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R2017-0050/1

February 28, 2017

**Closing Date: Friday, March 17, 2017
at 6 p.m.**

FROM: Vice President and Corporate Secretary

Indonesia - National Affordable Housing Program Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Indonesia for a National Affordable Housing Program Project (R2017-0050), which is being processed on an absence-of-objection basis.

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Report No: PAD1788

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$450 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR THE

NATIONAL AFFORDABLE HOUSING PROGRAM PROJECT

February 24, 2017

Social, Urban, Rural and Resilience Global Practice
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 13, 2017)

Currency Unit = Indonesian Rupiah (IDR)

US\$ 1.0 = IDR 13,315.5

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> (Regional Revenue and Expenditure Budget)
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> (State Revenue and Expenditure Budget)
AREBI	<i>Asosiasi Real Estate Broker Indonesia</i> (Indonesia Association of Real Estate Brokers)
Askrindo	<i>Asuransi Kredit Indonesia</i> (Indonesia Credit Insurance Company)
Bappenas	<i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency)
BI	<i>Bank Indonesia</i> (Bank of Indonesia)
BJB	<i>Bank Jabar Banten</i> (Bank of West Java and Banten Provinces)
BLU	<i>Badan Layanan Umum</i> (General Service Agency)
BPJS	<i>Badan Penyelenggaraan Jaminan Sosial</i> (Social Security Agency)
BPK	<i>Badan Pemeriksa Keuangan</i> (Supreme Audit Institution)
BPN	<i>Badan Pertanahan Nasional</i> (National Land Office)
BPS	<i>Badan Pusat Statistik</i> (Central Agency of Statistics)
BP2BT	<i>Bantuan Pembiayaan Perumahan Berbasis Tabungan</i> (Mortgage-Linked Down Payment Assistance)
BRI	<i>Bank Rakyat Indonesia</i>
BSPS	<i>Bantuan Stimulan Perumahan Swadaya</i> (Home Improvement Assistance)
BTN	<i>Bank Tabungan Negara</i>
BUM	<i>Bantuan Uang Muka</i> (Down Payment Assistance)
CDD	Community-Driven Development
CIBIL	Credit Information Bureau (India) Limited
CPF	Country Partnership Framework
CSR	Corporate Social Responsibility
DA	Designated Account
DGHF	Directorate General of Housing Finance
DGHP	Directorate General of Housing Provision
DIPA	<i>Daftar Isian Pelaksanaan Anggaran</i> (Budget Implementation List)
DPB	<i>Daftar Penerima Bantuan</i> (Beneficiaries List)
DRPB2	<i>Daftar Rencana Pembelian Bahan Bangunan</i> (Building Materials Purchase Plan)
EIRR	Economic Internal Rate of Return
EOP	End of Project
ESMF	Environmental and Social Management Framework

FGD	Focus Group Discussion
FHH	Female Headed Households
FLPP	<i>Fasilitas Likuiditas Pembiayaan Perumahan</i> (Housing Finance Liquidity Facility)
FM	Financial Management
FMA	Financial Management Assessment
FPIC	Free, Prior, Informed and Consulted
GDP	Gross Domestic Product
GRS	Grievance Redress Service
GoI	Government of Indonesia
HH	Household
HOMI	Housing Market Indonesia
HREIS	Housing and Real Estate Information System
IBRD	International Bank for Reconstruction and Development
IDB	Islamic Development Bank
IFC	International Finance Corporation
IFR	Interim Financial Report
IMB	<i>Izin Mendirikan Bangunan</i> (Building Permit)
IPs	Indigenous People
IPPF	Indigenous Peoples Planning Framework
Jamkrindo	<i>Jaminan Kredit Indonesia</i> (Indonesian Credit Guarantee Corporation)
KMS	<i>Konsultan Manajemen Strategis</i> (Strategic Management Consultant)
KMP	<i>Konsultan Manajemen Pusat</i> (Central Management Consultant)
KMProv	<i>Konsultan Manajemen Provinsi</i> (Provincial Management Consultant)
KPPN	<i>Kantor Pelayanan Perbendaharaan Negara</i> (State Treasury Service Office)
LG	Local Government
LTV	Loan-to-Value
MAPPI	<i>Masyarakat Asosiasi Penilai Properti Indonesia</i> (Indonesia Society of Appraisers)
MDTF	Multi-Donor Trust Fund
MHA	<i>Masyarakat Hukum Adat</i> (Customary Law Community)
MIS	Management Information System
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MPWH	Ministry of Public Works and Housing
M&E	Monitoring and Evaluation
NAHP	National Affordable Housing Program Project
NBFIs	Non-Banking Financial Institution(s)
NCEP	National Community Empowerment Program
NGO	Non-Government Organization
NPL	Non-Performing Loan
NPV	Net Present Value
NSUP	National Slum Upgrading Project
NUWAS	National Urban Water Supply
OJK	<i>Otoritas Jasa Keuangan</i> (Financial Service Authority)
PASA	Programmatic Advisory Services and Analytics

PDO	Project Development Objective
Perum Perumnas	<i>Perusahaan Umum Pembangunan Perumahan Nasional</i> (National Housing Development Corporation)
PIU	Project Implementation Unit
PKO	<i>Perjanjian Kerjasama Operasional</i> (Operational Cooperation Agreement)
PMC	Project Management Committee
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i> (National Program for Community Empowerment)
Pokja PKP	<i>Kelompok Kerja Perumahan dan Kawasan Permukiman</i> (Working Group for Housing and Settlement)
POM	Project Operations Manual
PPK	<i>Pejabat Pembuat Komitmen</i> (Commitment Making Official)
QCBS	Quality and Cost Based Selection
RIDF	Regional Infrastructure Development Fund
Rusunawa	<i>Rumah Susun Sewa</i> (Rental Multi-Story House)
RPF	Resettlement Policy Framework
RP3KP	<i>Rencana Pembangunan dan pengembangan Perumahan dan Kawasan Permukiman</i> (Housing and Settlement Development Plan)
RPJMN	<i>Rencana Pembangunan Jangka Menengah Nasional</i> (National Medium Term Development Plan)
Satker	<i>Satuan Kerja</i> (Working Unit)
SECO	Swiss Economic Cooperation
SE	Stakeholder Engagement
SMF	<i>Sarana Multigriya Finansial</i>
SMIS	Swadaya Management Information System
SNVT	<i>Satuan Non Vertikal Tertentu</i> (Specific Non-Vertical Unit)
SOP	Standard Operating Procedure
SPP	<i>Surat Permintaan Pembayaran</i> (Payment Request)
SSA	<i>Skema Selisih Angsuran</i> (Installment Discrepancy Subsidy)
SSB	<i>Subsidi Selisih Bunga</i> (Interest Discrepancy Subsidy)
TA	Technical Assistance
TAPERA	<i>Tabungan Perumahan Rakyat</i> (Housing Provident Fund)
ToR	Term of References
UDB	Unified Database
ULP	<i>Unit Layanan Pengadaan</i> (Procurement Service Unit)
UMP	<i>Upah Minimum Provinsi</i> (Regional Minimum Wage)
UNDB	United Nations Development Business
VAT	Value Added Tax
WB	World Bank

Regional Vice President:	Victoria Kwakwa
Country Director:	Rodrigo A. Chaves
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Abhas K. Jha
Task Team Leader:	Taimur Samad
Co-Task Team Leader:	Thalyta E. Yuwono

INDONESIA
National Affordable Housing Program Project

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PAD DATA SHEET
Indonesia
National Affordable Housing Program Project (P154948)
PROJECT APPRAISAL DOCUMENT
EAST ASIA AND PACIFIC
Social, Urban, Rural, and Resilience Global Practice

Report No.: PAD1788

Basic Information			
Project ID P154948	EA Category B - Partial Assessment	Team Leader(s) Taimur Samad Thalyta E. Yuwono	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 22-March-2017	Project Implementation End Date 30-Sept-2020		
Expected Effectiveness Date 22-August-2017	Expected Closing Date 31-Mar-2021		
Joint IFC No			
Practice Manager/Manager Abhas Kumar Jha	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Rodrigo A. Chaves	Regional Vice President Victoria Kwakwa
Borrower: Republic of Indonesia			
Responsible Agency: Ministry of Public Works and Housing			
Contact: Syarief Burhanuddin		Title: Acting Director General for Housing Finance	
Telephone No.: +62217245751		Email: dirjen.pembiayaan@gmail.com	
Project Financing Data (in US\$ Million)			
[X] Loan	[] IDA Grant	[] Guarantee	
[] Credit	[] Grant	[] Other	

Total Project Cost:		960.00			Total Bank Financing:		450.00			
Financing Gap:		0.00								
Financing Source					Amount					
Borrower					510.00					
International Bank for Reconstruction and Development					450.00					
Total					960.00					
Expected Disbursements (in US\$ Million)										
Fiscal Year	2017	2018	2019	2020	2021	0000	0000	0000	0000	0000
Annual	0	90.00	160.00	185.00	15.00	0.00	0.00	0.00	0.00	0.00
Cumulative	0	90.00	250.00	435.00	450.00	0.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Social, Urban, Rural and Resilience Global Practice										
Contributing Practice Areas										
Finance & Markets										
Proposed Development Objective(s)										
The development objective of the Project is to improve access to affordable housing for lower income households.										
Components										
Component Name						Cost (US\$ Millions)				
Component 1: Mortgage-Linked Down Payment Assistance (<i>Bantuan Pembiayaan Perumahan Berbasis Tabungan/BP2BT</i>)						215.00				
Component 2: Home Improvement Assistance (<i>Bantuan Stimulan Perumahan Swadaya/BSPS</i>)						215.00				
Component 3: Technical Assistance for Housing Policy Reform						20.00				
Systematic Operations Risk- Rating Tool (SORT)										
Risk Category								Rating		
1. Political and Governance								Moderate		
2. Macroeconomic								Moderate		
3. Sector Strategies and Policies								Substantial		
4. Technical Design of Project								Substantial		
5. Institutional Capacity for Implementation and Sustainability								Substantial		

6. Fiduciary	Substantial		
7. Environment and Social	Moderate		
8. Stakeholders	Moderate		
OVERALL	Substantial		
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?	Yes []	No []	
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10	X		
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
BSPS guidelines		31-Dec-2017	
Description of Covenant			
Schedule 2, Section I.A.7: No later than December 31, 2017, the Borrower shall revise the BSPS guidelines to reflect the requirements in the Operations Manual.			
Conditions			
Source of Fund	Name		Type
IBRD	Article IV, 4.01 of the Loan Agreement		Effectiveness

Description of Condition				
(a) The Borrower has: (i) adopted the Project Operations Manual in the form and substance satisfactory to the Bank; and (ii) established the Project Management Committee and all of the Project Implementation Units.				
(b) The Borrower has adopted the operational and eligibility guidelines for BP2BT in the form and substance satisfactory to the Bank.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Taimur Samad	Team Leader (ADM Responsible)	Program Leader	Urban Development	EACIF
Thalyta E. Yuwono	Co-Task Team Leader	Senior Urban Economist	Urban Development	GSU08
Evarist Baimu	Counsel	Senior Counsel	Legal	LEGES
Ria Nuri Dharmawan	Counsel	Counsel	Legal	LEGES
Budi Permana	Procurement Specialist (ADM Responsible)	Procurement Specialist	Procurement	GGO08
Novira Kusdarti Asra	Financial Management Specialist	Senior Financial Management Specialist	Financial Management	GGO20
Indira Dharmapatni	Safeguards Specialist	Senior Operations Officer	Social Safeguards	GSUID
Krisnan Pitradjaja Isomartana	Environmental Specialist	Senior Environmental Specialist	Environmental Safeguards	GEN2A
Marja Hoek-Smith	Team Member	Consultant	Housing Finance	GSU08
Dao Harrison	Team Member	Senior Housing Finance Specialist	Housing Finance and Policy	GSU08
Olivier Hassler	Team Member	Consultant	Housing Finance	GSU08
Francois de Ricolfis	Team Member	Consultant	Mortgage Guarantee/ Insurance	GSU08
Matthew Wilson	Team Member	Consultant	Mortgage Guarantee/ Insurance	GSU08
Simon Walley	Team Member	Lead Financial Sector Specialist	Mortgage Guarantee/ Insurance	GFM3A
Geoffrey Payne	Team Member	Consultant	Urban Development	GSU08

Griya Rufianne	Team Member	Operations Analyst	Urban Development	GSU08	
Adri Poesoro	Team Member	Urban Economist	Urban Development	GSU08	
Audrey Sacks	Team Member	Social Development Specialist	Social Development	GSUID	
Virza S. Sasmitawidjaja	Team Member	Consultant	Environmental Safeguards	GEN2A	
Raven Philip Anderson	Team Member	Consultant	Urban Development	GSU08	
Achmad A Nasution	Team Member	Consultant	Urban Development	GSU08	
Eduardi Prahara	Team Member	Consultant	Engineer	GSU08	
Fernando Situngkir	Team Member	Consultant	Urban Development	GSU08	
Sandy Maulana	Team Member	Consultant	Urban Development	GSU08	
Marleyne Danuwidjojo	Team Member	Program Assistant	Urban Development	EACIF	
Extended Team					
Name		Title	Office Phone	Location	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Indonesia	Province/Kota/Ka bupaten	Nationwide (34 Provinces)	X	X	

I. STRATEGIC CONTEXT

A. Country Context

1. Indonesia is undergoing a major and rapid structural transformation into an urban, manufacturing and service-based economy. Indonesia's cities are growing faster than many of their Asian peers, with the urban population increasing at an average rate of 4.1 percent per year between 2000 and 2010 (compared to 3.8 percent in China, 3.1 percent in India and 2.8 percent in Thailand)¹. In 2012, the urban population was over 52 percent of the total population, and by 2025, an estimated 68 percent of Indonesians will live in urban areas. Approximately 18 million of the 21 million jobs created between 2001 and 2011 were in urban areas, marking a major shift of the employment base toward cities.²

2. However, a large infrastructure deficit, slow gains in labor productivity, rising inequality and a severe shortage of affordable housing threaten to limit the benefits of urbanization by stifling growth and poverty reduction. In urban areas, quality housing and access to basic services, such as water, sanitation, or transport connections, remain poor relative to Indonesia's wealth and level of income. In 2014, around 33 percent of the urban population did not have access to clean water supply facilities, while 40 percent did not have access to sanitation facilities.³ In addition, the large increases in urban population, combined with a dearth of affordable housing options for lower-income households has led to overcrowding and the growth of slums characterized by substandard housing, inadequate access to basic services, poor health and vulnerability to disaster risks.⁴ Approximately 22 percent of Indonesia's urban population (equating to a 29 million people) is estimated to live in slums, which cover an estimated 38,000 hectares.

3. As more people move and work in urban areas, it will be critical to support inclusive and well-planned urbanization and increase the supply of adequate housing in well-served and connected neighborhoods in order to enhance living standards. As income rises and existing large metropolitan areas such as Jakarta and Surabaya become saturated, the demand for consumer durables, shopping space and housing will increase significantly in smaller cities. Empirical evidence shows that urbanization supports growth and poverty reduction in Indonesia only in the presence of adequate infrastructure, including safe and affordable housing.⁵

4. The financial sector in Indonesia is still in the early phase. Banking dominates the growing Indonesian financial sector, controlling nearly 80 percent of its assets. Overall, assets of banks and non-bank financial institutions (NBFIs) have grown substantially since the global financial crisis, from IDR 2,942 trillion or 59.4 percent of GDP at the end of 2008, to IDR 7,459 trillion or 70.8 percent of GDP in early 2015. In August 2015, there were 118 commercial banks (including 4 SOE banks and 26 regional development banks) and roughly 1,644 rural banks in Indonesia. NBFIs consist of pension funds, insurance companies, mutual funds, and other financing

¹ World Bank (2012). Urbanization Review – The Rise of Metropolitan Regions.

² World Bank (2013). Indonesia 2013 – Development Policy Review. It's Time.

³ Directorate General of Human Settlements, Ministry of Public Works, 2014.

⁴ Development Policy Review 2014, Indonesia: Avoiding the Trap. PREM Department, EAP Region. World Bank

⁵ Lewis, B. D. (2014). Urbanization and Economic Growth in Indonesia: Good News, Bad News and (Possible) Local Government Mitigation. *Regional Studies*, Vol. 41(1), 192-207

institutions including venture capital, leasing companies, pawnshops, and microfinance institutions. Of these, insurance and financing companies are the two largest groups of NBFIs in terms of assets.

5. Only a small part of Indonesia's total population has access to banking services. Indonesia has a low rate of uptake of slightly under 20 percent, compared to Thailand at almost 78 percent and Vietnam at 21.4 percent. Only 21.9 percent of the poorest 40 percent of the Indonesian population has savings in a financial institution. Furthermore, over 40 percent of the population does not borrow, with only 13.1 percent having borrowed from a financial institution.⁶

B. Sectoral and Institutional Context⁷

6. **There is a substantial demand for affordable housing in Indonesia – a function of both new annual demand creation and an unmet deficit.** There are approximately 64.1 million housing units in Indonesia, of which around 20 percent are in poor condition and an estimated 820,000 to 1 million new units are needed each year to respond to annual housing demand from population growth, new household formation, and migration to urban areas. The private sector only produces approximately 400,000 units per year. Public sector programs, including incremental home improvement assistance, rental housing, and social housing programs, enable an additional 150,000 to 200,000 solutions. This leaves a gap of an estimated 220,000 to 370,000 households that must resort to informal solutions or overcrowding in existing units each year.

7. While estimates of the housing deficit vary widely (owing to conflicting definitions of the term), all official metrics indicate a substantial housing deficit. Based on 2015 National Household Survey data by the Central Agency of Statistics (BPS), Ministry of Public Works and Housing (MPWH) estimates a housing backlog of 11.4 million units⁸. However, this estimate is likely to be significantly overstated as it is based on home ownership information and fails to take into account renters or lessees whose lifestyle preference may not be to own housing. Using the alternative definition of 'overcrowding', the number of substandard units was estimated at 7.5 million in 2013. Lastly, a further quantification of substandard housing estimates that 45 percent of all units are substandard by some measure, i.e. overcrowding, constructed built of at least one poor quality material, or lack access to basic services⁹.

8. **Affordability remains a key constraint significantly improving housing outcomes for most Indonesians.** As illustrated in Table 1, only the wealthiest 40 percent of households in metro areas can comfortably afford to acquire housing in the formal commercial market based on an estimated IDR 250 million (US\$ 18,775) cost for a 36m² basic unit.¹⁰ Conversely, the 40 percent of households within the 3rd to 6th decile cannot afford an equivalent formal housing unit without

⁶ Global Financial Inclusion Database, World Bank, 2014.

⁷ This section was sourced from a range of technical background materials, in particular, Indonesia: A Roadmap for Housing Policy reform; World Bank: Housing in Indonesia: Expanding Access, Improving Efficiency; and the Indonesia: National Slum Alleviation Policy and Action Plan (SAPOLA) Final Report.

⁸ MPWH 2016 (<http://ppdpp.id/konsep-backlog/>).

⁹ Susenas, 2013.

¹⁰ Estimated home price for basic commercial unit of IDR 250 million (US\$ 18,775) is based on an analysis of 36m² or below BTN non-subsidized loan portfolio.

subsidy enhancements. The bottom 20 percent of Indonesians cannot afford even a basic unit, without deep and expensive subsidies.¹¹

9. As a result, **the vast majority of Indonesia’s housing stock is self-built.**¹² Available data suggests that informal, self-built housing continues to produce the majority of housing in Indonesia, with a recent survey estimating that 71 percent of the housing stock in the country is self-built.¹³ Relying exclusively on self-built and incremental construction has severe limitations in relation to the systematic provision of services and infrastructure in a rapidly urbanizing context. Indonesia’s housing production system is demonstrating severe signs of stress as evidenced by the growing housing deficit, poor urban service indicators and the proliferation of slums.

Table 1: Estimated Housing Affordability in Metro Areas (2016)

Household Decile ¹⁴	Mo. HH Income ¹⁵ (IDR million)	Mo. Payment Capacity (IDR million)	Estimated Affordable Home Loan (IDR million)	Estimated Affordable Home Price (IDR million)
10	20.3	8.1	665	949
9	10.1	3.8	306	438
8	8.4	2.9	240	300
7	7.1	2.3	192	240
6	6.0	1.8	146	183
5	4.9	1.4	113	141
4	4.2	1.1	86	107
3	3.6	.9	74	93
2	3.1	.6	20	21
1	2.3	.4	8	9

Notes: Deciles 3-10 with commercial bank rates of 12% at 15-year loan term, Deciles 1-2 with MFI bank rates of 24% at 3 to 5-year loan term.

