) Project Implementation Structure

1) Borrower: PT Bank Tabungan Negara (Persero) Tbk

2) Executing Agency: PT Bank Tabungan Negara (Persero) Tbk

#### (7) Environmental and Social Considerations, Cross-sectional Items, and Gender Classification

##### 1) Environmental and Social Consideration

(1) Category: C

(2) Reason for Categorization: Based on the "Japan International Cooperation Agency Environmental and Social Consideration Guidelines" (announced in April 2010), this project's undesirable impact on the environment is judged to be minimal.

(3) Other: Agreed with BTN in documents such as the loan agreement on a policy of "selecting only projects that correspond to JICA's environmental category C classification criteria as subprojects."

2) Cross-sectional Matters: None in particular

3) Gender Category:

[Gender issues] GI (S): Gender Activities Integration Project

<Reasons for Categorization> As about 40% of the low and middle income group of borrowers are women, this project will contribute to promoting the purchasing of housing for low and middle income women. In addition, as this project meets a direct criteria for the 2X Challenge (Financing for Women) (as around 46% of the employees are women) and an indirect criteria (around 40% of the loan borrowers are women), we plan to apply for 2X Challenge recognition.

(8) Other Important Matters: None in particular.

#### 4. Targeted Outcomes

(1) Quantitative Effects

Indicator	Baseline (2021)	Target (2026 <sup>1</sup> )
Balance of housing loans for low and middle income households	60.4 trillion rupiahs	72.8 trillion rupiahs
Number of housing loans for low and middle income households due to the implementation of the JICA loan	0 cases	2,300 cases
Number of female borrowers among the above-mentioned loans due to the JICA loan	0 cases	1,035 cases

(2) Qualitative Effects

Improvements in access to housing loans finance, improvements to the safety of housing for low and middle income persons, and improvements to the living standards of low and middle income persons (in terms of safety and hygiene).

(3) Internal Rate of Return

Since this is a bank loan project, the Economic Internal Rate of Return (EIRR) and the Financial Internal Rate of Return (FIRR) are not calculated.

<sup>1</sup> Set as 5 years after the implementation of the loan

## **5. External Factors and Risk Control**

None in particular

## **6. Lessons Learned from Past Projects**

The loan repayment rate from the "Micro Enterprise Support Project" in the Arab Republic of Egypt was reported to be extremely high. The results of the ex-post evaluation showed that when forming projects similar to the one supporting loans for micro and small enterprises, it was important that the enterprise had (1) plenty of loan business experience, and (2) lots of branches dispersed throughout the country to gain the customers confidence. In regards to the loan business experience and the domestic branch network of BTN in this project, it was confirmed that there were no problems as it has plenty of know-how and experience due to being engaged in the housing loans business since 1974, and being the bank with the largest share of the domestic housing loans market. In addition to having a large number of branches within the country, it has utilized digital banking as another channel as part of its customer strategy, which has led to it being very well known and highly trusted within Indonesia.

## **7. Evaluation Results**

It is considered that this project is in compliance with Indonesia's development issues and policies, as well as Japan and JICA's cooperative policies and analyses, will play a part in reducing poverty through the provision of housing loans from BTN, and contribute to SDGs Goal 1 (no poverty), Goal 3 (good health), Goal 10 (reduced inequalities) and Goal 17 (partnerships).

## **8. Plan for Future Evaluation**

(1) Indicators to be used:

As shown in Section 4

(2) Timing:

Ex-Post Evaluation scheduled for 2027.

End