10. **Increasing the availability of affordable mortgage lending to leverage the private lending sector is essential for providing formal housing at scale in an urbanizing context.** However, the penetration of mortgage finance is limited given Indonesia’s wealth and GDP. Mortgage lending accounted for only 2.8 percent of GDP in 2012, compared with 7.0 percent in India and 19.0 percent in Thailand (Figure 1).¹⁶ Mortgage lending is constrained by a complex range of factors. First, most Indonesians simply cannot afford a mortgage without subsidy enhancements and government mortgage subsidy programs have suffered from both inadequate funding and poor design. Second, over 60 percent of Indonesians are not part of the formal

¹¹ While the definition of ‘basic unit’ in Indonesia varies from region to region, in this instance it refers to a minimally socially acceptable dwelling. This entails a degree of tenure security, access to water and sanitation, adequate construction (e.g. sturdy materials and good construction of the roof, walls and floor), and sufficient space to avoid overcrowding (by regulation, more than 9 m² per occupant). Self-built construction can achieve these standards; no formally produced units are currently available at this price.

¹² Self-built housing refers to lower income housing built through small contractors or by local labor, either on formal or informal land.

¹³ Statistics of Housing and Settlement, 2013, BPS.

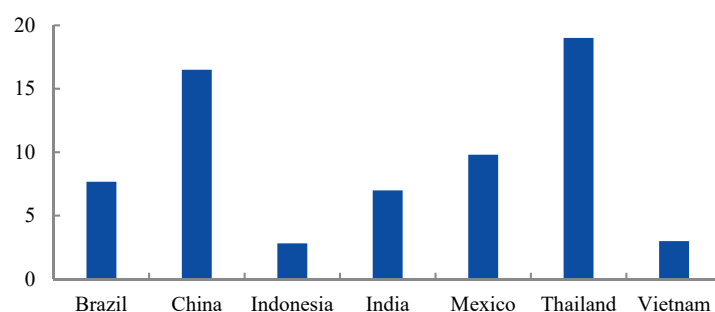
¹⁴ Based on data from the Household Survey (2014), each decile consists of approximately 6.5 million households.

¹⁵ Monthly HH Income 2016 is calculated using Monthly HH Expenditures from Susenas BPS Statistic Office 2013, extrapolated to 2016 HH Income using a 6% annual inflation rate and an estimated savings rate of 5%-30% depending on income decile.

¹⁶ Hofinet.org.

workforce and hence lack access to the financial system. Many of these households may be able to afford a mortgage, but lack credit histories and are considered non-bankable by the commercial banking sector. Unlike comparable countries such as India or Mexico, the mortgage lending sector in Indonesia has not yet adopted innovative underwriting and credit risk management solutions to reach lower-income and non-salaried earners for housing. Third, the banking sector lacks access to affordable, long-term funding from capital markets. Without the evolution of this secondary market, Indonesian banks will have limited ability to finance long-term mortgages from short-term deposits.

Figure 1: Volume of Residential Mortgage Finance as Percentage of GDP, 2012 (in percent)



Source: *hofinet.org*; World Bank staff calculations

11. Nonetheless, **the policy enabling environment to develop the mortgage market is generally sound – with improvement needed in key areas.** Mortgage underwriting practices are generally positive. Bank Indonesia (BI) prudential regulations restrict LTV to 85 percent for first mortgages, 80 percent for second mortgages and 75 percent for third mortgages. BI recently relaxed the LTV (loan-to-value) ratio from 80 to 85 percent for first time home ownership and for those commercial banks with NPL of 5 percent or below. Additionally, debt service ratios are within international norms of 30 to 40 percent. Some key lenders such as BTN and BRI use residual income ratios that require a deeper understanding of the consumers' household cash flows, providing a good stepping stone for underwriting the non-documented informal income segment.

12. Property valuation standards are improving in Indonesia given the tightening supervisory oversight that MoF has over MAPPI (Indonesia Society of Appraisers) certified appraisers that require a strict certification process, continuing education and appraisal data reporting. While there is no public central valuation database and the BI Home Price Index is available only for 16 cities, appraisers build their own internal database and rely on the MAPPI network for valuation.

13. Further, the credit rating industry is on the verge of expanding and is an important cornerstone in supporting the consumer credit lending growth. Pefindo Credit Bureau is the first private credit bureau that has received license in 2015 to operate in Indonesia and is prepared to extend the breadth of consumer data collected and the credit analytical services, beyond the BI debtor information system (*Sistem Informasi Debitur/ SID*) credit bureau offerings to date and in line with international best practices. Two more private credit bureaus are also in line to receive operating licenses. Experience in India has shown that the expansion of the credit bureau industry beyond the first credit bureau (i.e. CIBIL), has substantially improved both the quantity and quality of consumer data being collected and reported while extending consumer credit knowledge.

14. **The performance of lenders in the consumer and specifically mortgage sector is generally strong.** Non-performing loan (NPL) rates for all mortgages (inclusive of home equity loans) across all banks was 2.8 percent as of August 2016. For the LOI mortgage lenders, NPLs have remained low (i.e. BRI, ~2 percent for year end 2015; BTN 2.15 percent for subsidized mortgages and 2.91 percent for non-subsidized for H1 2016). Nonetheless, weaknesses in the system do exist. Even among the largest commercial banks, more robust analytical capacity is needed. BRI, for instance, does not capture adequate consumer data (e.g., fixed and non-fixed income) while BTN is currently engaged in an effort to strengthen its data analytical capacity. Beyond the five largest regional banks, mortgage infrastructure and capacity to quickly expand and grow is limited. PT. SMF is working to help build capacity while setting mortgage standards for the regional banks.

15. In addition to demand side constraints, **complex supply-side constraints prevent the private sector from participating in low-cost housing development.** Land availability bottlenecks, including complex land acquisition, permitting and servicing processes, and constraints on developer finance and the rising cost of construction, have limited formal housing development. This has kept annual production numbers low, particularly for low-margin affordable units. Failures in the provision of affordable housing have also contributed to the growth of slums. More than 50 percent of Indonesia's poor¹⁷ reside in slums characterized by substandard housing, inadequate access to basic services (e.g. water, sanitation and roads), poor public health conditions, vulnerability to disaster risks and, in larger cities, overcrowding. If no action is taken, the area in cities attributable to slums is expected to continue to increase, along with the number of households.

Government of Indonesia (GoI) Efforts to Enhance Access to Affordable Housing

16. **Indonesia has developed a broad set of policies and institutions to support affordable housing but these have not yet been effective in improving housing outcomes at the scale necessary.** These measures include: (i) a series of neighborhood community driven development programs such as the National Program for Community Empowerment (*Program Nasional Pemberdayaan Masyarakat*, PNPM) - Urban; (ii) highly to fully subsidized public rental housing programs (e.g. *Rusunawa*); (iii) Home Improvement Assistance (*Bantuan Stimulan Perumahan Swadaya*, BSPS) – an up-front assistance for incremental home improvement; (iv) housing microfinance (KPRS/KPRS Mikro Bersubsidi) started in 2006 through a MPWH Ministerial Regulation No.05/Permen/M/2005, which aims to provide mortgage for fixed and non-fixed low-income people by either subsidizing individual for housing improvement, mortgage interest rate buy down through KPRS Bersubsidi, or subsidy for development or housing improvement using KPRS Micro Subsidy; (v) a subsidized Mortgage Liquidity Facility (*Fasilitas Likuiditas Pembiayaan Perumahan*, FLPP) which aims to enhance mortgage affordability for middle-income households by subsidizing interest rates for fixed-rate mortgages; and (vi) an interest rate buy-down subsidy for mortgages, *Skema Selisih Angsuran* (SSA) introduced in 2015 and *Subsidi Selisih Bunga* (SSB) introduced in 2016 (see Box 1 for more information on GoI initiatives for housing).

¹⁷ Based on a Slum Profiling carried out in 2015 by the National Community Empowerment Program (NCEP) Urban.

Box 1: Summary of Government Housing Programs

GoI has focused recent housing interventions around three primary initiatives (FLPP, BSPS, and *Rusunawa*) and a set of policies targeted at incentives for the private sector and support to local governments. Specific programs include the following:

1. KPRS/KPRS Mikro Bersubsidi. Introduced in 2006 through a MPWH Ministerial Regulation No.05/Permen/M/2005, KPRS/KPRS *Mikro Bersubsidi* provides access to fix and non-fixed low-income people for the following subsidy: i) provide mortgage subsidy for fix and non-fixed low-income people for home improvement or development; ii) mortgage interest rate buy down through KPRS *Bersubsidi*; and iii) mortgage subsidy for development or housing improvement using KPRS Micro Subsidy.
2. BSPS program for incremental self-built housing. Since 2006, GoI has provided an assistance to support incremental self-built housing, targeting rural and peri-urban areas. Eligible low-income households, with income below IDR 1.5 million (US\$ 113.0) per month, receive a subsidy of IDR 10.0-30.0 million (US\$ 751-2,253) for home improvement or new construction. From 2010 to 2013, BSPS reached 544,000 beneficiaries, with an average per unit cost of IDR 20.0 million (US\$ 1,502.0). BSPS is the most efficient and best targeted GoI housing program.
3. FLPP for affordable mortgage finance. Introduced in 2011, FLPP provides concessional funds to lenders, who provide mortgages at fixed interest rates to end-users at 5.00 percent p.a. for 20 years. Liquidity is 90 percent funded by the GoI (at 0.30 percent for 20 years) and 10 percent by the participating banks. Between 2011 and 2014, FLPP has served an average of 68,000 households per year. FLPP is characterized by high per unit fiscal and economic costs in NPV terms.
4. SSA /SSB mortgage interest rate buy down. Introduced in 2015, SSA subsidizes the interest rate paid by consumers on eligible mortgages, enabling households to pay a flat 5 percent rate for the duration of loan tenure. The product functions by reimbursing participating lenders, who must provide 100 percent of capital. Capital funding is the primary difference between FLPP and SSA. SSA functions as an unfunded future liability: only the current years' subsidy has to be budgeted and contingent liabilities for future years are not subject to budgetary approval. In 2015, SSA funded 13,187 units, all financed by BTN. In June 2016, a new Ministerial Decree was passed that introduces SSB scheme while aligning FLPP and SSB eligibility criteria. The key difference between SSA and SSB is the source of funds, SSA being from the MoF while SSB being sourced and managed by the MPWH budget.
5. Rusunawa for public rental housing. The *Rusunawa* Program supports multi-family public rental housing, whereby central government allocates a capital subsidy for construction of public rental and local governments are responsible for identifying and servicing program sites and managing units at completion. Tenants must earn below the provincial minimum wage (UMP), with nation-wide income limit of IDR 2.5 million (US\$ 187) per month. Rents are set at 30 percent UMP. In 2014, the Ministry of Housing allocated IDR 1.3 trillion (US\$ 97 million) to the public rental program, while the Ministry of Public Works allocated another IDR 1.1 trillion (US\$ 82 million). The two ministries have since been merged and the program sits under a single directorate. *Rusunawa* has been characterized by low budget utilization rates, underachievement of targets, high unit vacancy rates and poor maintenance.
6. Other initiatives. Government also has allocated budget for capacity-building and planning support to local governments and provides incentives to private sector through *Rusunami* initiatives, which includes waivers on the transfer tax to developers selling units below IDR 144.0 million or US\$ 10,814 (reduced from 5 to 1 percent). Meanwhile, buyers with basic income less than IDR 4.0 million per month are not required to pay VAT (typically 10 percent) on landed-house units purchased under the FLPP and SSB program. Lastly, in 2015 GoI introduced BUM, a modest down payment assistance IDR 4.0 million for households accessing either FLPP or SSB.

17. In addition, several state-owned enterprises, including the National Housing Development Corporation (*Perusahaan Umum Pembangunan Perumahan Nasional* – Perum Perumnas), the Secondary Mortgage Facility (*Sarana Multigriya Finansial* or PT. SMF), state insurance companies (*Jaminan Kredit Indonesia*, Jamkrindo) and public mortgage guarantee providers (*Asuransi Kredit Indonesia*, Askindo), have been developed in order to play an active role in improving supply of and access to affordable housing through direct housing development, secondary mortgage market development and the extension of mortgage insurance, respectively. Finally, some local governments have pioneered programs that have achieved localized results (e.g., a housing microfinance scheme in Palembang and a rental housing program administered by DKI Jakarta). However, these local initiatives often lack sustainable funding sources and the political support to scale up.

18. In spite of these initiatives, **government spending on housing has historically been too low to have a significant impact**. For example, in 2013 the government committed 0.4 percent of the total central government budget to spending on housing. This represented 0.06 percent of GDP, significantly less than housing budgets of regional peers (e.g. Thailand at 2.15 percent and Philippines at 0.3 percent of GDP respectively).

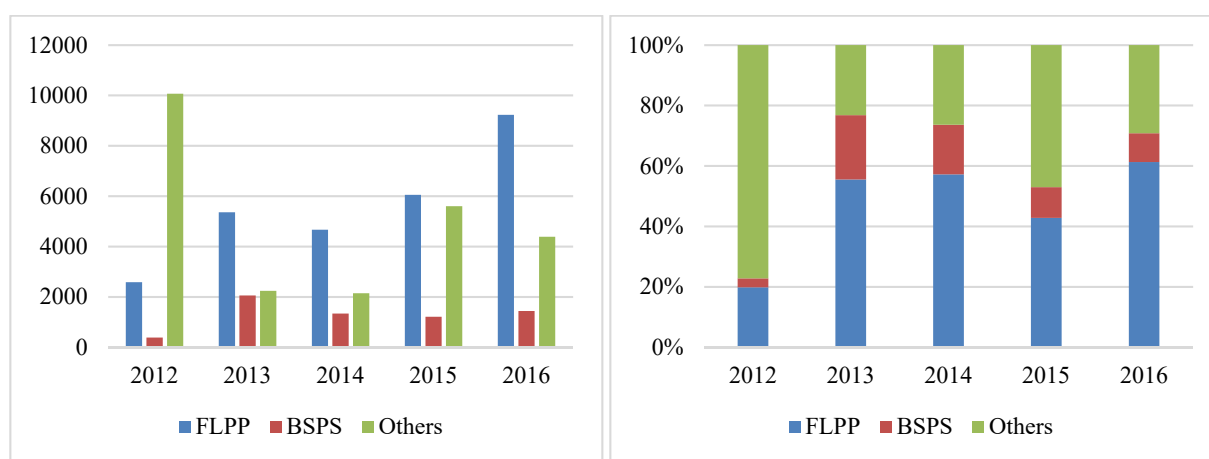
19. Additionally, **GoI spending on housing has been regressive – disproportionately funding programs targeted to middle or upper-middle class households**. First, from 2011 until 2014, 43.3 percent of Ministry of Housing budget was allocated to the FLPP (which caters to households with basic¹⁸ individual income of up to IDR 4.0 million (US\$ 300) per month, equating to household gross income of ~IDR 10.0 million¹⁹ or ~US\$ 751). The remaining budget was divided among other programs, including the BSPS incremental home improvement assistance program (IDR 6.3 trillion or US\$ 473 million, 19.3 percent of budget), *Rusunawa* or the rental housing program (IDR 4.9 trillion or US\$ 367 million, 15.3 percent of annual budget), and neighborhood upgrading and titling programs, all of which target lower income households. In 2015 and 2016, FLPP is accounted for 43.0 and 42.0 percent respectively of the total MPWH budget for housing. This represents an excessive allocation to a program that benefits only salaried households earning up to three times the national median income. See Figure 2 for more detail on public spending on housing. Second, the absolute value of subsidy to households across programs is significantly higher for programs that target relatively higher income households, i.e. higher income households accessing FLPP can potentially benefit from an effective government subsidy of IDR 126.0 million (US\$ 9,463), 43 percent of the maximum mortgage of IDR 300.0 million (US\$ 22,530) supported under the program. In contrast, the value of the BSPS incremental housing improvement assistance targeting lower income beneficiaries is only IDR 10.0 million to IDR 30.0 million. Lastly, within individual programs, subsidies are not scaled progressively to income, thus enabling households that qualify for and can afford a higher value property to capture a greater absolute value of subsidy.

¹⁸ Basic income generally refers to salary received by salaried workers. Basic salary can be 50-70% of gross take-home salary, as it excludes housing, transportation, education allowances

¹⁹ Basic income of IDR 4.0 million / 70% = IDR 5.7 million Gross income; IDR 5.7 million Gross individual income X 1.82 working adults / household = IDR 10.3 million Gross Household Income.

20. In 2015, the GoI made reducing the housing backlog an explicit policy priority in the National Medium Term Development Plan (RPJMN) and launched an ambitious initiative called *Sejuta Rumah* (One Million Homes). The specific policies developed in response to the RPJMN and *Sejuta Rumah* include: (i) a mandatory savings-for-housing scheme (similar to a provident fund or social security policies such as BPJS) called *Tabungan Perumahan Rakyat* (TAPERA), which was passed into law in February 2016; (ii) a new mortgage interest subsidy (*Subsidi Selisih Bunga* or SSB), and (iii) IDR 4.0 million subsidy (*Bantuan Uang Muka* or BUM) to help allay the cost of the down payment for households accessing both FLPP and SSB.

Figure 2: Annual Budget Allocation and Share of Housing Program to Ministry Budget in 2012-2016 (IDR billion)



21. In order to achieve *Sejuta Rumah* targets, GoI housing finance spending more than doubled from 2015 to 2016, increasing from ~IDR 6.0 trillion (~US\$ 450 million) to ~IDR 9.2 trillion (~US\$ 690 million). Subsidized housing credit helped originate approximately 90,000 new loans in 2015 using both FLPP and SSB but this level still fell far short of targets and needs and it is unlikely that the increase in spending is in itself sufficient to increase production as GoI policymakers now contend that housing subsidy policy is underachieving because of design issues in the available mechanisms and not because of insufficient spending.

Table 2: FLPP Economic Cost

Implicit Subsidy Rate (Sensitivity Analysis) ²⁰				
Real IR/ T Bonds	Inflation			
	3%	5%	7%	12%
0%	19.0%	29.8%	37.9%	50.9%
1%	24.7%	34.1%	41.2%	52.6%
2%	29.8%	37.9%	44.1%	54.2%
3%	34.1%	41.2%	46.6%	55.6%

²⁰ Logic: the higher inflation or real rate, the higher the discount rate, the smaller the NPV of the repayment flows, the larger the subsidy. Also true: the higher the nominal rate spread, the higher the subsidy.

22. Because of its high economic cost and regressive design, relying on FLPP to meet *Sejuta Rumah* targets would be prohibitively expensive and inequitable. The subsidy also does a poor job of leveraging needed private resources (from both banks and households) to contribute towards the cost of housing. Nearly all FLPP financing comes from GoI and the program's non-market rate cash flows mean that the loans cannot be refinanced, further constraining market expansion and pricing needed capital out of the sector. Lastly, the use of an interest rate subsidy caps the net interest margin for lenders and makes the product somewhat unappealing, in spite of its highly concessional funding. While twenty-three lenders have signed MOU's ratifying their participation in the FLPP, one bank (the state-owned housing bank, BTN) holds a dominant 98 percent market share.

23. Moreover, FLPP benefits salaried borrowers nearly exclusively, excluding the approximately 59 percent²¹ of the Indonesian population earning non-fixed incomes. As an interest rate subsidy product at 5 percent fixed rate, the newly introduced SSB subsidy product performs no better than FLPP in terms of expanding the mortgage market and its unfunded future liabilities combined with an uncertain disbursement schedule and interest rate volatility risk have so far discouraged lender participation in the scheme. Only BTN has accessed the SSB subsidy did so only after budget funds for FLPP were exhausted in 2015. Lastly, both FLPP and SSB finance new developer built units exclusively, leaving out other forms of home ownership such as the purchase of existing properties and owner driven construction. As 71 percent of Indonesia's housing stock is self-built,²² this represents a massive gap in the market. Home extension/improvement financing to improve the quality of existing housing stock and address overcrowding is also excluded.

24. Lastly, both FLPP and SSB finance new developer built units exclusively, leaving out other forms of home ownership such as the purchase of existing properties and owner driven construction. As 71 percent of Indonesia's housing stock is self-built,²³ this represents a massive gap in the market. Home extension/improvement financing to improve the quality of existing housing stock and address overcrowding is also excluded.

25. In light of the limitations with existing subsidy instruments, **GoI has proposed moving to a more equitable and efficient housing finance subsidy system to meet housing targets under the *Sejuta Rumah* Program in the current RPJMN period.** This Project will assist with this transition by supporting a new mortgage-linked down payment assistance for affordable housing finance. The down payment assistance program will maintain affordability (i.e. monthly household installment payments) at levels equivalent to FLPP and SSB, while significantly decreasing the per unit net present value of public assistance and the per unit required government budget allocation (see Annex 2 for further details). The pace and scale of this transition will be determined by the success of the mortgage-linked down payment assistance program over fiscal years 2017 and 2018, as well as the pace of enabling environment reforms including the emergence of a viable secondary mortgage market to address liquidity constraints.

26. Nonetheless, housing needs and demand are diverse throughout Indonesia and require different policy responses – lower incomes, a cultural preference to avoid long term indebtedness,

²¹ National Labor Force Survey (Sakernas) August 2014, BPS

²² Statistics of Housing and Settlement, 2013, BPS

²³ Statistics of Housing and Settlement, 2013, BPS

and formal supply constraints mean that the housing deficit cannot be eliminated through housing finance alone. For instance, an estimated 2.5 million households are considered substandard along enough dimensions that they are officially classified as “uninhabitable” (*Rumah Tidak Layak Huni*) and require upgrading, in-situ redevelopment, or relocation. To respond to these needs, The National Affordable Housing Program (NAHP) Project will also increase the number of households reached by BSPS (see Box 1) and help inflect that program towards urban areas so that it is better able to respond to the pressures of migration and new household formation in Indonesia’s cities. As a home improvement assistance targeted towards lower income households, BSPS is the GoI’s best targeted and most cost effective housing assistance and aligns with the self-build construction methods and ethos (*Swadaya*) that have historically constituted the bulk of Indonesia’s housing production.

27. The World Bank Group (WBG) has a history of providing advisory support to GoI on housing policy. In 2002, the Bank-supported *Policy Development for Enabling the Housing Market to Work in Indonesia (HOMI)* technical assistance project significantly advanced the understanding of GoI policy-makers on housing policy and laid the foundation for the introduction of down payment and buy-down subsidy programs. More recently, the 2012 Bank report on ‘*Expanding Access, Improving Efficiency in the Housing Sector*’ advanced and updated the understanding of housing sector challenges in a rapidly urbanizing and decentralizing Indonesia, with a particular focus on land market failures. Additionally, in 2014, the Bank-supported advisory engagement on slums and informal settlements (SAPOLA) delivered a final analytical report and policy recommendations for addressing the growth in slums. The SAPOLA work served as the basis for the proposed National Slum Upgrading Project (NSUP) and included important analytical insights into issues related to informal urban land.

28. Most recently, since 2014, the World Bank has supported GoI through the Programmatic ASA on Land, Housing and Urban Settlements. The first phase of the PASA culminated in the delivery of the *Indonesia: A Roadmap for Housing Policy Reform*, which provided a thorough review of formal housing demand, affordability and backlog estimations, as well as an overview of housing policy, land administration, housing finance and housing supply issues in Indonesia. The report outlined a detailed roadmap for policy reform and investment, which served as a key input to GoI’s Medium Term Development Plan (RPJMN 2015-2019). The recommendations of the Roadmap document have strongly influenced the design and content of this proposed NAHP. Support for the preparation of the Roadmap and the upstream development of this Project has been generously received from the multi-donor FIRST Initiative and the Government of Australia, Department of Foreign Affairs and Trade (DFAT).

C. Higher Level Objectives to which the Project Contributes

29. Alignment with GoI Priorities. As described above, the proposed operation aligns with the GoI’s development priorities as defined in the National Medium Term Development Plan (RPJMN). The main objectives of the RPJMN are grouped into three categories: (i) human development (ii) priority sectors and (iii) territorial/equity. Housing is included as one of four indicators of human development (along with education, health, and mental character), reflecting the importance of the sector. In April 2015, the Jokowi administration launched the *Sejuta Rumah* (One Million Homes) program, an ambitious initiative to provide one million publically and

privately financed units per year. NAHP has been developed as a key component of that umbrella initiative. GoI has also committed to an ambitious target of eliminating all slums by 2019 as part of the “100-0-100 program”²⁴ through the US\$ 1.8 billion NSUP – supported by the World Bank, Asian Development Bank (ADB), and Islamic Development Bank (IDB). The Project will provide support to home improvement in coordinated manner with NSUP investments in slum areas.

30. Alignment with the Country Partnership Framework. This operation is consistent with the World Bank Group’s Country Partnership Framework FY16 - FY20 for Indonesia (Report 99172). The CPF emphasizes service delivery broadly and the provision of decent housing specifically as key areas for the WBG’s engagement in Indonesia. The CPF’s Engagement Area 1 (Infrastructure Platforms at the National Level) lists affordable housing as a specific priority sector, committing the WBG to work both through the private and the public sector to support the provision of affordable housing through a mix of lending and technical assistance on both the supply and demand side.

31. Alignment with the World Bank Group's Twin Goals. This proposed operation supports the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity by increasing access to affordable housing, reducing the vulnerability of lower income households and promoting inclusive urban growth, economic development, and other positive externalities that link to poverty reduction and shared prosperity. These positive externalities include improved public health due to safe and sanitary living environments, better education outcomes for children, and job creation through the construction value chain.²⁵ In many emerging economies, such as Indonesia, housing represents the main source of wealth for lower income households. In addition, if Indonesia’s rapid pace of urbanization is not accompanied by a commensurate increase in the availability of affordable housing, the incidence of slums will increase, leading to significant social, economic, and environmental burdens for the households that live in them. Conversely, international experience shows that secure, well-located housing close to jobs and public transportation can enhance livelihood opportunities and reduce the incidence of socio-economic segregation, congestion, and inequality on individuals and the economy.

32. Alignment with other World Bank Engagements in Indonesia. The proposed NAHP is a core part of an emerging multi-billion dollar World Bank supported national platform on sustainable urbanization which includes large ongoing and planned investment and technical

²⁴ The ‘100-0-100’ target refers to 100 percent household access to water supply; zero slums; and 100% household access to sanitation.

²⁵ For the relationship between housing and education attainment see: Sandra J. Newman and C. Scott Holupka, “Housing Affordability and Investment in Children,” *Journal of Housing Economics*, vol. 24, June 2014; Raj Chetty and Nathaniel Hendren, “The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates” *Harvard University and NBER*, May 2015. For housing and economic development, see Bill Drayton and Valeria Budinich, “A New Alliance for Global Change” *Harvard Business Review*, September 2010; Bertrand Renaud, “The Financing of Social Housing in Integrating Financial Markets: A View from Developing Countries” *Urban Studies* 36(4), 1999; “Poverty Literature Review Summary: Housing Finance and Poverty Reduction,” *International Finance Corporation (IFC)*, June 2012; “World Bank Group Support for Housing Finance,” *World Bank Group Independent Evaluation Group (IEG)*, April 15, 2016. For housing and job creation see National Association of Home Builders, “The Local Impact of Home Building in Typical Metro Area: Income Jobs and Tax Generated,” June 2009; Keith Wardrip, Laura Williams, and Suzanne Hague, “The Role of Affordable Housing in Creating Jobs and Stimulating Local Economic Development: A Review of the Literature,” *Center for Housing Policy*, January 2011.

assistance activities. Specifically, the platform envisions the operationalization in early 2017 of a US\$ 200 million Regional Infrastructure Development Fund (RIDF) that will serve as a national facility for financing subnational infrastructure. The platform includes the NSUP (described above) effective in 2016 and planned Bank-supported government programs on National Urban Water Supply (NUWAS), Urban Solid Waste Management and Urban Sanitation scheduled for delivery in calendar year 2017. The platform is being actively supported by a Bank-managed US\$13.4 million multi-donor trust fund (MDTF) on Sustainable Urbanization with support from the Swiss Economic Cooperation (SECO). The MDTF aims to support GoI in developing the national platform and also to invest in core urban management skills and policy reform.

33. Alignment with IFC. The Project has strong potential for alignment and collaboration with IFC on both the supply and demand side. In 2016, IFC provided a senior loan and equity investment totaling US\$50.3 million to PT. Ciputra Development to support the development of affordable residential properties in Java, Batam, Sulawesi, Sumatera and Kalimantan. IFC maintains relationships with residential developers in Indonesia in the affordable segment and further transactions may be explored to complement the expected increase in supply generated by NAHP. On the demand side, IFC continues to explore potential transactions in Indonesia to support mortgage lending institutions to enter the affordable housing segment. The Bank team will continue to pursue in implementation opportunities to leverage highly successful IFC experience in emerging markets to support lenders to move down market (e.g. India) with a strong focus on reaching the non-salaried segment through investments in NBFIs. Additionally, the Bank will continue to coordinate with IFC to explore opportunities to support PT. SMF, Indonesia's state-owned secondary mortgage market company, to expand the secondary market through mortgage securitization – building on successful IFC experiences in emerging markets (e.g. Colombia and Mexico).

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

34. The development objective of the Project is to improve access to affordable housing²⁶ for lower income households²⁷.

B. Project Beneficiaries

35. The direct Project beneficiaries are lower income households, specifically first time homeowners who receive assistance to purchase a home under Component 1 of the Project as well as the owners of improved homes under Component 2 of the Project.

C. PDO Level Results Indicators

²⁶ Affordable housing is defined as 'housing units that are affordable by the section of society whose income is below the Indonesian median household income'.

²⁷ Lower income households are defined as 'salaried and non-salaried income households with gross income in the bottom 60 percent of national income distribution'.

36. The indicators below aim to demonstrate how the Project contributes to improved access to affordable housing for lower income households. Improved access is defined as: (i) acquisition of a new, existing or self-constructed home through the mobilization of down payment assistance linked to mortgage finance for targeted households; and (ii) the transformation of a substandard home transformed into habitable housing unit through the mobilization of home improvement subsidies.

37. The achievement of the Project will be measured through the following development objective indicators:

- 126,000 targeted households assisted by the Project for affordable house ownership.
- 450,000 targeted households received house improvement/reconstruction stimulant through advanced system of Home Improvement Assistance.

38. Details of the above indicators are given in the results framework in Annex 1.

III. PROJECT DESCRIPTION

A. Project Components

39. Overall Project Scope and Targeting. This Project aims to improve access to affordable housing through a mix of demand and supply side interventions targeting both lower-middle income and lower-income households. Component 1 targets lower middle income households that are unable to access commercial mortgage finance for home purchase without public assistance. Component 2 targets the bottom 40 percent of Indonesian households that require home improvement rather than home purchase solutions and for whom the market for commercial mortgage finance is unaffordable even with deep assistance enhancements. Given the complex nature of housing policy, the Project through Component 3 will support five key policy reform and capacity building activities. Further detail on each component is provided below. See Annex 2 for further detail.

Component 1: Mortgage-Linked Down Payment Assistance (*US\$265.0 million of which US\$ 215.0 million of Bank Financing*)

40. Subcomponent 1.1: Mortgage-Linked Down Payment Assistance (BP2BT). The Project will support through this financial intermediary subcomponent provision of mortgage-linked down payment assistance to lower income first time home-owners through Participating Lending Institutions for the purchase or construction of a residential property. Specifically, the mortgage-linked down payment assistance scheme (*Bantuan Pembiayaan Perumahan Berbasis Tabungan – BP2BT*) targets aspiring lower income first time home-owners by providing down payment assistance support to match beneficiary savings and a market rate mortgage from a participating lending institution (see Figure 3) for the purchase of: (i) a new or existing landed house²⁸; (ii) a new or existing multi-story house/apartment; or (iii) a new or existing low-rise vertical

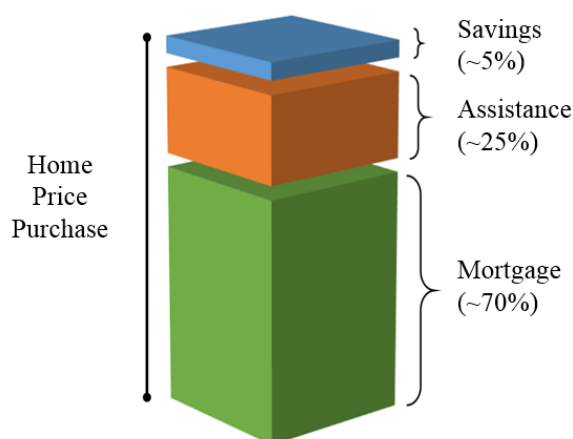
²⁸ Existing landed houses can be originally self- or developer-built, provided they meet all construction standard and permitting requirements.

house/apartment, and similar housing prototypes. The Project will also support down payment assistance linked to a mortgage for the self-construction or reconstruction of a home by eligible lower income households. The Project aims to support both salaried and non-salaried households²⁹. The specific household income segments targeted by the component are between the 30 and 60 percentiles of all household income.

41. The Project will be administered through a working unit (*Satuan Kerja* or *Satker*) established in MPWH and in partnership with participating mortgage lenders (banks and financial institutions).

42. This section briefly describes the core elements of BP2BT including; (i) core design principle; (ii) target geographic markets; (iii) income definition, eligibility and assessment; (iv) property eligibility and maximum property value; (v) assistance model; (vi) assistance-linked mortgage product parameters; and (vii) control and supervision. See Annex 2 for further detail.

Figure 3: BP2BT Scheme Concept



43. Core Design Principles. BP2BT is structured around a set of core design principles including: (i) the total loan to value ratio for mortgages provided under the scheme should be between 50 and 80 percent; (ii) households must provide a minimum down payment of 5 percent of property value; (iii) households must demonstrate savings capacity for 6 months at 10 percent of monthly household income; (iv) all properties financed under the scheme must have formalized title; and (v) participating lending institutions establish the interest rate for the housing loan based on their respective risk assessments, costs of funds, and margin requirements.

44. Target Geographic Markets. BP2BT will operate nationally with prospective beneficiaries from all 34 provinces eligible to apply for the down payment assistance. In order to facilitate implementation and BP2BT administration, a provinces and/or local governments have been clustered into nine administrative zones. These zones are based on a zone classification system developed by MoF regulations for VAT exemption on the purchase of lower income housing units.

²⁹ While the Project expands eligibility for government mortgage-linked housing assistance to non-salaried households for the first time, it assumes a gradual uptake in this segment (i.e. see in Annex 1 Project targets for BP2BT disbursement to non-salaried households of 10, 15 and 20 percent of all BP2BT beneficiary households in YR1, YR2 and YR3 respectively).

Adjustments to the MoF zone classification system were made in consultation with MPWH based on an assessment of housing market conditions. The zone classification system is the basis on which two key BP2BT variables are set: (i) maximum household income eligibility; and (ii) maximum eligible property value. See Annex 2 for further details.

45. Income Definition, Eligibility and Assessment. Income eligibility for the BP2BT has been clearly defined to prevent leakage of assistance funds to non-target beneficiaries. BP2BT will target lower income households with both fixed income (salaried) and non-fixed income (non-salaried) earners. A qualifying maximum Eligible Monthly Household Income has been defined and grouped into nine distinct geographical zones. See Table 3 below.

Table 3: BP2BT Maximum Household (HH) Income Eligibility by Zone

Zone	Max Monthly HH Income	
	<i>IDR million</i>	<i>Estimated US\$ Equivalent</i>
Zone 1: Java	6.1	464
Zone 2: Sumatera	6.0	456
Zone 3: Kalimantan	5.9	449
Zone 4: Sulawesi	6.6	502
Zone 5: Maluku and North Maluku	6.1	464
Zone 6: Bali and Nusa Tenggara	6.2	471
Zone 7: Papua and West Papua	6.6	502
Zone 8: Riau Islands and Bangka Belitung	6.4	487
Zone 9: Greater Jakarta	7.5	570

46. See Annex 2 for a detailed description of the Project income definition, eligibility and assessment framework.

47. Property Types and Maximum Property Value. BP2BT has defined property eligibility parameters to ensure that beneficiaries attain basic minimum standards for a secure and safe house with access to amenities and basic services and with secure title. Additionally, the Project specifies a maximum property value for each type of eligible unit (i.e. multi-story apartment, low-rise apartment, landed house and self-construction/rehabilitation) in each of the nine geographic zones. See Annex 2 for details.

48. Assistance Model. BP2BT has developed an assistance model which specifies the maximum assistance levels for beneficiary households. See Table 4 below for a condensed version of the detailed Assistance Matrix which is included in the Project Operations Manual (POM).³⁰ The assistance model is scaled progressively to income, i.e. lower income households receive a higher absolute assistance amount and are similarly permitted to apply the assistance to a greater percentage of the full property value. Assessed monthly household income by lenders will be used as the basis for determining assistance eligibility. The assistance will be the lower of: (i) assistance

³⁰ Note that the full Assistance Matrix in the POM is on a continuous (rather than banded) scale with a differentiated Assistance Amount and Assistance Index value for each IDR 100,000 difference in income so as to avoid ‘cliff effects’ in the allocation of assistance.

amount linked to the assessed monthly household income represented in column (1) in Table 4; or (ii) assistance amount derived from Assistance Index³¹ multiplied by Assessed Property Value/Cost as represented in column (2) in Table 4 below.

Table 4: Assistance Matrix and Calculation

Monthly HH Income (IDR million)	Assistance Calculation:		
	Purchase: Lower of (1) and (2A) Self or Re-Construction: Lower of (1) and (2B)		
	(1) Max Assistance Amount (IDR million)	(2A) Assistance Index (as % Prop. Value) For Purchase	(2B) Assistance Index (as % Construction Cost for Self/Re-Construction)
2.7 and below	32.4	40.2%	40.2%
3.0	31.8	35.9%	35.9%
3.5	30.8	29.9%	29.9%
4.0	29.8	24.9%	24.9%
4.5	28.8	20.8%	23.0%
5.0	27.8	17.5%	22.2%
5.5	26.8	14.7%	21.4%
6.0	25.8	12.9%	20.6%
6.5	24.8	12.4%	19.8%
7.0	23.8	11.9%	19.0%
7.5	22.8	11.4%	18.2%

49. Assistance-Linked Mortgage Product Parameters. BP2BT has specified a series of parameters for the assistance-linked mortgage product related to the interest rate, loan term, LTV, transaction costs and prepayment charges (see Table 5 below). Key characteristics of the mortgage product include: (i) a market rate of interest set by Banks to ensure scheme sustainability (in contrast to current regime of interest rate subsidies); and (ii) maximum LTV to mitigate the possible higher risk related to informal income.

Table 5: Product Key Components

<i>Interest Rate</i>	<ul style="list-style-type: none"> Market rate Set by each participating lending institutions respective risk assessment, cost of funds and return requirement
<i>LTV</i>	<ul style="list-style-type: none"> Maximum 80 percent Minimum 50 percent
<i>Loan Amount</i>	<ul style="list-style-type: none"> Established by participating lending institutions based on assessment applicant capacity to pay and applying lender finance terms, while conforming to BP2BT requirements regarding LTV, Loan Term, and maximum home value
<i>Prepayment</i>	<ul style="list-style-type: none"> During the first five-year of loan: (i) no prepayment for fixed-rate period; and (ii) prepayment without penalty for variable rate period up to 80 percent of the original loan amount

³¹ Assistance Index = Assistance Amount / Affordable Property Value (or Cost).*

(*) Affordable Property Value (Cost) is a function of the Beneficiary household income, savings and repayment capacity

	<ul style="list-style-type: none"> • Beyond five years, no prepayment charges
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50. The Project also specifies a series of additional measures related to the mortgage product to ensure or define: (i) consumer protection against interest rate and affordability risk; (ii) disbursement arrangements; (iii) consumer eligibility verification procedures by lenders; (iv) mortgage guarantee coverage parameters for salaried and non-salaried; and (v) lender reporting requirements on mortgage performance. See Annex 2.

51. Control and Supervision. BP2BT incorporates a framework of procedures and oversight to ensure adequate Project control and supervision. The framework specifies the terms for Operational Cooperation Agreements (PKOs) to be entered into between MPWH and participating lenders, monitoring and evaluation procedures and, amongst others, recourse mechanisms in the case of consumer fraud. See Annex 2 for further details.

52. Subcomponent 1.2: Technical Assistance for Mortgage-Linked Down Payment Assistance. Provision of technical assistance for: (i) developing and strengthening BP2BT management, administrative and information technology systems and capacities; (ii) supporting BP2BT operations and the development of a rigorous monitoring and evaluation methodology and system, including a baseline study; (iii) developing consumer financial literacy around BP2BT; (iv) developing a BP2BT public information campaign; and (v) developing and strengthening the lending capacity to non-fixed income segment of participating lending institutions.

Component 2: Home Improvement Assistance (US\$ 675.0 million of which US\$ 215.0 million of Bank Financing)

53. Component 2 will support the scaling up and improvement of the national Home Improvement Assistance Program (*Bantuan Stimulan Perumahan Swadaya* – BSPS) with the aim to support poor and lower income Indonesian households to attain safe and affordable housing through an incremental home improvement process. The specific household income segments targeted by the component are the bottom 40 percent of all households as measured by gross household income. MPWH has been implementing BSPS since 2006, having achieved considerable success in terms of reaching primarily rural households.

54. The component will support the expansion and strengthening of the BSPS with the aim of supporting 450,000 home improvement solutions reaching over 1.8 million beneficiaries. NAHP has introduced a series of important shifts and improvements to enhance the impact of the Project: (i) a shift to greater implementation in urban areas through joint implementation planning with the NSUP; (ii) expansion of home improvement eligibility to cover basic sanitation investments; (iii) improved application and tracking of targeting and eligibility criteria and compliance; (iv) the introduction of third-party verification for BSPS outputs; and, amongst other system improvements; (v) shift to a decentralization implementation model.

55. Subcomponent 2.1: Support for Home Improvement Assistance. This subcomponent will finance the provision of home improvement or reconstruction assistance to lower income households. Table 6 below provides an overview of the BSPS beneficiary eligibility criteria, assistance levels and eligible expenditure under the assistance and implementation model.

Table 6: BSPS Design Key Characteristics

Characteristic	Features	Remarks
<i>Type and size of assistance</i>	Rehabilitation (quality improvement)	<ul style="list-style-type: none"> • Repair roof, floor, wall, and sanitation • Size of assistance: max IDR 15.0 million/household (~US\$ 1,127/household)
	Expansion	<ul style="list-style-type: none"> • Assistance can be utilized also to expand the built area of homes (i.e. adding rooms and/or floor), specifically in cases of overcrowding
	Reconstruction	<ul style="list-style-type: none"> • Build the whole house from the land plot (or existing foundation) • Size of assistance: IDR 30.0 million/household (~US\$ 2,253/household)
	Provision of beneficiary matching fund	<ul style="list-style-type: none"> • The assistance may be supplemented by beneficiaries' own funds to cover the overall need of rehabilitation or reconstruction
<i>Eligibility</i>	Demography	<ul style="list-style-type: none"> • Household unit • Elderly and people with disability are eligible and allowed to use max. 15 percent of assistance to pay labor
	Income	<ul style="list-style-type: none"> • Head of HH income no greater than the regional minimum wage, ranges from IDR 1.1 – 3.1 million/month
	Asset ownership ³²	<ul style="list-style-type: none"> • Never have previously owned a house, but own or occupy land physically and hold its legal proof, not in dispute and in accordance with the local spatial plan
		<ul style="list-style-type: none"> • Own a house that in substandard quality
	Coverage	<ul style="list-style-type: none"> • Nationwide (33 provinces)
<i>Mechanism</i>	Other	<ul style="list-style-type: none"> • First-time receiving assistance from BSPS
	Combination of top-down and bottom-up approach	<ul style="list-style-type: none"> • Central Government establishes the national policy and technical guideline for BSPS • Local Government proposes the list of priority locations and the candidate household beneficiaries
	Use of community approach	<ul style="list-style-type: none"> • Establish a beneficiary group (max of 20 people) to facilitate the cooperation during construction • Use self-construction method, assisted by facilitator
	Policy direction influence location prioritization	<ul style="list-style-type: none"> • Address the slum area (to support the 100-0-100 target)
<i>Facilitation</i>	Technical process and construction	<ul style="list-style-type: none"> • One facilitator to facilitate 60 beneficiaries in the Local Government level

³² Amongst the BSPS eligibility criteria, as specified in the Technical Guidelines of BSPS (issued through Ministerial Regulation no. 13/2016), is the requirement that the potential beneficiary needs to own the land or property or have the legal evidence of land or property possession. The regulation provides a broad definition of land and property ownership, enabling the beneficiary to provide a copy of land certificate or corresponding the proof of land ownership signed by the village headman/*lurah*. As drafted, the regulation does not unduly limit the eligibility to only those households in possession of formal legal title.

56. In order to address affordable housing needs in urban slum areas, BSPS will closely coordinate in implementation with the NSUP. Specifically, starting in 2017, BPS will: (i) ensure the integration of Slum Improvement Action Plans (SIAPs) developed under NSUP into Housing and Settlement Development Plan (RP3KPs) to be developed under NAHP in select urban local governments; (ii) develop and conduct joint facilitator training and module development on affordable housing development; (iii) utilize, verify and integrate data on housing deficit and home improvement generated under NSUP into the Swadaya Management Information System (SMIS); and (iv) conduct joint planning and implementation 2017 exercises in 10 medium and large cities (in 2017, to be scaled up in ensuing years) where NSUP and BPS overlap.

57. Subcomponent 2.2: Support to BPS Management and Operations. This subcomponent will provide support for the management and operations of BPS. Specifically, the subcomponent will support BPS management consultants at the national and provincial levels as well as for facilitators who provide BPS implementation and administration.

58. Subcomponent 2.3: BPS Program Development. This subcomponent will support the provision of technical assistance, advisory services and training to strengthen BPS management, operations and monitoring, including: (i) the development of SMIS to integrate all data related to housing provision programs at the national and local levels into a single database; (ii) the provision of support for facilitation management; (iii) the establishment and implementation of a comprehensive complaint handling system; (iv) the development of a rigorous monitoring and evaluation methodology and system, including a baseline study; and (v) the development of a comprehensive impact assessment and policy for BPS.

59. Further details on Component 2 are provided in Annex 2. Annex 3 contains a detailed description of BPS' delivery systems and administrative arrangements.

Component 3: Technical Assistance for Housing Policy Reform (US\$ 20.0 million of Bank Financing)

60. The component will finance a technical assistance to support policy reform, improved governance and enhanced capacity in the housing sector. The component will support two subcomponents on demand-side and supply side technical assistance, summarized in greater detail below. Activities to be supported under this component were identified and, in most cases, benefit from analysis and policy advisory work conducted under both the *Roadmap for Housing Policy Reform 2015* the ongoing Land, Housing and Settlements PASA.

61. Subcomponent 3.1: Expanding Access to Housing Finance. This subcomponent will support the provision of technical assistance to support policy and regulatory reform and improve governance to strengthen the primary and secondary mortgage markets and the enabling environment for housing finance and housing information system. Specifically, the subcomponent will principally support five areas of technical assistance: (i) Housing and Real Estate Information Systems (HREIS); (ii) Secondary Mortgage Market Development; (iii) Regulatory and Institutional Reform for Housing Provident Fund (TAPERA); (iv) Development of Mortgage Guarantee System; and (v) Policy Advisory on Housing Microfinance. Other just-in-time areas of technical assistance may be supported during implementation.

62. Subcomponent 3.2: Addressing Public and Low Income Housing Provision Constraints. This subcomponent will provide technical assistance to support policy reform, improve governance and enhance capacity of stakeholders in addressing constraints to the provision of affordable housing.

63. Details of both subcomponents are provided in Annex 2.

B. Project Financing

Table 7: Project Cost and Financing

Project Components	Project Cost (US\$ million)	IBRD Financing (US\$ million)	% Financing
1. Mortgage-Linked Down Payment Assistance	265	215	81.1
2. Home Improvement Assistance	675	215	31.8
3. Technical Assistance for Housing Policy Reform	20	20	100.0
Total Costs			
Total Project Costs	960	450	46.8
Front-End Fees			
Total Financing Required			

C. Lessons Learned and Reflected in the Project Design

64. The Project design has been informed by previous World Bank operations, including housing finance operations in Egypt, India, Nigeria, Colombia and Morocco, and community driven development and urban upgrading initiatives in Indonesia and Vietnam, amongst others. The main analytical underpinnings of this Project include, *Indonesia: A Roadmap for Housing Policy Reform 2015*, a comprehensive overview of the housing sector jointly developed by *Badan Perencanaan Pembangunan Nasional* or Bappenas (National Development Planning Agency) and the World Bank in 2015, The 2012 World Bank report, *Housing in Indonesia: Expanding Access and Improving Efficiency* and the 2005 *Technical Assistance For Policy Development For Enabling The Housing Market To Work In Indonesia (HOMI)* project.

65. Importance of Adequate Housing Finance Infrastructure. Examples from other markets have demonstrated the critical importance of requisite regulations and financial infrastructure for a healthy housing finance system. These include, but are not limited to a stable macroeconomic environment (moderate to low inflation and mortgage rates), legal infrastructure that supports collateralized lending (including the ability to foreclose at a reasonable cost and within a practical time frame), a regulatory framework for mortgage lenders, access to longer term funds, and a borrower population that has sufficient income to support a long term financial commitment in the form of a mortgage loan. Bank projects that sought to expand the mortgage market in countries

without those minimum criteria have generally failed to meet their targets. Indonesia meets the above minimal prerequisites for a sustainable expansion of mortgage lending and the Indonesian mortgage market, although shallow, has shown significant growth in recent years. Housing loans are now offered by all major commercial banks and sharia compliant housing finance is widely available.

66. Indonesian mortgage lenders do, however, suffer from a lack of long term liquidity, and refinancing options. This represents a potentially critical bottleneck against the expansion of the mortgage market and against the GoI's assistance for housing, including for BP2BT. To address this constraint, the NAHP includes significant resources under Component 3 towards developing market capacity to provide adequate funding to lenders through support to the state-owned entity, PT. SMF, whose mandate is to raise funds on the bond market and provide medium and long term liquidity to support housing loans to the middle and lower middle market segments. See the discussion of Component 3 in Annex 2 for a more detailed discussion of this TA. While TA alone is not a guarantee of success, experiences in other markets have shown it can be a critical risk mitigant and facilitate sustainable mortgage market expansion. For example, the Bank Group technical support was critical for the successful development of secondary mortgage markets in Colombia, Egypt and Jordan.³³

67. Importance of Lender Participation. Lender appetite to access BP2BT will be a critical factor in the Project's success. As such, MPWH has engaged in significant lender outreach during project preparation and has solicited and reflected lender inputs and concerns in the design of the BP2BT mechanism. MPWH has secured commitments from five lenders including: (i) BRI (Indonesia's largest micro-credit lender); (ii) *Bank Jabar Banten* or BJB (Indonesia's largest regional bank); (iii) BTN (Indonesia's largest mortgage lender); (iv) Bank Artha Graha (private lender expanding into affordable mortgage finance); and (v) Bank Jateng (Central Java-based regional bank) in the form of official letters of intent (LoIs) to participate in the Project in year one. These five lenders have strong distribution channels, funding, and willingness to lend to lower income households. The Project assumes that their uptake of BP2BT will have demonstration effects in subsequent years and that its transparent design will encourage broader lender participation and competition in the sector.

68. Market-Oriented Product Design. International experience has demonstrated that government efforts to stimulate mortgage markets through interest subsidies and subsidized liquidity are of limited impact, costly and have limited scalability in constrained fiscal environments. NAHP aims to inflect GoI housing policy away from less effective and regressive subsidized liquidity and interest rate subsidy programs to a market rate of interest mortgage-linked down payment assistance program. Similar programs have demonstrably expanded access to affordable housing finance in Chile, Colombia and Egypt, amongst other markets.

69. Subprime Risks. WBG experience in India, Mexico and elsewhere has demonstrated the need to move gradually down market with housing finance lending in order to avoid subprime risks. As such, BP2BT does not initially target the poorest income segments; instead, its targeting, eligibility criteria and down payment assistance mechanism induce lenders to move gradually down market - and out to previously uncovered non-fixed income (non-salaried) households - in

³³ World Bank Support for Housing Finance. An IEG Learning Product, April 15, 2016.

accordance with their risk assessment and underwriting practices. To maintain equity in the housing sector and meet the housing needs of the lowest income groups, the Project uses BSPS to deliver housing solutions to households whose income cannot support a mortgage loan.

70. Importance of Proper Targeting and Data. Experience from the Bank projects in Mexico and Morocco reveal the need for reliable housing and real estate related data, with indicators on consumer needs, housing supply and housing finance, as well as tracking of home price movements and the implementation of public housing programs. The Project dedicates significant resources towards the implementation of a Housing and Real Estate Information System (HREIS), which will collect and aggregate data from local governments, ministries and public agencies, developers, and financial institutions. WBG experience with housing and real estate data collection shows that such systems frequently take years to become fully operational and require both a large volume of transaction prices to accurately reflect market realities as well as effective incentives or regulations to ensure the participation of private sector stakeholders (e.g. lenders, appraisers, real estate agents, etc.). NAHP therefore earmarks significant resources for the HREIS for disbursement in year one. Once HREIS has achieved the necessary depth, quality, consistency and reliability of information, regulators and administrators will be able to use the database for forecasting and stress-testing of the market, allowing them to put in place early warning indicators and address potentially negative trends that could impact the stability in the market.

71. Importance of Community Empowerment and Ownership. The National Community Empowerment Program (NCEP) in Indonesia demonstrates the crucial role of community ownership for upgrading and home improvement operations. The long history of CDD programs in Indonesia suggests that the empowerment of lower income beneficiaries through program delivery can be as important as the asset provided. The Project will leverage a strong community participation scheme under BSPS, with a proven track record of effective community empowerment and ownership. BSPS was founded with the idea that the Project is not merely an investment in low cost housing, but an initiative capable of catalyzing the ingenuity, self-help ethos and inspiration of beneficiaries and their surrounding communities. Additionally, the Project supports BSPS in increasing its accountability by enabling it to safely devolve greater responsibility to local actors and the community. By strengthening certain strategic aspects (i.e. monitoring, verification, IT systems, delivery in urban areas, etc.) the Project seeks to demonstrate that the in-situ community upgrading approach is an effective policy response to lower income housing needs.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

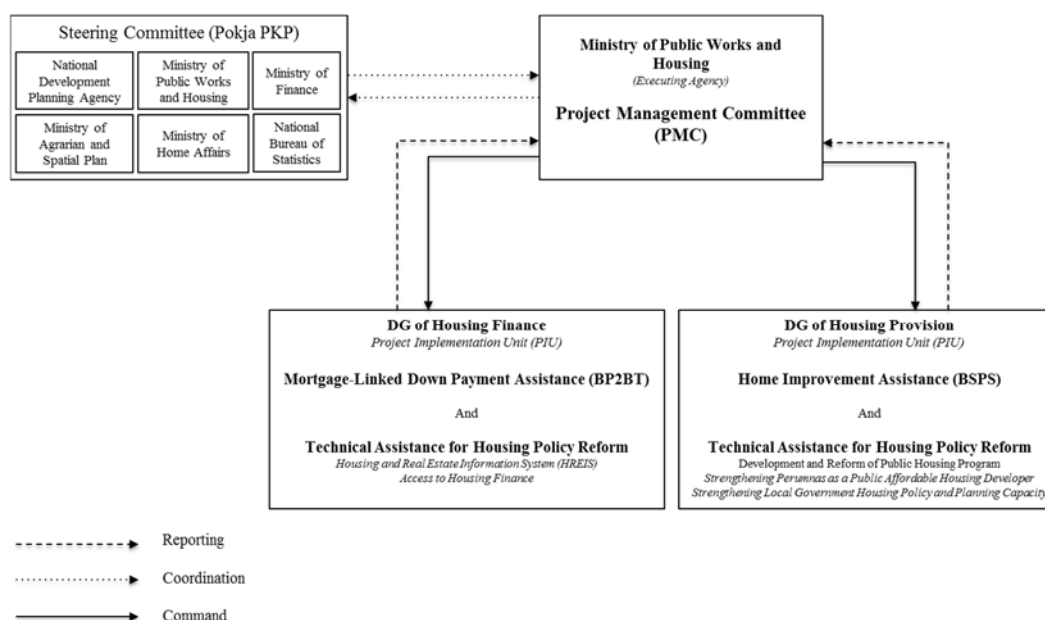
72. Implementation arrangements for the Project are outlined below (see Figure 4).

73. Steering Committee. At the central government level, a Project Steering Committee (Pokja PKP) will be chaired by Bappenas and will include high-level officials from the Ministry of Finance, the Ministry of Public Works and Housing, the Ministry of Home Affairs, the Ministry of Agrarian and Spatial Planning and BPS, amongst others. This Steering Committee will conduct semi-annual meetings to review overall progress and facilitate coordination across Pokja PKP members.

74. Project Management Committee. MPWH will be the executing agency for this Project and will be responsible for the procurement and management of all contracts, financial management of loan proceeds, and implementation of environmental and social safeguards in accordance with Bank policies and guidelines. A Project Management Committee (PMC) will be headed by an Echelon I staff member of the Ministry of Public Works and Housing and will be supported by a team of consultants to undertake the coordination and oversight functions. The responsibility of the PMC includes, amongst other roles, responsibility for submitting Interim Financial Reports (IFRs) on a quarterly and semi-annually monitoring reports that includes observation and analyses results in the area of environmental and social safeguards, procurement, disbursement, and the overall BP2BT and BSPS implementation progress. The PMC structure will be regulated through an issuance of Ministerial Decree, to appoint the responsible parties and assign tasks and functions.

75. Project Implementation Units. Two Project Implementation Units (PIUs) will be established under the Directorate General for Housing Finance (DGHF) and the Directorate General Housing Provision (DGHP), respectively, and headed by an Echelon 2 level staff member. The PIU under DGHF will be responsible for the implementation of Component 1 as well as technical assistance activities under Component 3 related to the development of the HREIS and policy reforms associated with expanding access to housing finance. The PIU under DGHP will be responsible for the implementation of Component 2 as well as technical assistance activities under Component 3 related to supply-side policy reform and capacity building efforts.

Figure 4: NAHP Executing Agency Organization Structure



76. For both the BP2BT and BSPS PIUs, a Ministerial Decree will be issued to assign the PIU team members and describe the detailed responsibilities. A Director level will function as the Head of each PIU and will be supported by a combined set of team members from both Directorate Generals (Housing Finance and Housing Provision). For the daily operations of BP2BT, a specific *Satker* will be established under the supervision of the PIU in DGHF; while for the daily operations

of BSPS, the existing *Satker* in the Directorate of *Swadaya* Housing (Self-Help Housing) will include both BSPS management financed by APBN and the Loan. The relevance and validity of these decrees will be reviewed regularly, at least on an annual basis.

77. Further detail on implementation arrangements and the regulatory framework governing NAHP is provided in Annex 3 and the POM.

B. Results Monitoring and Evaluation

78. NAHP will utilize a results-based monitoring and evaluation (M&E) approach. All performance indicators used under the Project are designed to measure the intermediate and end results through evaluations while a Management Information System (MIS) will be available to track and monitor key data and information during the course of the Project. PIUs under the DGHF and the DGHP will be responsible for tracking all data and measuring Project performance through the BP2BT IT system and SMIS for BSPS. These two information systems will be the main data and information resource for the Project. Key data and information from the housing finance and housing provision will be analyzed and the system will generate a project management analysis to be incorporated into quarterly implementation reports to be made available to all Project stakeholders.

79. BP2BT and BSPS PIUs consist of responsible parties for all monitoring and evaluation tasks. The M&E team in each PIU will be responsible for managing a regular monitoring activities and scheduling thematic evaluations at the mid-term and/or at the end-of-Project. Clear roles and responsibilities are defined in the overall terms of reference (ToRs) for the PIUs reflected in the draft POM. PIU staff responsible for M&E activities will be provided with training on results-based M&E, MIS management and the impact evaluation.

80. A baseline study will be conducted within the first six months of Project implementation. This will be followed by a Mid-Term Review in 2018-19. Two sets of impact evaluations, for BP2BT and BSPS respectively, will be conducted within six months of the Project closing date, to measure the achievement of PDO indicators and to evaluate whether targeted beneficiaries received assistance for home ownership and have better quality house as a result of the Project. The evaluations will also assess whether expected intermediate outcomes for each component were met. Two sets of beneficiary satisfaction survey will be conducted at mid-term and within six months prior to the end of Project, for BP2BT and BSPS respectively, to measure overall beneficiary satisfaction with each component and to provide detailed feedback on project design and administration. These studies, including the thematic studies and evaluations, will be contracted to the qualified consultants under the joint supervision of GoI and the Bank for its quality assurance.

81. More broadly, the Project will also support GoI to develop a Housing and Real Estate Information System (HREIS). HREIS will strengthen GoI capability to monitor and track a broad range of land and housing market information and will develop over the course of the Project into an integrated housing information system accessible to all central and local housing stakeholders, both from the public and private sector.

C. Sustainability

82. The sustainability of NAHP builds on multiple aspects including those related to overall government ownership, technical design, delivery systems and technical capacity building at the central and local level and support for complementary housing policy reforms.

83. Government Ownership. NAHP builds on a longstanding housing policy dialogue with GoI (see above) culminating in the Roadmap for Housing Policy Reform issued in 2015 by the Bappenas, and reflected in the RPJMN 2015-2019. This Project reflects many of the core policy priorities outlined in the Roadmap including the shift towards a mortgage-linked down payment assistance model, greater support for home improvement as means to achieving safe and affordable housing and a series of complementary policy reforms on both the demand and supply side. Many of these reforms were further reinforced under the umbrella *Sejuta Rumah* strategy articulated by the Jokowi administration. The strong link between the Project and the GoI policy platform ensures for Project sustainability at the policy level.

84. Technical Design. Core aspects of the Project technical design aim to enhance overall sustainability. BP2BT introduces a mortgage-linked down payment assistance to consumers that is estimated to be nearly four times as efficient as existing FLPP interest subsidy programs (i.e. for every one FLPP-enabled solution, BP2BT could support the four). As such, BP2BT is significantly more fiscally sustainable considering the current tight fiscal environment faced by GoI. Additionally, BP2BT has developed a rigorous and transparent framework for beneficiary eligibility and third party verification that will mitigate the risk of poor targeting and consumer fraud, thereby enhancing overall project sustainability.

85. Delivery Systems. The Project involves considerable investment in strengthening delivery systems, including the developed of modern management information systems, for both BP2BT and BSPS. In the case of BP2BT, the Project will invest in the development of an automated project administration, management and information system that will link lenders and BP2BT administrators, enabling efficient and transparent project administration. For BSPS, the Bank and MPWH engaged in a comprehensive project assessment during the preparation and appraisal process and have identified and implemented a series of system improvement including an enhanced model for beneficiary facilitation. Additionally, the Project will invest in an improved SMIS to strengthen overall project management, controls and monitoring.

86. Local Government Capacity Building. The Project includes under Component 3 a comprehensive program of capacity building towards the development and implementation of local affordable land and housing plans in up to 15 medium and large cities. The aim of the activity is to ensure for increased local ownership, continuity and sustainability in the development of integrated affordable housing solutions at the local level.

87. Policy Reform. The Project includes broad support to key areas of policy reform through technical assistance under Component 3 to enhance the overall sustainability of the integrated housing policy system. Specifically, the Project will support, on the demand side, policy advisory and reform in areas of secondary mortgage market development, the development of regulations for a housing provident fund (i.e. TAPERA) and the development and regulation of a mortgage

guarantee instrument to promote access to affordable housing. On the supply side, the Project will support policy advisory on rental housing and the strengthening of Perum Perumnas to enhance its capacity and function as an affordable housing developer.

88. **Building Climate and Disaster Resilience.** Climate change can be expected to result in more extreme weather events (such as heavy rainfall and flooding) throughout Indonesia that will affect people and their homes, depending on the specific location of each house. Housing purchased under Component 1 of this Project, or any house improved under Component 2, would result in reduced climate vulnerability compared to the previous housing occupied by beneficiary households. The benefits would be even greater for houses in locations with specific vulnerabilities, such as coastal areas, flood-prone areas, or in areas of steep terrain. Component 1 would enable beneficiaries to purchase and live in a home that meets all the specified eligibility parameters, including basic amenities and construction standards. These parameters ensure that any housing unit purchased through Component 1 is less vulnerable to climate-related hazards, compared to the more vulnerable substandard housing that beneficiaries would have continued to live in without the Project's assistance. Component 2 would work through the existing BSPS, to help ensure that houses improved through this component are more resilient to climate and disaster risks. The basic steps in the approach for Component 2 include: (i) introducing a simple screening process for climate and geophysical hazards when houses are identified for BSPS; (ii) practical how-to guidance on specific home improvements that reduce vulnerability for each type of hazard; (iii) socialization to raise awareness of the risks among homeowners; (iv) training for BSPS facilitators who will support homeowners with hands-on guidance.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

89. The overall Project faces a Substantial risk. Risks in the following areas have been identified: (i) political and governance risk; (ii) macroeconomic risk; (iii) sector strategies and policies risk; (iv) technical risks; (v) institutional capacity risks; (vi) fiduciary; (vii) environmental and social safeguards risk; and (viii) stakeholders risks. Table 8 below summarizes key dimensions of risk for those areas considered to represent a Substantial or High risk. Annex 6 includes a more detail discussion of key risks and mitigation measures.

Table 8: Key Risks

Risk Area	Rating	Description
Sector Strategies and Policies	Substantial	In order to enable Project implementation GoI will need to issue: (i) a MPWH Ministerial Decree to establish BP2BT and specific detailed eligibility criteria and operating procedures for the Project; and (ii) a MPWH Ministerial Decree updating provisions of the BSPS. More broadly, the Project envisions supporting a series of regulatory reforms in areas of secondary mortgage market development, affordable housing development and provident funds for housing. A risk exists that momentum for reform in these areas will not be sustained.

Technical Design of Project	Substantial	<p>Overall: Component 1 introduces a new approach to public assistance to increase access to mortgage finance for lower income segments. Multiple technical risks exist including: (i) limited uptake from consumers due to non-familiarity with BP2BT and down payment assistance model; (ii) inadequate calibration of assistance level to consumer affordability levels; (iii) lack of penetration of Project into non-salaried income segments due to both consumer and lender familiarity and risk appetite; (iv) limited uptake of Project by lending institutions due to constrained risk appetite, market conditions and/or concerns regarding Project administration; and (v) limited supply side response from developers. Risks related to Component 2 relate to: (i) the ability of BSPS to effectively scale up implementation in urban areas; and (ii) the capacity of MPWH to implement improved system and institutional measures (i.e. development of the SMIS, introduction of third part verification, enhancing facilitation system, etc.) planned to enhance BSPS efficiency and effectiveness. Component 3 provides technical assistance on multiple areas of housing policy reform on both the supply and demand side. A key risk involves the ability of MPWH to adequately develop effective technical assistance in areas of complex policy or reform (i.e. secondary mortgage market development, mortgage guarantee instrument development and affordable housing developer technical assistance), while sustaining reform momentum across all reform areas.</p> <p><u>Targeting:</u> Targeting risk cross both the BP2BT and BSPS are considered high. A key constraint to the effectiveness of both demand and supply side housing assistance programs include the leakage of benefits to non-eligible beneficiaries.</p>
Institutional Capacity for Implementation and Sustainability	Substantial	BP2BT requires considerable build-up in the administrative management capacity within the DHGF to operate a new Project incorporating rigorous operating procedures and systems. For BSPS, institutional capacity risks are moderate as current MPWH systems manage the Project effectively and successfully coordinate stakeholders at various levels of government (central, provincial, and local).
Fiduciary	Substantial	<p>The Project financial management risk assessed as substantial before mitigation and moderate after mitigation. The main financial management risks identified are (i) DGHF and DGHP insufficient experience in managing Bank funds; (ii) inadequate budgeting and monitoring in FLPP implementation which may also impact the implementation of BP2BT; and (iii) need to strengthen internal control in fund distribution.</p> <p>Assessment of the procurement capacity of DGHF and DGHP indicates that both these directorates of MPWH have limited previous experience in carrying out procurement under the World Bank financed projects, and there is risk that the two PIUs may have some initial difficulty in understanding and applying the Bank's procurement procedures applicable to the Project, and accordingly also possible delays in the procurement processes</p>

		particularly for hiring of consultants under Component 3 of the Project. There is also the overall fiduciary risk of the challenging governance environment in the country.
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VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

90. There are several probable economic benefits from a housing project that can be measured and quantified. These include an increase in property values, reduced health costs, benefits related to rent expenses avoided, benefits generated from government subsidy for housing loans, etc. Based on data availability, a set of analyses was prepared to quantify this Project's economic benefits. The first analysis for Component 1 (BP2BT) was to compare the average down payment assistance with an average of net benefits generated from the Project. The average of net benefits is calculated by taking the difference between the present value of total payment for housing mortgage "with" and "without" the Project. The average net benefit (IDR 43.34 million or equal to US\$ 3,295) for Component 1 of this Project is larger than the average down payment assistance (IDR 27.60 million or equal to US\$ 2,098). This means the net economic benefit generated from Component 1 is much greater than the assistance provided in and of itself. Beneficiaries will be better off due to the extra money (or lower debt-to-income ratio) they receive during the tenor of their housing loan; this would then cover other productive expenses. In essence, every IDR 1.0 spent for housing assistance will leverage an economic benefit of approximately IDR 1.47.

91. Component 1 Cost-Benefit Analysis. A complete cost-benefit methodology was also conducted to evaluate the feasibility of Component 1. Three variables were utilized as proxies to unit benefit including monthly rent saved, annual home price increases and average down-payment assistance. Data on average monthly rent was extracted from the Indonesia Family Life Survey (IFLS, 2015). This variable was chosen because avoided rent cost reflects the benefit new homeowners receive. The economic/social costs are annual mortgage payment, maintenance cost, other costs such as insurance, as well as actual down payment amount. Two types of houses, landed house and low-rise vertical house, were considered based on data availability. Moreover, discount rate or opportunity cost of capital is set to 10 percent with a time span of 15 years. This is equal to the tenor of BP2BT. The cost-benefit calculations produced positive net present values and economic internal rate of returns that are above the discount rate. Essentially, the Project is considered as economically feasible.

92. Component 2 Cost-Benefit Analysis. In order to analyze the full economic costs and benefits for Component 2, investment cost (consisting of physical and non-physical investments) and annual maintenance costs resulting from the investments under this component were included in the analysis. The average maintenance cost across all provinces is set to 30 percent. The benefits arising from this component include benefits that are readily quantifiable in monetary terms. Therefore, the economic benefit is derived from the annual incremental property value adjusted for inflation. Housing price data in the 33 provinces was collected from MPWH to measure the incremental price change. Moreover, the Project investment will have a service life of at least 15 years. The NPV of Component 2 investments were calculated over a period of 20 years (2017-2037). The discount rate used was 10 percent given reasonable estimates of the full lifetime costs and benefits associated with the Project. An Economic Internal Rate of Return (EIRR) equal to at

least the appropriate opportunity cost of capital at 10 percent. The Project Net Present Value over 20 years, at a discount rate of 10 percent is estimated at US\$ 178,637,385; with an economic internal rate of return (EIRR) of 42 percent. The positive gap of EIRR to discount rate means this Project is economically feasible.

93. Sensitivity Analysis. The sensitivity of the Project net benefit was analyzed with respect to two key variables the average percentage of maintenance cost and the number of units of houses. The results of this sensitivity analysis are presented in terms of switching values, i.e. the percentage change in the values of the selected variables at which NPV becomes zero, for each of the infrastructure supported by this Project. The results of the sensitivity analysis reveal that the overall net economic benefits of the Project are relatively insensitive to changes in either average unit costs or average inflated home price, and in no case would changes in unit costs or benefits in these sub-sectors alone result in the Project's NPV being reduced to zero.

B. Technical

94. Component 1. BP2BT development has concentrated on three key elements: (i) BP2BT design and administration systems; (ii) consumer responsiveness; and (iii) lender engagement. The Project design reflects each of these critical elements.

- *BP2BT Design and Administration Systems*. Detailed advisory work has been conducted with MPWH during preparation to design BP2BT (as reflected in Annex 2 and the POM). Broad consultations with MPWH, Bappenas, MoF, eligible participant lenders, developers and eligible consumers have taken place to inform BP2BT design. Ministerial decrees have been drafted and will be issued prior to BP2BT launch. MPWH has been assessed to possess sufficient experience to implement BP2BT with technical assistance support under this Project. Technical assistance will aim to strengthen governance and accountability, include assisting in the development of an Assistance IT management information system, establishing a more robust M&E system, and developing a more relevant and sustainable mortgage insurance product.
- *Consumer Responsiveness*. During preparation, 24 qualitative consumer focus group sessions with potential Project beneficiaries were conducted. The focus groups revealed considerable demand for home ownership through home purchase and self-construction, as well as for improved home quality through renovation. Participants articulated a strong aspiration to have a comfortable living space for their families and to be less dependent on relatives for housing. The focus group respondents also expressed positive satisfaction with BP2BT design and the freedom to choose the most suitable property type available in the market. Concerns articulated by respondents included.
- *Lender Engagement*. Indonesian mortgage lenders have largely been unwilling to serve lower-income and informal income segments given the perceived high risk of these segments. However, the micro-lending sector in Indonesia is robust. BP2BT seeks to leverage lenders with micro-credit experience that have existing distribution channels to reach lower income and informal earners as well as the technical capacity to underwrite and assess informal income. In the first year, BP2BT will seek to leverage the formal and

informal underwriting and mortgage lending capacity of the five lenders who have committed through signed LoIs to the Project.

95. Component 2. Incremental home improvement assistance provided under BSPS is a highly cost-effective and demand-responsive instrument to meet the housing needs of a large segment of lower income households in Indonesia not able to access the market for home purchase. While BSPS targeting, control of use of funds, and management and reporting systems are considered adequate and capable of absorbing World Bank financing, the technical assessment of BSPS identified the following areas for Project strengthening that have been incorporated into NAHP design:

- *Pivot to Urban Areas*. The Project to date has concentrated in rural areas (i.e. 23 percent of all BSPS Assistance in 2015 was in urban areas). Under NAHP, BSPS will expand significantly into urban areas where the housing deficit is growing rapidly – reaching a target of 60 percent of all BSPS Assistance disbursed by YR3 of NAHP. As part of preparation, a detailed assessment of the delivery systems, eligibility framework and assistance amounts has been conducted. The assessment found that delivery systems were largely adequate for urban areas. However, the Project will pursue greater integrated planning and implementation with the NSUP to maximize the impact of BSPS in urban areas. The income and assistance eligibility framework was considered largely adequate. Based on recommendations from the Bank the revised BSPS guidelines in 2016 expanded assistance eligibility to include sanitation services.
- *Identification and Eligibility*. In order to ensure that BSPS aligns with other social assistance programs and targets households in the bottom 40 percent of the income distribution, the Project will use the Unified Database (UDB) operated by the National Team for Poverty Alleviation Acceleration (TNP2K). A beneficiary cross-check with the UDB is currently underway for 2017 BSPS. The UDB will not replace the existing BSPS targeting method, but will further validate the selection of beneficiaries and ensure that the Project is in alignment with other social assistance programs. The SMIS will further support the automation of the UDB cross-check in determining BSPS beneficiaries for 2018 and beyond.
- *Assistance Amount*. The assessment of BSPS recommended raising the range of assistance (i.e. max IDR 15.0 million in 2014) to enable households to fully complete home improvement (when combined with household or family resources or in kind contributions, such as labor), decreasing the likelihood of partially constructed homes or wasted subsidies. Starting in GoI FY 2016, the assistance amount under BSPS was increased to a range of max IDR 30.0 million.
- *Delivery Systems*. BSPS has been adjusted to a more decentralized delivery system, reducing the burden on MPWH for direct program delivery and administration. In 2016, BSPS significantly increased the role and responsibilities of provincial actors and local technical teams through its revised Ministerial Regulation. While the Project still relies heavily on management consultant support, its continuing transition to a decentralized delivery model should enable it to reduce costs and better respond to diverse local needs

and conditions. The efficacy and role of the local administrators will be monitored and suggestions for improvements may be made during Project implementation.

- *Construction Quality.* The technical capacity of BSPS facilitators varies somewhat across geographies, resulting in uneven quality of completed units. NAHP will improve and implement an enhanced program of trainings for facilitators, with particular emphasis on engineering skill and familiarity with environmental and social safeguards to ensure construction quality. The Project will also support handbooks, modules and other resources on self-construction and renovation guidelines and distribute them to all BSPS facilitators

C. Financial Management

96. A Financial Management Assessment (FMA) was conducted as part of Fiduciary Assessment of the Project. The FMA assess the adequacy of the financial management system of the implementing agencies, DGHF and DGHP in the MPWH, to produce timely, relevant and reliable financial information on Project activities. The FMA also assess whether the accounting systems for Project expenditures and underlying internal controls are adequate to meet fiduciary objectives and allow the Bank to monitor compliance with agreed implementation procedures and appraise progress towards its objectives.

97. In summary, the Project financial management risk assessed as **substantial before mitigation and moderate after mitigation**. The main financial management risks identified are (i) DGHF and DGHP insufficient experience in managing Bank funds; (ii) inadequate budgeting and monitoring in FLPP implementation which may also impact the implementation of BP2BT; and (iii) need to strengthen internal control in fund distribution. To mitigate the associated risks, following are the proposed action plan items for DGHF and DGHP: (i) prepare and agree to implement POM covering all arrangements for the Project; (ii) MPWH Ministerial Decree and technical guidelines for BP2BT should indicate that PKO with distribution banks have to be sufficiently allocated in the yearly DIPA; (iii) the agreement with distribution banks for BSPS should indicate requirements for sufficient documentation on transfers made to suppliers; and (iv) strengthen monitoring mechanism for both BP2BT and BSPS.

98. Disbursement Arrangements. The applicable disbursement methods are Advance and Reimbursement. A Designated (Special) Account (DA) denominated in US dollars will be opened in Central Bank under the name of Ministry of Finance. The DA will be a segregated account with fluctuated ceiling based on 6-month forecast. The DA will be used for financing eligible expenditures from this Project. Payments from the DA will follow the GoI arrangement and reflected in the POM and agreed with the Bank. Applications for the replenishment of the DA advance may be submitted through quarterly IFR which consist of report on the use of the DA funds, supported by: (i) list of payments for contracts under Bank's prior review and records evidencing such expenditures; or (ii) statement of expenditures (SOEs) for all other expenses; and (iii) DA reconciliation statement.

D. Procurement

99. Procurement for the proposed Project will be governed by the World Bank's Procurement and Consultant Guidelines. The POM prepared by the Project Implementing Units and approved by the Bank will elaborate the applicable procurement procedures and the roles and responsibilities of PMC and PIUs, as well as of the beneficiaries for the competitive procurement of construction material and payments to the vendors under the Project. The main procurement expected to be carried out by the PIUs in DGHF and DGHP under the Project includes hiring of consultants. The National Management Consultants for BSPS that will provide implementation support and technical assistance to the PIU at the central level, as well as hiring the Regional Management Consultants, and additional consultant services involving hiring of firms and individuals. The National Management Consultants and Regional Management Consultants will be selected through the Quality and Cost-Based Selection (QCBS) method. BP2BT will also require consultants, particularly to support the verification and validation function at the PIU and for the development of the BP2BT and BSPS IT systems. The PIUs have prepared the procurement plan, dated January 31, 2017 for this Project with support by the Bank.

100. Assessment of the procurement capacity of DGHF and DGHP indicates that both these directorates of MPWH have limited previous experience in carrying out procurement under the World Bank financed projects, and there is risk that the two PIUs may have some initial difficulty in understanding and applying the Bank's procurement procedures applicable to the Project, and accordingly also possible delays in the procurement processes particularly for hiring of consultants under Component 3 of the Project. There is also the overall fiduciary risk of the challenging governance environment in the country.

101. These risks will be mitigated through strengthening measures which include: (i) PMC, with support from the Bank and consultants, to provide procurement training for staff at the ULP at central level with a focus on improving the understanding of the Bank procurement guidelines. The Bank has delivered the procurement training to ULP, Commitment Making Officer and other related staff under the project on December 9, 2016; (ii) PIU for Housing Provision, with the support of the Bank and consultants, will monitor and evaluate the progress of major procurement activities such as National Management Consultants and Regional Management Consultants for BSPS; (iii) information on contract awards, management, and payments against contracts published on the Project website; (iv) PMC to maintain a consolidated data-base of the prices of construction material procured by the beneficiaries under the Project (v) reports of fraud or corruption investigated through the MPWH internal controls system as well as by the Bank; and (vi) publishing information of bid prices and contract awards on information boards, and (vii) resolution of procurement complaints through a public complaint handling mechanism. The procurement risk under the project is considered to be Substantial.

E. Social (including Safeguards)

102. The Project will ensure that vulnerable beneficiaries such as women-headed families, women, the disabled, Indigenous Peoples (IPs) or *Masyarakat Hukum Adat (MHA)* and the elderly are given the same opportunities as other beneficiaries by lenders to access BP2BT and by local governments and the *Satker* to access BSPS. The current BSPS Technical Guidelines specifies

eligibility criteria for lower income households to access BSPS support and provides special attention to elderly and disabled people. Unlike common beneficiaries, the latter two are eligible to receive additional assistance for labor costs. The DGHP responsible for BSPS is planning to incorporate other vulnerable groups to be given special attention in the Project including in the next update of the BSPS guidelines.

103. The Project triggers OP 4.10 on Indigenous Peoples as it geographically covers nationwide rural and urban areas and, therefore, IPs or *MHA* could be beneficiaries of BP2BT and BSPS. The Project will promote outreach and social inclusion to IPs or *MHA* communities by providing information and details on Project requirements and will adopt the principles of FPIC (Free, Prior, Informed, and Consulted). Requirements and procedures for such inclusion to be implemented by lenders (for BP2BT) and by local governments (for BSPS) are specified in the Environmental and Social Management Framework (ESMF). Furthermore, studies and capacity building covered by technical assistance under Component 3 (i.e., development and reform of public housing programs, strengthening Perum Perumnas as a public affordable housing developer, and strengthening local government housing policy and planning capacity) may lead to downstream investments and activities located anywhere in the country which may affect IPs. Requirements and procedures for addressing IPs or *MHA* in potential downstream investments and activities emerging from technical assistance activities in Component 3 will be included in the ToRs of all relevant studies. Such requirements and procedures for ToRs of the activities and studies supported by the technical assistance under Component 3 are included in the Indigenous Peoples Planning Framework (IPPF) as part of ESMF, which was prepared in reference to the Bank's Interim Guidelines to Technical Assistance and Trust Funds Administered by the Bank.

104. Component 1 and 2 of the Project do not trigger OP 4.12 on Involuntary Resettlement as they will not involve involuntary land acquisition and/or resettlement under the eminent domain principle. Assessment on the ongoing FLPP scheme, as an analogous project to BP2BT in terms of the nature of housing development, demonstrates that land is acquired by developers based on a willing buyer-willing seller arrangement. It is expected that under BP2BT (Component 1), land will be acquired through the same scheme, i.e., willing buyer-willing seller, by beneficiaries including individuals and developers. In the case of BSPS (Component 2), field observations to several districts and cities showed that home improvement and new home construction occurs on land that is legally owned, physically occupied or with proven tenure. The requirement to have formal land title/tenure as specified in the BSPS Technical Guidelines was neither an obstacle nor did it constrain applicants to access the BSPS, as a certificate or Statement Letter of the Head of the village/*kelurahan* on the land tenure is considered acceptable by the Project. Component 3 of the Project, particularly the supply side technical assistance, may lead to involuntary land acquisition and/or resettlement as a result of the downstream investments/activities as the result of development and reform of public housing programs, strengthening Perum Perumnas as a public affordable housing developer, and strengthening local government housing policy and planning capacity. Therefore, OP 4.12 is triggered for the project. The ToRs for corresponding technical assistance activities and studies under this component will incorporate requirements and procedures for involuntary land acquisition and/or resettlement in reference to the Bank's Interim Guidelines to Technical Assistance and Trust Funds Administered by the Bank. Such requirements and procedures are included in the RPF which is part of the ESMF.

105. The final ESMF had been disclosed in the www.bspsupr.org on November 18, 2016 after it was consulted with relevant stakeholders on October 13, 2016. The ESMF has also been disclosed through Infoshop on December 9, 2016.

106. Given the nature of the Project, it is expected that potential social (including safeguards) risks will be low to moderate. Capacity building including awareness training and assistance for the PMC, PIUs, lenders, local governments, consultants and facilitators on social aspects (including safeguards) will be a critical factor in mitigating risks. Additionally, the formalization of roles and responsibilities of the Directorates for Monitoring and Evaluation under DGHF and DGHP to ensure that ESMF is implemented consistently is critical.

Citizen Engagement

107. The Project includes a strong focus on citizen participation and community engagement through a range of instruments including technical assistance, consultations and focus group discussions, information disclosure, civil-society oversight in monitoring of component outcomes and the development of a complaints handling mechanism.

108. During the preparation of BP2BT, a series of 24 focus group discussions were conducted across different island groups involving representative consumers to understand preferences as a means to inform BP2BT design and administrative procedures. During implementation, all complaints and/or suggestions for BP2BT applicants and beneficiaries will be channeled to the existing complaint handling channel and feedback mechanism (<http://www.sejutarumah.id>), to provide continuous feedback. Additionally, a series of beneficiary satisfaction surveys are planned at mid-term and end-of- Project to inform ongoing Project assessment and improvement.

109. For BSPS, active feedback from the community will be encouraged through a system of community facilitators. The Directorate General of Housing Provision will upgrade the existing complaint handling system through the TA component and assigning a person specifically in charge of this system to ensure for beneficiary feedback. The validity and relevance of the existing system will be continuously monitored and will be refined to ensure that all input, suggestions, feedbacks, and complaints will be addressed satisfactorily and in timely manner.

110. Furthermore, BSPS systems and processes – from the identification of beneficiaries to the delivery of materials to the planning and construction of improved houses – are designed to ensure citizen engagement and participation. Provincial facilitators and the working group (*Satker*) will arrange regular community meetings to obtain feedback and track complaints. Field facilitators will provide reports to the PIU through the provincial *Satker* under the overall BSPS management support structure. Indicators of community satisfaction have been included in the Project monitoring and evaluation framework. Monitoring indicators include broad feedback from beneficiaries and communities on perceptions of fairness and potential local conflict related to Project implementation. This Project will further strengthen citizen engagement and feedback under BSPS through the strengthening of a complaints handling system within technical team at the MPWH.

Gender

111. The Project will ensure that each component will be gender-informed at the planning, implementation and monitoring and evaluation stages. At the planning stage, safeguards will be in place to ensure that female headed households (FHH) and widowers will not experience discrimination in either of the Project components. In addition, a gender-focused assessment will be carried to identify the potential constraints FHHs may face when accessing assistance under both components and the mechanisms that could be put in place to mitigate these constraints.

112. As part of the technical assistance activities supported under the Project, there will be advocacy and training to the PIU, facilitators, and lenders on the importance of gender equality among beneficiaries. For example, for BP2BT, resource materials will be developed and disseminated on how lenders can review the eligibility of FHHs with the view to ensure that they are treated equally to double income or male headed households. For BSPS, provincial facilitators, as well as the Provincial level *Satker*, namely the Specific Non-Vertical Unit (*Satuan Non Vertikal Tertentu* - SNVT), will be provided with gender training as part of technical assistance under BSPS component. Additionally, to strengthen current BSPS capacity to ensure equitable access for FHHs, the PIU will explore collaboration with the women empowerment organizations (e.g., PEKKA) to create modules for gender informed capacity building and to collaborate on socializing BSPS to FHHs.

113. As part of its monitoring work, to the extent the data is available, the Project will collect gender-disaggregated statistics on all successful and unsuccessful applicants for both BP2BT and BSPS. Through the collection of qualitative monitoring data, the Project will try to assess whether rejections are gender-related, and will work with the lenders and facilitators to encourage gender equitable treatment. Based on the assessments and routine monitoring, technical capacity building activities will be developed under each component to introduce innovations to mitigate the constraints and encourage FHH to access the Project.

F. Environment (including Safeguards)

114. The Project is not expected to have significant environmental impacts as a result of the implementation of BP2BT and BSPS. BP2BT supports a mortgage-linked down payment assistance program for lower income salaried and non-salaried households to enable each beneficiary household to either: (i) purchase a new or existing home; or (ii) construct a home. The component will indirectly involve physical works in housing and involve small investments per beneficiary household. Under this component, the value of housing investment will vary across regions and income levels, ranging between US\$ 7,700 – US\$ 18,080 per unit thereby typically involving small-scale civil works with an average housing size of 36 m² (max. up to 60 m²). BSPS will involve home improvement for poor and lower income households. For example, roof, floor and wall repair and re-construction of new small houses (average 36 m²), that takes place in individual land plots or small land areas with small group of houses in each cluster.

115. Each potential housing site is distinct and discrete from others, geographically spread in wide areas in the urban or peri-urban area of a district or city, and located in already developed residential areas. The potential environmental impacts of the Project are expected to be

insignificant, non-irreversible, localized, and manageable by the involved parties by implementing sound construction practices. The main source of impacts will be from the civil construction activities on the improvement and/or rehabilitation of existing homes and construction of new houses that will be done on an individual basis, in relatively short-term periods (1-2 months) and not through large-scale development. Cumulative impacts are unlikely.

116. Given the nature of the Project as explained above, it is expected that it will have minor, non-irreversible, small-scale, and site-specific environmental and social impacts. Thus it is a Category B project and triggers OP 4.01 Environmental Assessment. The Project benefits the environment by improving the living quality of individual households, as well as the environmental quality of the neighborhood where housing conditions are improved. This may lead also to the improvement of water supply and sanitation conditions that are triggered by the better home conditions.

117. The key environmental issue identified with regard to the Project include possible unsustainable harvesting of natural resources as construction material, timber, sand and rock (the last two are known as Type C quarry material). Proper mechanisms have been incorporated into Project design to ensure that unsustainable resource extraction practices are not permitted.

118. Component 3 on Technical Assistance will include policy advisory and capacity building for housing sector governance. The supply side technical assistance may potentially create environmental and social impacts as a result of downstream housing sector investments. This component should refer to the Bank's Interim Guidelines on the Application of Bank Safeguard Policies to Technical Assistance and Trust Funds Administered by the Bank (January 2014) wherein the terms of reference of these activities will be assessed accordingly.

119. The final ESMF had been disclosed in the www.bspsupr.org on November 18, 2016 after it was consulted with relevant stakeholders on October 13, 2016. The ESMF has also been disclosed through Infoshop on December 9, 2016.

G. World Bank Grievance Redress

120. Individuals and or communities who believe that they are adversely affected by a World Bank-supported Project may submit complaints to existing program-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address Project-related concerns. Project affected individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Indonesia: National Affordable Housing Program Project (P154948)

Results Framework

Project Development Objectives

PDO Statement

The development objective of the Project is to improve access to affordable housing for lower income households.

These results are at Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Number of targeted households assisted by the Project for affordable house ownership (Number)	0.00	20,000.00	47,000.00	114,000.00	126,000.00	126,000.00
Number of targeted households received house improvement/reconstruction stimulant through advanced system of Home Improvement Assistance (Number)	0.00	100,000.00	275,000.00	450,000.00	450,000.00	450,000.00

Intermediate Results Indicators						
Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Percentage of BP2BT beneficiaries in bottom 60 percent of the income distribution (Percentage)	0.00	80.00	80.00	80.00	80.00	80.00
Percentage of BP2BT beneficiaries from non-salaried sector (Percentage)	0.00	10.00	15.00	20.00	20.00	20.00
Number of participating lenders with volume >5 percent of BP2BT annual Project volume (Number)	0.00	2.00	3.00	4.00	4.00	4.00
Amount of BP2BT assistance linked mortgage finance leveraged (Amount (US\$))	0.00	105,000,000	248,000,000	605,000,000	665,000,000	665,000,000
Percentage of beneficiaries satisfied or highly satisfied with BP2BT (Percentage)	0.00	60.00	70.00	80.00	80.00	80.00
BP2BT IT System developed and operationalized (Yes/No)	No	No	Yes	Yes	Yes	Yes
Percentage of reconstructed and/or improved housing unit verified as accurate in beneficiary targeting (Percentage)	0.00	70.00	75.00	80.00	85.00	85.00
Percentage reconstructed and/or improved housing units verified appropriately in fulfilling standard house requirement (Percentage)	0.00	65.00	70.00	75.00	80.00	80.00
Percentage of increased BSPS implementation in urban area (Percentage)	20.00	25.00	30.00	35.00	35.00	35.00
Percentage of complaints recorded and processed within the service standard applied (disaggregated by gender) (Percentage)	0.00	65.00	70.00	75.00	80.00	80.00

Percentage of beneficiaries satisfied or highly satisfied with BSPS for home reconstruction/improvement (disaggregated by gender) (Percentage)	0.00	65.00	70.00	75.00	80.00	80.00
<i>Swadaya</i> Management Information System developed and operationalized (Yes/No)	No	Yes	Yes	Yes	Yes	Yes
A Housing and Real Estate Information System (HREIS) developed created and under implementation (Yes/No)	No	No	Yes	Yes	Yes	Yes
Mortgage guarantee mechanism developed (Yes/No)	No	Yes	Yes	Yes	Yes	Yes
Public Housing Policy Roadmap developed (Yes/No)	No	No	Yes	Yes	Yes	Yes
Business Plan for the National Housing Corporation (Perum Perumnas) to manage affordable housing developed (Yes/No)	No	No	Yes	Yes	Yes	Yes
Local Government Affordable Housing Plans developed (Number)	0.00	2.00	6.00	10.00	15.00	15.00

Indicator Description

Project Development Objective Indicators				
Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of targeted households assisted by the Project for affordable house ownership	Number of targeted households receive the mortgage-linked down payment assistance by the Project	Annually	Field survey, BP2BT IT System, Impact Evaluation	GOI - World Bank
Number of targeted households received house improvement/ reconstruction stimulant through advanced system of Home Improvement Assistance Project	Number of targeted low-income households (approximately 1 HH equal to 4 beneficiaries) receive the home improvement assistance by the Project	Annually	Field survey, SMIS, Impact Evaluation	GOI - World Bank
Intermediate Results Indicators				
Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Percentage of BP2BT beneficiaries in bottom 60 percent of the income distribution	Percentage of total BP2BT beneficiaries that earn the 60 percent lowest income level (in the range of IDR 1.5 – 4.5 million)	Annually	BP2BT IT System, Monitoring, Thematic Evaluation	GOI
Percentage of BP2BT beneficiaries from non-salaried sector	Percentage of total BP2BT beneficiaries are from non-salaried sector	Annually	BP2BT IT System, Monitoring, Thematic Evaluation	GOI
Number of participating lenders with volume >5 percent of BP2BT annual Project volume	Number of BP2BT lenders that hold >5% share of the overall mortgage	Annually	BP2BT IT System, Monitoring	GOI
Amount of BP2BT assistance linked mortgage finance leveraged	Total amount of mortgage delivered through BP2BT	Annually	BP2BT IT System, Monitoring	GOI
Percentage of beneficiaries satisfied or highly satisfied with BP2BT	Results of beneficiary satisfaction measurement through beneficiary survey	Annually	Beneficiary survey	GOI

BP2BT IT System developed and operationalized	Development and operationalization BP2BT IT System for assistance verification	Annually	Monitoring	GOI
Percentage of reconstructed and/or improved housing unit verified as accurate in beneficiary targeting	Percentage of rehabilitated houses that owned by households that earn lower than the minimum regional wage and evidenced through third-party output verification	Annually	Field survey, SMIS, Output Verification	GOI
Percentage reconstructed and/or improved housing units verified appropriately in fulfilling standard house requirement	Percentage of sub-standard houses that completely transform into the standard house category and evidenced through third-party output verification	Annually	Field survey, SMIS, Output Verification	GOI
Percentage of increased BPS implementation in urban area	Percentage of BPS (proxy through its allocation) implemented in urban area	Annually	Field survey, SMIS, Output Verification	GOI
Percentage of complaints recorded and processed within the service standard applied (disaggregated by gender)	Results of feedback analyses that show percentage of complaints processed within service standard	Annually	SMIS, Feedback Analysis	GOI
Percentage of beneficiaries satisfied or highly satisfied with BPS for home reconstruction/improvement (disaggregated by gender)	Results of beneficiary satisfaction measurement through beneficiary survey	Annually	Field survey, Beneficiary Analysis	GOI
<i>Swadaya</i> Management Information System developed and operationalized	Development and operationalization of an information system to monitor and evaluate BPS	Annually	SMIS, Monitoring	GOI
A Housing and Real Estate Information System (HREIS) developed created and under implementation	Development of a single national housing information that will include housing data from various sources	Annually	DGHE, Monitoring	GOI

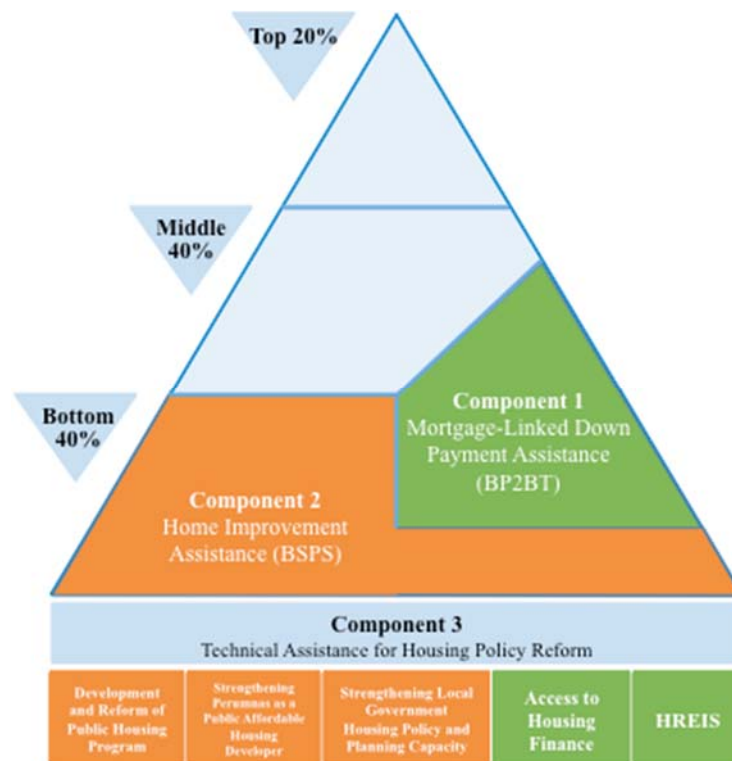
Mortgage guarantee mechanism developed	Development of a mortgage guarantee mechanism that adopts the international best practice	Annually	MoF/OJK, Monitoring	GOI
Public Housing Policy Roadmap developed	Development of a medium to long term roadmap of Indonesia public housing policy	Annually	DGHP, DGHF, Monitoring	GOI
Business Plan for the National Housing Corporation (Perum Perumnas) to manage affordable housing developed	Development of a robust business plan and implementation framework for Perum Perumnas in acting as affordable housing developer	Annually	Perum Perumnas, Monitoring	GOI
Local Government Affordable Housing Plans developed	Development of a series of local housing planning document as assisted by the Project	Annually	Field survey, LG Capacity Assessment	GOI

Annex 2: Detailed Project Description

Indonesia: National Affordable Housing Program Project (P154948)

1. **Project Development Objectives.** The objective of the Project is to improve access to affordable housing for lower income households.
2. **Project Beneficiaries.** The direct Project beneficiaries are lower income households, specifically first time home owners who receive assistance to purchase a home under Component 1 of the Project as well as the owners of improved homes under Component 2 of the Project.
3. **PDO Level Results Indicators.** The below indicators aim to demonstrate how the Project contributes to improved access to affordable housing for lower income households. Improved access is defined as: (i) acquisition of a new, existing or self-constructed home through the mobilization of down payment assistance linked to mortgage finance for targeted households; and (ii) transformation of a substandard home transformed into habitable housing unit through the mobilization of home improvement subsidies.
4. The achievement of the Project will be measured through the following development objective indicators:
 - 126,000 targeted households assisted by the Project for affordable house ownership
 - 450,000 targeted households received house improvement/reconstruction assistance through advanced system of Home Improvement Assistance
5. Details of the above indicators are given in the results framework in Annex 1.
6. **Overall Project Scope and Targeting.** This Project aims to improve access to affordable housing through a mix of demand and supply side interventions targeting both lower-middle income and lower-income households. Figure 1 represents the structure of the proposed NAHP with respect to target segments for each component. Component 1 targets lower income salaried and non-salaried households that are unable to access commercial mortgage finance for home purchase without public assistance. Component 2 targets the bottom 40 percent of Indonesian households that require home improvement rather than home purchase solutions and for whom the market for commercial mortgage finance is unaffordable even with deep subsidy enhancements. Given the complex nature of housing policy, the Project through Component 3 will support five key policy reform and capacity building activities. Further detail on each component is provided below.

Figure 1: NAHP Scope and Targeting



7. **Project Components.** Project components include:

- Component 1: Mortgage-Linked Down Payment Assistance (BP2BT)
- Component 2: Home Improvement Assistance (BSPS)
- Component 3: Technical Assistance for Housing Policy Reform

Component 1: Mortgage-Linked Down Payment Assistance (US\$ 265.0 million of which US\$ 215.0 million of Bank Financing)

8. Subcomponent 1.1- Mortgage-Linked Down Payment Assistance (BP2BT). The Project will support through this financial intermediary subcomponent provision of mortgage-linked down payment assistance to lower income first time home-owners through Participating Lending Institutions for the purchase or construction of a residential property. Specifically, the mortgage-linked down payment assistance scheme (*Bantuan Pembiayaan Perumahan Berbasis Tabungan – BP2BT*) targets aspiring lower income first time home-owners by providing down payment assistance support to match beneficiary savings and a market rate mortgage from a participating lending institution for the purchase of: (i) a new or existing landed house³⁴; (ii) a new or existing multi-story house/apartment; or (iii) a new or existing low-rise vertical house/apartment, and similar housing prototypes. The Project will also support down payment assistance linked to a

³⁴ Existing landed houses can be originally self- or developer-built, provided they meet all construction standard and permitting requirements.

mortgage for the self-construction or reconstruction of a home by eligible lower income households. The Project aims to support both salaried and non-salaried households³⁵.

9. The specific household income segments targeted by the component are between the 30 and 60 percentiles of all household income. While the Project expands eligibility for government mortgage-linked housing assistance to non-salaried households for the first time, it assumes a gradual uptake in this segment (i.e. see in Annex 1 Project targets for BP2BT disbursement to non-salaried households of 10, 15 and 20 percent of all BP2BT beneficiary households in YR1, YR2 and YR3 respectively).

10. BP2BT represents a far more cost-effective solution as compared to FLPP for addressing the affordable housing policy objectives of the government. Table 1 below presents a comparative assessment of BP2BT and FLPP under three sample scenarios. In each case monthly household debt servicing are nearly equivalent between BP2BT and FLPP. However, the per-unit NPV of BP2BT as compared to the per-unit NPV of FLPP is anywhere from a 26.6 to 77.5 percent (depending on property value and beneficiary household income). Moreover, given Table 1 demonstrates that BP2BT is 3, 4, and 8 times more cost-effective per 100,000 units from a budget allocation perspective in each of the three scenarios respectively.

Table 1: Comparative Assessment of BP2BT v. FLPP

Key Variable	Unit	Scenario I		Scenario II		Scenario III	
		FLPP	BP2BT	FLPP	BP2BT	FLPP	BP2BT
Property Value	IDR Million	100	100	135	135	235	235
Loan Amount	IDR Million	99	63	134	96	233	183
Down Payment	IDR Million	1	6	1	10	2	27
Subsidy/ Assistance (NPV Basis)	IDR Million	40	31	54	29	94	25
Monthly Installment	IDR Million	0.8	0.8	1.1	1.2	1.8	2.1
Budget Requirement per 100,000 units	IDR Trillion	8.91	3.10	12.06	2.9	20.97	2.50

Note: Scenario I for income of IDR 3.4 million, Scenario II for income of IDR 4.5 million, Scenario III for income of IDR 6.5 million

11. The scheme will be administered through a *Satker* (administrative entity) established at MPWH and participating mortgage lenders (Banks and FIs). See Annex 3 for further details on institutional arrangements. A BP2BT design document and detailed POM has been reviewed in draft by the Bank and was finalized as part of Appraisal. The final *Peraturan Menteri* of BP2BT will be issued through a MPWH Ministerial regulation prior to effectiveness. The draft decree for the issuance of the POM has been reviewed by the Bank and will be prepared prior to effectiveness.

³⁵ While the Project expands eligibility for government mortgage-linked housing assistance to non-salaried households for the first time, it assumes a gradual uptake in this segment (i.e. see in Annex 1 Project targets for BP2BT disbursement to non-salaried households of 10, 15 and 20 percent of all BP2BT beneficiary households in YR1, YR2 and YR3 respectively).

12. This section summarizes the key elements of the BP2BT design, reflected in greater detail in the POM. The component description below is organized around the following seven BP2BT design elements:

- i. Core Project Principles
- ii. Target Geographic Markets
- iii. Income Eligibility, Definition and Assessment
- iv. Eligible Property Types and Maximum Property Value
- v. Additional Project Eligibility Criteria
- vi. BP2BT Assistance Model and Levels
- vii. Assistance-Linked Mortgage Product

A. Core Principles

13. BP2BT is structured around a set of core Project design principles as summarized in Table 2 below.

Table 2: Core Project Principles and Definitions

<i>Core Design Principles</i>	(i)	the total loan to value ratio for mortgages provided under the scheme should be between 50 and 80 percent
	(ii)	HHs must provide a minimum down payment of 5 percent of property value
	(iii)	HHs must demonstrate savings capacity, i.e. 6 months for both fixed and non-fixed income
	(iv)	all properties financed under the scheme must have formalized title
<i>BP2BT Mortgage Product Definition</i>	A loan provided by participating lending institutions to finance the purchase or construction of a residential property, which is secured by the underlying property. Such property must be formally registered with the BPN as a <i>Hak Guna Bangunan</i> , <i>Hak Milik</i> , etc.	
<i>Down Payment Assistance Definition</i>	Government financial assistance granted to eligible lower income households to make some part of the down payment to secure a housing loan to finance the purchase or construction of a residential property for self-use.	

B. Target Geographic Markets

14. BP2BT will operate nationally with prospective beneficiaries from all 34 provinces eligible to apply for the down payment assistance. In order to facilitate implementation and BP2BT administration, provinces and/or local governments have been clustered into nine administrative zones. These zones are based on a zone classification system developed by MoF regulations for VAT exemption on the purchase of lower income housing units. Adjustments to the MoF zone classification system were made in consultation with MPWH based on an assessment of housing market conditions. The zone classification system is the basis on which two key BP2BT variables are set: (i) maximum household income eligibility; and (ii) maximum eligible property value. Table 3 below summarizes the zone classification system. Further details on the specific provinces and/or local governments in each zone are provided in the POM. Periodic adjustments to the

clustering of provinces and regions may occur during BP2BT implementation based on emerging market conditions.

Table 3: Clustering of Provinces by Zones

No.	Zones
Zone 1	Java (Less Greater Jakarta)
Zone 2	Sumatera
Zone 3	Kalimantan
Zone 4	Sulawesi
Zone 5	Maluku & North Maluku
Zone 6	Bali & Nusa Tenggara
Zone 7	Papua & West Papua
Zone 8	Riau Islands & Bangka Belitung
Zone 9	Greater Jakarta

C. Income Definition, Eligibility and Assessment

15. BP2BT has clearly defined eligibility for a range of target income segments. Income eligibility has been clearly specified for the Project to ensure appropriate targeting of the assistance and to avoid leakages. The Project target segment includes lower-income households residing in urban and metro areas (though not exclusively) that have limited purchasing capacity and are therefore in need of government assistance in order to afford a home.

16. BP2BT will target lower-income households with both fixed and non-fixed incomes, having chief income-earners who may be: (i) employed in either formal or informal sector; or (ii) engaged in a self-employed business or income generation activity. BP2BT eligibility criteria will not distinguish between different types of income, however, BP2BT holds as a strategic objective increasing access to mortgage finance for non-fixed income households.

17. Income Definition. For the purpose of income assessment for assistance eligibility, income is defined as the gross monthly household income earned by: (i) husband and wife, if the applicant is married and both are working; (ii) applicant alone if the applicant is married and the spouse is not working; or (iii) unmarried applicant. The applicant must be the highest income earner in the household. In the case of married applicants, both spouses must apply as applicant and co-applicant and also as co-owners.

18. Maximum Household Income Eligibility. Under BP2BT, the qualifying maximum monthly household income has been grouped into nine distinct geographical zones across Indonesia as outlined in Table 4 below. The maximum HH income eligibility by zone is set at 1.5 times the maximum regional minimum wage for each zone while factoring in the estimated number of working age adults per household (i.e. the national average is 1.82 working age adults per HH). Further details on the income eligibility formula and calculation are provided in the POM. While no minimum income criteria apply to BP2BT participants, the applicant must be qualified by a BP2BT participating lending institution to be considered eligible for assistance. Periodic

adjustments to the maximum income eligibility calculation are anticipated during Project implementation in response to changing market conditions. Adjustments to the underlying BP2BT maximum income eligibility formula will largely be driven by changes in the market conditions and will only occur with the prior review of the Bank and be reflected in an updated POM.

Table 4: BP2BT Maximum Household (HH) Income Eligibility by Zone

Zone	Max Monthly HH Income (IDR million)
Zone 1: Java	6.1
Zone 2: Sumatera	6.0
Zone 3: Kalimantan	5.9
Zone 4: Sulawesi	6.6
Zone 5: Maluku and North Maluku	6.1
Zone 6: Bali and Nusa Tenggara	6.2
Zone 7: Papua and West Papua	6.6
Zone 8: Riau Islands and Bangka Belitung	6.4
Zone 9: Greater Jakarta	7.5

19. Income Assessment. For the assessment of gross monthly household income, the lender will include all predictable and regular income sources that are directly attributable to the applicant and co-applicant(s). Any income derived from other sources, which may constitute a part of the monthly household income but is not directly attributable to the applicant or co-applicant(s) may be considered by the lender as a buffer (i.e. additional income from other working household members) for determining the housing loan eligibility. However, the same shall not be considered towards the income eligibility for assistance. Participating lenders may use their own internal underwriting guidelines to derive additional income for the purpose of loan eligibility. A detailed methodology for income assessment is included in the POM.

D. Property Eligibility and Maximum Property Value

20. BP2BT has defined property eligibility parameters to ensure that beneficiaries attain basic minimum standards for a secure and safe house with access to amenities and basic services. Key property eligibility parameters are summarized in Table 5 below.

Table 5: BP2BT Property Eligibility Parameters

<i>Title</i>	Formally registered with BPN as <i>Hak Milik</i> (Ownership Rights) or <i>Hak Guna Bangunan</i> (Building Rights)
<i>Size</i>	Maximum size of the property: <ul style="list-style-type: none"> • 36 m² built-up area for purchase of Landed Houses (new); Low-Rise Verticals (new/existing); Multi-Story (new/existing) • 70 m² built-up area for purchase of Landed Houses (existing) • 50 m² built-up area for Self- or Re-Construction Property
<i>Basic Amenities</i>	<ul style="list-style-type: none"> • Properties have access to basic amenities such as water, sanitation and electricity • Location of properties accessible by roads that meet local standards, and to livelihood opportunities, education and medical facilities

<i>Construction Standards</i>	<ul style="list-style-type: none"> • Properties must comply with the necessary building plan approvals (Spatial Plan or Detailed Spatial Plan) and local government construction standards and building codes • Lenders use their internal eligible property guidelines for qualifying properties for BP2BT
<i>Valuation</i>	Participating lenders appraise all properties as per relevant internal underwriting guidelines

21. BP2BT also specifies a maximum property value or cost for four different property types across each of the nine zones (see Table 6 below). The setting of maximum property values is based on an assessment of housing prices for basic homes in different regional markets both linked to the FLPP as well as the primary and secondary commercial transactions available in the market. Setting a maximum property value ensures BP2BT supports the purchase of basic affordable units only and safeguards also against the leakage of down payment assistance to households with greater purchasing power than that targeted by BP2BT.

Table 6: Maximum Property Value by Zone and Type (IDR million)

Location By Zones	Max Monthly HH Income	Max Property Value/Cost by Property Type			
		Multi-Story	Low-Rise Vertical	Landed House	Self- or Re-Construction
Zone 1: Java	6.1	300	250	200	125
Zone 2: Sumatera	6.0	345	250	200	125
Zone 3: Kalimantan	5.9	355	250	200	125
Zone 4: Sulawesi	6.6	360	250	200	125
Zone 5: Maluku & North Maluku	6.1	350	250	200	125
Zone 6: Bali & Nusa Tenggara	6.2	315	250	200	125
Zone 7: Papua & West Papua	6.6	565	375	280	190
Zone 8: Riau Islands & Bangka Belitung	6.4	360	250	200	125
Zone 9: Greater Jakarta	7.5	330	250	200	125

22. The above-mentioned maximum values for multi-story houses and landed houses exceed MoF VAT tax exempt values and, accordingly, the applicable VAT charges will be borne by the beneficiary as part of transaction costs related to home purchase. The Bank is engaged in a policy dialogue with MoF to either assess the feasibility of adjusting the property values for VAT exemption and/or define provisions by which for BP2BT participating homes VAT would only apply to the prorated amount above the MoF exemption levels.

23. Property Valuation. Property valuation standards are robust in Indonesia given the tight supervisory oversight that MoF has over MAPPI (Indonesia Society of Appraisers) certified appraisers requiring strict certification requirements. MoF also requires that MAPPI aggregates and submits all members' appraisals together with the relevant comparable units onto a MoF online reporting website for compliance review. While appraisers do not have access to a public database for sales transactions and the BI Home Price Index is available only for 16 cities, appraisers build

their own internal database and rely on the MAPPI network for valuation. For secondary properties, valuation tends to be done on a replacement or cost basis. The construction cost index is widely available, and MAPPI updates building materials cost every 6 months for 500 Indonesian local government and makes such data available to its members on the MAPPI website. Land value is done on a comparable basis that relies on appraiser internal database and/or MAPPI network.

24. For BP2BT, it is likely that appraisers (lenders and third-party) will not have yet robust data for the affordable priced segment outside of the FLPP properties, as transactions have been limited given the lack of access to formal housing finance. However, it is expected that lenders will start with conservative appraisal of these properties and demand will accelerate the accumulation of valuation data.

E. Additional BP2BT Eligibility Criteria

25. BP2BT includes a series of additional eligibility criteria and BP2BT design features related to beneficiary savings requirements, minimum down payment, maximum consumer equity and related eligibility criteria (see Table 7 below).

Table 7: Eligibility Criteria at the Time of Assistance Application

<i>Savings Period & Amount</i>	<ul style="list-style-type: none"> Households to demonstrate 6 months of savings at 10 percent of assessed monthly household income Households with past credit relationship with the lenders or with past savings history³⁶ that meet minimum savings eligibility criteria can be immediately eligible for assistance
<i>Min Down Payment</i>	<ul style="list-style-type: none"> Minimum down payment of 5 percent inclusive of borrower's savings account of Property Value or Construction Cost (inclusive of Savings) Lenders will have the ability to set savings and/or down payment requirement higher than 5 percent based on internal credit assessment Applicants prohibited from borrowing to meet down payment requirements
<i>Max Consumer Equity</i>	<ul style="list-style-type: none"> Max equity of 50 percent of Property Value or Construction Cost (inclusive of savings and assistance)
<i>End Use Eligibility Criteria</i>	<ul style="list-style-type: none"> Purchase: No prior home ownership (husband + wife, jointly or severally) Self-Construction: Owned land (with registered certification with BPN) and no prior home ownership Re-Construction: Owned landed house property (with registered certification with BPN)
<i>Past Assistance or Subsidy</i>	<ul style="list-style-type: none"> Household has not availed past housing assistance or subsidy Letter affidavit signed by the applicant(s) and confirmed by the local government appointed authority

³⁶ To demonstrate past savings history applicants must provide savings documentation proof such as bank passbook, savings certificates, fixed deposit receipt or related document for the immediate preceding 6 months period. Households will be allowed to transfer savings from their existing bank to BP2BT participating lending institutions to be used as part of the down-payment requirement.

26. Minimum Documentation Requirements to Confirm Eligibility. The Project specifies minimum document requirements to be submitted by applicants to participating lending institutions as a means to determine eligibility and to assist in BP2BT monitoring. Key documentation required will include: (i) ID documentation; (ii) income and employment documentation; (iii) tax ID and individual tax report, as deemed applicable; (iv) income statement signed by applicant on stamp paper and duly acknowledged by employer for fixed-income and by authorized local government authority for non-fixed income; (v) statement letters confirming that applicant has met all BP2BT eligibility criteria; and (vi) statement letters affirming that applicant will meet all BP2BT compliance requirements as a beneficiary of the Project. A more detailed list of required documentation is included in the POM.

27. Residency Requirements. Beneficiaries must use the property as their primary residence for at least 5 years to be in compliance with the BP2BT. The underlying properties may be rented or have ownership transferred only after 5 years from home purchase, except in the following circumstances: (i) death of applicant or co-applicant of the housing loan (may lead to inheritance); (ii) beneficiaries have lived in said properties for more than 5 years; (iii) resettlement due to economic conditions such as new job, job loss or medical/health related emergency situation, subject to clear documentation and/or approval by authorized official of the local government/authority; or (iv) financial trouble leading to default/delinquency of the housing loan (requiring foreclosure). Ownership transfer under scenarios (ii), (iii) and (iv) can only be conducted to eligible lower-income households in accordance with regulations of law.

28. If the beneficiary does not use the residential property financed under the Project as their residence for 1 year consecutively, the beneficiary must return the assistance that had been received through the implementing bank.

F. BP2BT Assistance Model

29. BP2BT has developed an assistance model which specifies the maximum assistance levels for beneficiary households. See Table 8 below for a condensed version of the detailed Assistance Matrix which is included in the POM. The Project assistance model is scaled progressively to income, i.e. lower income households receive a higher absolute assistance amount and are similarly permitted to apply the assistance to a greater percentage of the full property value. Assessed monthly household income by lenders will be used as the basis for determining assistance eligibility. Assistance will be the lower of: (i) assistance amount linked to the assessed monthly household income represented in column (1) in Table 8; or (ii) assistance amount derived from Assistance Index³⁷ multiplied by Assessed Property Value/Cost as represented in column (2A or 2B) in Table 8 below.

³⁷ Assistance Index = Assistance Amount / Affordable Property Value (or Cost).*

(*) Affordable Property Value (Cost) is a function of the Beneficiary household income, savings and repayment capacity

Table 8: Assistance Matrix and Calculation

Monthly HH Income (IDR million)	Assistance Calculation: Purchase: Lower of (1) and (2A) Self or Re-Construction: Lower of (1) and (2B)		
	(1) Max Assistance Amount (IDR million)	(2A) Assistance Index (as % Prop. Value) For Purchase	(2B) Assistance Index (as % Construction Cost for Self/Re-Construction)
2.7 and below	32.4	40.2%	40.2%
3.0	31.8	35.9%	35.9%
3.5	30.8	29.9%	29.9%
4.0	29.8	24.9%	24.9%
4.5	28.8	20.8%	23.0%
5.0	27.8	17.5%	22.2%
5.5	26.8	14.7%	21.4%
6.0	25.8	12.9%	20.6%
6.5	24.8	12.4%	19.8%
7.0	23.8	11.9%	19.0%
7.5	22.8	11.4%	18.2%

30. BP2BT assistance model is designed to ensure:

- Assistance amount is defined in a transparent and simple manner (one income – one assistance level for all eligible households irrespective of income type);
- Assistance is progressive in terms of income (lower assistance for higher income households);
- Assistance is progressive in terms of property value (lower assistance index as a percentage of property value, for higher income households);
- Assistance amount is equitable across the range of household incomes (ensures that lower income households can leverage assistance to afford higher property values); and
- Assistance defined as lower of (1) and (2) leads to efficient use of Government resources by limiting the assistance amount per beneficiary but leveraging household equity and lending from lenders.

31. Usage of Funds. Beneficiaries of BP2BT must use the funds derived from all parts of the Project (e.g. equity, assistance and loan amount) only towards the purchase or construction of a new residential property and the relevant transaction costs.

32. Continuous Scale. Note that the full assistance matrix reflected in the POM is on a continuous (rather than banded) scale with a differentiated assistance amount and assistance index value for each IDR 100,000 difference in income so as to avoid ‘cliff effects’ in the allocation of assistance.

G. Housing Finance Design (Mortgage Product)

33. BP2BT has specified a series of parameters for the assistance-linked mortgage product related to the interest rate, loan term, LTV, transaction costs and prepayment charges (see Table 9 below). Key characteristics of the mortgage product include: (i) a market rate of interest set by Banks to ensure scheme sustainability (in contrast to current regime of interest rate subsidies); and (ii) maximum LTV to mitigate the possible higher risk related to informal income.

Table 9. Product Key Components

<i>Interest Rate</i>	<ul style="list-style-type: none">• Market rate• Set by each participating lending institutions respective risk assessment, cost of funds and return requirement
<i>LTV</i>	<ul style="list-style-type: none">• Maximum 80 percent• Minimum 50 percent
<i>Loan Amount</i>	<ul style="list-style-type: none">• Established by participating lending institutions based on assessment applicant capacity to pay and applying lender finance terms, while conforming to BP2BT requirements regarding LTV, Loan Term, and maximum home value
<i>Prepayment</i>	<ul style="list-style-type: none">• During the first five-year of loan: (i) no prepayment for fixed-rate period; and (ii) prepayment without penalty for variable rate period up to 80 percent of the original loan amount• Beyond 5 years, no prepayment charges

34. Consumer Protection against Interest Rate and Affordability Risk. The Project anticipates the need to protect lower income consumers participating in the Project against interest rate and affordability risks given the market-oriented pricing of BP2BT assistance-linked mortgages. Key anticipated risks relate to: (i) the volatility of variable rate mortgages imposing affordability constraints on consumers; and (ii) affordability constraints caused by inadequate income growth, household shocks and non-systemic economic slowdown. The Project introduces two mechanisms aimed to mitigate such risks.

- *Mitigant for Margin Movement Risk:* The variable or floating interest rate applicable to the BP2BT-linked mortgage loan will be indexed to the Bank of Indonesia (BI) benchmark policy rate and the lender will be required to define the ‘original spread’ against the benchmark rate in the mortgage agreement. During the life of the loan, the lender may revise the interest rate in accordance with the movement of the benchmark rate. The lender is allowed to exceed the ‘Original Spread’ by up to a maximum of 100 basis points over the life of the loan due to certain money market rate conditions that may not be fully reflected in the movement of the benchmark rate.
- *Mitigant for Affordability Risk:* When consumer income growth lags the rise in interest rates for a sustained period of time, beneficiary repayment capacity can be stressed and loan default becomes a significant risk. Before raising the beneficiary monthly installment to cover the rise in interest rates, BP2BT will require the lender to discuss with the beneficiary their capacity to pay to cover rates rises. If the beneficiary is unable to sustain mortgage installments at the higher rate, the Lender has the option to extend the loan tenure

to maintain the monthly mortgage installment at the current level or one that is deemed affordable for the beneficiary. This extension is allowed for up to the maximum aggregate loan tenure of 20 years.

35. Verification. Verification is the overall assessment of applicant eligibility for BP2BT to be performed by the participating lending institution. Verification is to be performed by the participating lending institution by: (i) formally checking the applicant credentials and housing requirements in compliance with BP2BT eligibility criteria; (ii) interviewing the potential applicant and his/her household; and (iii) assessing the physical conditions of the property to ensure that all BP2BT criteria are duly met. The implementing bank must undertake the necessary credit and collateral underwriting and is responsible for the determination of applicant eligibility under the Project. Such verification must at minimum include an administrative check of the required documents, assessment of income and capacity to repay and the physical check of property and infrastructure, and the property valuation.

36. Mortgage Loan Disbursement. Loan disbursement for both home purchase and self- re-construction will be managed as follows:

- *Purchase:* The disbursement of assistance must be done at the same time as that of the loan amount and/or the final installment of the loan amount. For all purchase transactions the assistance amount will only be disbursed to the seller of the property (which may be the developer in the case of new properties).
- *Self- and Re-Construction:* The disbursement of assistance must be done together with the final installment of the loan amount as described in the section below (Staged Loan Disbursement).

37. Staged Mortgage Loan Disbursement. To prevent diversion of assistance towards non-housing purposes and to ensure timely progress in construction, the loan and assistance disbursement for Self-Construction and Reconstruction loans must be done in stages, in line with the construction stage progress. Participating lending institutions will set the disbursement schedule including the number of tranches and percentage of disbursement for each tranche as per their relevant operating guidelines. The assistance amount shall be disbursed together with the last and final disbursement of the loan amount.

38. Reporting. Participating lending institutions will prepare and submit a utilization report periodically or at any time required during the life of BP2BT assistance-linked mortgage to the BP2BT *Satker*. Further provisions regarding reporting are detailed in the PKO and outlined in the POM.

H. Credit Default Instruments

39. BP2BT will require that mortgage guarantee products be applied to all BP2BT assistance-linked mortgage loans to cover the risk of credit default for both BP2BT assistance and the mortgage loan upon the default event. A default event is defined as 90 days past due. Mortgage guarantors receive lender claim submission and have 30 days to review and fulfill the claim

payment obligations in the event that claims are found legitimate. The Guarantor recovers paid losses on the loan guarantee once the lender repossesses and resells the property.

Table 10: BP2BT Mortgage Guarantee Coverage

Coverage	Terms
<i>Housing Loan Credit Default Coverage</i>	<ul style="list-style-type: none"> • Maximum coverage of 90 percent on a quota-share basis, over life of loan • Annual premium as a percentage of housing loan balance payable by consumer

I. Control and Supervision

40. Operational Cooperation Agreement (PKO). An Operational Cooperation Agreement (PKO) will be signed between participating lending institution and MPWH (through a BP2BT *Satker* or management unit within the DGHF). The PKO for BP2BT will specify the primary operating procedures and rights and obligations of the two parties - lender and the MPWH - as related to the implementation of BP2BT including:

- BP2BT eligibility verification;
- Data sharing and reporting;
- Disbursement funds flow mechanism, timing and reconciliation;
- Compliance review processes;
- Assistance Recovery; and
- Reporting, monitoring and evaluation;

41. The PKO will also lay out the agreed volume target for the duration of the agreement term, adjustable during each annual budget cycle, the duration and termination of the PKO and the dispute resolution mechanisms.

42. Monitoring and Evaluation. The BP2BT *Satker* will monitor and evaluate BP2BT performance on a regular basis as described below:

- Routinely review both: (i) lender operational processes; and (ii) loan files on sample basis to ensure that lenders comply with BP2BT eligibility and process requirements.
- Perform physical check of beneficiaries' property directly, or through a third party, to ensure that: (i) lenders have properly assessed the beneficiaries' eligibility criteria as per BP2BT guidelines; and (ii) beneficiaries comply with BP2BT residential requirements.
- Analyze subsidy IT system data to review BP2BT performance by lender, geography, income segment, product type, etc.
- Coordinate with participating lending institutions on a routine basis to discuss BP2BT performance including a review of target achievement; targeting by segment, location, and income level; portfolio delinquency performance; and operational and administrative processes.

43. Consumer Fraud and Non-Compliance. BP2BT includes specific provisions to address both consumer fraud and non-compliance. BP2BT provisions in both cases are discussed below in Table 11.

Table 11: Actionable Consumer Fraud and Non-Compliance Events and Recourse

Event	Description	Recourse
<i>Consumer Fraud</i>	<ul style="list-style-type: none"> Document Fraud represented as consumer submitting false statements, records and documents pertaining to income, savings, down payment, property transaction contracts, property or asset titles, etc. Failure to disclose receipt of past housing assistance or subsidy Failure to disclose past home ownership 	<ul style="list-style-type: none"> Participating lending institution must either: (i) return the assistance amount immediately if undisbursed; or (ii) undertake recovery of such assistance amount from the beneficiary including the Loan amount and dues if deemed necessary within one month of the fraud being recorded or reported. To facilitate recovery of assistance, the Lender may take legal recourse (including in the worst case scenario, foreclosing on the property) available under the cross-default clause between the mortgage and assistance agreements.
<i>Consumer Non-Compliance</i>	Failure to meet residency requirements including BP2BT provisions requiring: <ul style="list-style-type: none"> Use of property for residential purposes Occupancy of property for a 5 continuous years upon purchase Use of assistance for sole purpose of home purchase or construction 	<ul style="list-style-type: none"> Beneficiary must repay the assistance amount within one month of the recovery notice. Upon recovery of the assistance amount by the participating lending institution, it must remit the same to the BP2BT <i>Satker</i>. Should the beneficiary not able to repay the assistance at the end of the one-month notice period, the BP2BT <i>Satker</i> has the right to take legal recourse against the loan (even if the loan is current) using the inter-se link or cross-default clause between the mortgage and assistance agreements.

44. In the event the participating lending institution does not cooperate in the recovery of the assistance upon the written request from BP2BT *Satker* in either of the recourse scenarios described above, the BP2BT *Satker* may take relevant actions as laid out in the PKO that may include imposing fines or suspending the institution from further participation in BP2BT.

45. Supervision, Control and Oversight Systems. The Project includes a comprehensive system for supervision, control and oversight consisting of the following elements:

- Internal Supervision*. Internal supervision by the BP2BT *Satker* will include: (i) review of documents required to qualify as an implementing lending institution under the Project; (ii) evaluation of implementing lending institution performance in delivering BP2BT assistance to eligible lower-income households; (iii) monitoring the delivery of the assistance to eligible lower-income households; and (iv) recommendations for corrective actions towards the delivery of assistance. Such corrective action could be taken by way of: (i) refinement of systems and procedures; (ii) issuance of a warning letter; and/or (iii)

legal action towards the deviated actions according to regulations of law. Should internal supervision reveal findings in violation of BP2BT regulations and provisions, BP2BT *Satker* may suspend the participation of the implementing lending institution of BP2BT and return disbursed assistance amounts that correspond to cases that violate BP2BT regulations and provisions.

- *BP2BT IT System.* The Project will include the development of a BP2BT IT System to serve as an overarching operational platform upon which all BP2BT data will be collected and used for assistance verification and approval, and for BP2BT reporting, monitoring and evaluation. Lenders will upload at loan origination all basic data for all BP2BT assistance-linked mortgages (i.e. beneficiary data; income levels; beneficiary basic demographic data; qualified assistance; mortgage data including interest rate, LTV, tenor; property price, title and characteristics; and all associated forms and documents for verification purposes). Lenders will also report on mortgage performance (i.e. delinquency and default rates, prepayments and repayments, and MG claims) throughout the loan tenure.
- *Assistance Eligibility Qualification.* Assistance eligibility qualification will be done by the lenders, and verified and approved by the BP2BT *Satker*. Lenders will be responsible to verify documents that confirm eligibility including that: (i) the beneficiary household has not previously owned a home; (ii) the beneficiary household has not benefited from past housing assistance; (iii) the beneficiary household meets assessed income criteria; and (iv) the selected home meets property type and maximum value criteria. All applications will be checked against the MPWH past-subsidy databases to prevent ‘double-dipping’. The BP2BT *Satker* will perform its own verification of eligibility based on a rule-based automated system that is further validated by a random sample of applications being pulled for manual verification.
- *BP2BT Compliance Review.* BP2BT compliance review will be performed at two levels. An external compliance review will be conducted to review: (i) lender operational processes and loan files on an annual basis; and (ii) the beneficiary compliance review of residency tenure requirements through a physical check of the properties. External compliance review will be done by an independent verification agency with oversight by the MPWH Evaluation Unit. Finally, an internal review of the PIU operational processes will be done by the MPWH Inspectorate General to ensure that BP2BT has been implemented in accordance with the regulations and areas requiring improvement are properly addressed. This internal review will also include the assessment of the external compliance review process as a second layer of compliance and governance control.
- *BP2BT Reporting, Monitoring and Evaluation.* The IT system will generate a set of comprehensive reports that allow the PIU to review the performance of the Project against pre-set targets across a wide range of variables on an ongoing basis. PIU is responsible for submitting reports to PMC and Pokja PKP on a quarterly basis and for highlighting BP2BT policy issues and operational weaknesses that require guidance and attention.

46. Subcomponent 1.2 – Technical Assistance for Mortgage-Linked Down Payment Assistance. Provision of technical assistance for: (i) developing and strengthening BP2BT management, administrative and information technology systems and capacities; (ii) supporting BP2BT operations and the development of a rigorous monitoring and evaluation methodology and system, including a baseline study; (iii) developing consumer financial literacy around BP2BT; (iv) developing a BP2BT public information campaign; and (v) developing and strengthening the lending capacity to non-fixed income segment of Participating Lending Institutions.

Component 2: Home Improvement Assistance (US\$ 675.0 million of which US\$ 215.0 million of Bank Financing)

47. Component 2 will support the scaling up and improvement of the national Home Improvement Assistance Program (*Bantuan Stimulan Perumahan Swadaya* – BSPS) with the aim to support poor and lower-income Indonesian households to attain safe and affordable housing through an incremental home improvement process. The specific household income segments targeted by the component are the bottom 40 percent of all households as measured by gross household income.

48. MPWH has been implementing BSPS since 2006, having achieved considerable success in terms of reaching primarily rural households. However, BSPS has not reached its full potential in terms of its reach and effectiveness. Constraints on its impact are caused by the following factors: (i) BSPS is predominantly rural and struggles to disburse in urban areas where demand for home improvement is growing; (ii) implementation is costly owing to the fact that MPWH has historically planned and managed all functions to support the BSPS' beneficiaries; and (iii) BSPS only reaches a fraction of the demand for improvement of substandard homes. BSPS therefore has the potential to broaden its reach by improving BSPS efficiency, increasing its budget allocation, and inflecting disbursement towards urban areas.

49. World Bank financing under this Project will expand the targets of the BSPS, enabling the delivery approximately 450,000 home improvement solutions to reach over 1.8 million target beneficiaries, while supporting Project deployment in urban areas, improving the efficiency of the Project management and operational systems and moving towards a more decentralized implementation model.

50. Annex 3 contains a detailed description of the BSPS' delivery systems and administrative arrangements.

51. Subcomponent 2.1: Support for Home Improvement Assistance. This subcomponent will finance the provision of home improvement or reconstruction assistance to lower income households. GoI and Bank financing will lead to the improvement or reconstruction of 450,000 housing units (the precise number depends on the ultimate proportion of improved units versus reconstructed units) to help MPWH reach the target of 1.75 million improved homes as established in the RPJMN.

Table 12: BSPS Design Key Characteristics

Characteristic	Features	Remarks
<i>Type and size of assistance</i>	Rehabilitation (quality improvement)	<ul style="list-style-type: none"> Repair roof, floor, wall, and sanitation Size of assistance: max IDR 15.0 million/household (~US\$ 1,127/household)
	Expansion	<ul style="list-style-type: none"> Assistance can be utilized also to expand the built area of homes (i.e. adding rooms and/or floor), specifically in cases of overcrowding
	Reconstruction	<ul style="list-style-type: none"> Build the whole house from the land plot (or existing foundation) Size of assistance: IDR 30.0 million/household (~ US\$ 2,253/household)
	Provision of beneficiary matching fund	<ul style="list-style-type: none"> The assistance may be supplemented by beneficiaries' own funds to cover the overall need of rehabilitation or reconstruction
<i>Eligibility</i>	Demography	Household unit
		Elderly and people with disability are eligible and allowed to use max. 15 percent of assistance to pay labor
	Income	Head of HH income no greater than the regional minimum wage, ranges from IDR 1.1 – 3.1 million/month
	Asset ownership ³⁸	Never have previously owned a house, but own or occupy land physically and hold its legal proof, not in dispute and in accordance with the local spatial plan
		Own a house that in substandard quality
	Coverage	Nationwide (33 provinces)
<i>Mechanism</i>	Other	First-time receiving assistance from BSPS
	Combination of top-down and bottom-up approach	<ul style="list-style-type: none"> Central Government establishes the national policy and technical guideline for BSPS Local Government proposes the list of priority locations and the candidate household beneficiaries
	Use of community approach	<ul style="list-style-type: none"> Establish a beneficiary group (max of 20 people) to facilitate the cooperation during construction Use self-construction method, assisted by facilitator
	Policy direction influence location prioritization	<ul style="list-style-type: none"> Address the slum area (to support the 100-0-100 target)

³⁸ Amongst BSPS eligibility criteria, as specified in the Technical Guidelines of BSPS (issued through Ministerial Regulation no. 13/2016), is the requirement that the potential beneficiary will need to own the land or property or have the legal evidence of land or property possession. The regulation provides a broad definition of land and property ownership, enabling the beneficiary to provide the copy of land certificate or corresponding the proof of land ownership signed by the village headman/*lurah*. As drafted, the regulation does not strictly limit eligibility to only those households in possession of formal legal title.

Characteristic	Features	Remarks
<i>Facilitation</i>	Technical process and construction	<ul style="list-style-type: none"> One facilitator to facilitate 60 beneficiaries in the Local Government level

52. In order to address affordable housing needs in urban slum areas, BSPS will closely coordinate in implementation with NSUP. Specifically, starting in 2017, BSPS will: (i) ensure the integration of SIAPs developed under NSUP into RP3KPs to be developed under NAHP in select urban local governments; (ii) develop and conduct joint facilitator training and module development on affordable housing development; (iii) utilize, verify and integrate data on housing deficit and home improvement generated under NSUP into the SMIS; and (iv) conduct joint planning and implementation 2017 exercises in 10 medium and large cities (in 2017, to be scaled up in ensuing years) where NSUP and BSPS overlap.

53. Subcomponent 2.2: Support to BSPS Management and Operations. This subcomponent will provide support for the management and operations of BSPS. Specifically, the subcomponent will support BSPS management consultants at the national and provincial levels as well as for facilitators who provide BSPS implementation and administration.

54. Subcomponent 2.3: BSPS Program Development. This subcomponent will support the provide provision of technical assistance, advisory services and training to strengthen BSPS management, operations and monitoring, including: (i) the development of SMIS to integrate all data related to housing provision programs at the national and local levels into a single database; (ii) the provision of support for facilitation management; (iii) the establishment and implementation of a comprehensive complaint handling system; (iv) the development of a rigorous monitoring and evaluation methodology and system, including a baseline study; and (v) the development of a comprehensive impact assessment and policy for BSPS. These are summarized below:

- Swadaya Management Information System (SMIS). Technical assistance to support the development of SMIS will be implemented in order to address data collection and management issues in the delivery and monitoring of BSPS. Currently, data on occupancy levels, service provision, and conformity to local spatial plans and resident priorities is collected in an ad hoc manner by local governments and Project administrators. Data exists, yet processes for accessing it are cumbersome, constraining decision making and timely monitoring of the Project. Furthermore, there is no process for reconciling BSPS data with BPS data on substandard housing. Fortunately, the revised Ministerial Decree for BSPS (2016) mandates that the Project utilize and provide inputs to BPS Unified Database for social services (UDB).

Assistance provided under this activity will address these issues by integrating all data related to housing provision projects at the national and local level into a single database. Specific activities to be undertaken in order to create a well-functioning SMIS include: (i) developing a mobile application, updating the MPWH website, e-monitoring, e-reporting; (ii) building a comprehensive database of substandard houses to be used as a single data reference by all relevant stakeholders; (iii) linking the housing database to UDB and other data sources; (iv) developing a geographic information system to support BSPS monitoring

and evaluation process; and (v) training with LGs, facilitators, and beneficiary groups to facilitate improved data collection.

- Facilitator Capacity Building. The subcomponent will support the capacity building of BSPS facilitators to enhance the quality of assistance provided to consumers. Specific areas of capacity building include: (i) fiduciary management and oversight; (ii) construction management; (iii) construction quality including issues of seismic risk mitigation and energy efficiency; (iv) environmental and social management; and, amongst other areas, (v) communication and complaints handling. The activity will support training, as well as the development of SOPs and technical guidelines or handbooks.
- Complaints Handling Mechanism. BSPS lacks a clear complaint handling mechanism. A hotline has been established for potential and actual BSPS beneficiaries to raise issues to the attention of MPWH. However, hotline number is not widely publicized and there is no standard operating procedure (SOP) for responding to complaints. Additionally, there is no system or SOP for resolving complaints made to facilitators or to LGs during preparation or implementation. This activity aims to increase the accountability and transparency of BSPS by building a comprehensive complaint handling system that enables communities, individual beneficiaries, or external parties to file complaints or provide feedback to authorized officers. This activity will make the response to complaints documented, accountable, and verifiable by developing: (i) SOPs for complaints handling; (ii) an outreach strategy, including relevant media and materials to be distributed to beneficiaries and other stakeholders; and (iii) trainings, workshops and information sessions regarding complaint handling to both beneficiaries and facilitator and authorized officers at the central and local level.
- Monitoring, Evaluation and Verification. This activity aims to ensure BSPS outputs and impact are monitored, verified and evaluated in a methodologically sound and timely manner as a regular follow-up to BSPS implementation. In order to do this, this activity will: (i) synergize BSPS with other home improvement programs (namely those run by LGs) in terms of beneficiary targeting; (ii) develop a more rigorous monitoring and evaluation methodology; (iii) design evaluation formula for automatic applications under the SMIS; and (iv) oversee and audit the implementation of BSPS, including audit of either management or organization.
- Home Improvement Policy Development. This activity would draw on analysis from monitoring, evaluation and verification systems in order to develop a comprehensive impact assessment of BSPS, forecast the need (by geography) for home improvement and reconstruction by 2030, develop and pilot various management and financial support models for self-help housing to be tested by the Central Government, LGs, and NGOs and community groups, and explore the application of new construction technologies for home improvement interventions.

Component 3: Technical Assistance for Housing Policy Reform (US\$ 20.0 million of Bank Financing)

55. The component will finance a broad technical assistance to support policy reform, improved governance and enhanced capacity in the housing sector. The component will support two broad subcomponents on demand-side and supply side technical assistance, summarized in greater detail below. Activities to be supported under this component were identified and, in most cases, benefit from analysis and policy advisory work conducted under both the *Roadmap for Housing Policy Reform 2015* the ongoing Land, Housing and Settlements PASA.

56. Subcomponent 3.1: Expanding Access to Housing Finance. This subcomponent will support the provision of technical assistance to support policy and regulatory reform and improve governance to strengthen the primary and secondary mortgage markets and the enabling environment for housing finance and housing information system. Specifically, the subcomponent will principally support five areas of technical assistance: (i) Housing and Real Estate Information Systems (HREIS); (ii) Secondary Mortgage Market Development; (iii) Regulatory and Institutional Reform for Housing Provident Fund (TAPERA); (iv) Development of Mortgage Guarantee System; and (v) Policy Advisory on Housing Microfinance. Other just-in-time areas of technical assistance may be supported during implementation.

- i. *Housing and Real Estate Information System (HREIS)*: Indonesia lacks a housing information system that collects and tracks key housing indicators to inform both public and private stakeholders of housing market trends, gaps and potential. An improved information system will help to deepen knowledge of the housing market and household profiles and needs, strengthen public housing program design and revisions, direct government limited budget toward the most urgent housing needs in a more effective manner, and expand monitoring and evaluation mechanisms of the technical assistance.

The Project will support the development of a HREIS to be managed within MPWH to serve as: (a) a depository of reliable, up-to-date, publicly available housing and real estate related data on both supply and demand sides; and (b) a knowledge center that provides robust housing analysis and insights on housing challenges, potentials and obstacles. The component will finance the development of SOPs and IT systems necessary to collect new and/or existing data from local governments, ministries, trade and professional associations. HREIS will clean and analyze such databases to support the analysis of housing trends and the publication of housing industry reports and insights. A detailed ToRs for HREIS development has been completed and will be included as part of the POM.

- ii. *Secondary Mortgage Market Development*: Developing a robust, market-oriented housing finance system in Indonesia will require a deepening of the secondary mortgage market through PT. SMF. PT. SMF is currently unable to facilitate competitively priced medium- to long-term refinancing of bank mortgage portfolios. During preparation, and in the context of the Land, Housing and Urban Settlements PASA implementation, a policy reform agenda for PT. SMF has been developed with

MPWH, PT. SMF and the Bank. The subcomponent will support policy advisory, outreach to the Central Bank and OJK and capacity building to support to regulatory and governance reform with the aim to towards: (i) make eligible PT. SMF bonds to the Central Bank repo operations; (ii) adjustment of guidelines applicable to institutional investors in PT. SMF bonds, in particular with respect to concentration limits; (iii) lowering of risk weight for capital adequacy purposes for PT. SMF bonds held by banks; (iv) favorable treatment under the liquidity rules under the Basel III framework; and, amongst other measures, (v) capacity building and knowledge exchange for PT. SMF.

- iii. *Regulatory and Institutional Reform for Housing Provident Fund:* GoI passed in 2016 a Housing Provident Fund Law (TAPERA) that once effective will institute a system of non-voluntary payroll deductions from all salaried workers as well as voluntary contributions from non-salaried workers earning more than the minimum wage. TAPERA is seen in the medium-term as a substitute for FLPP targeting primarily salaried workers, although detailed regulations are yet to be developed. TAPERA is not expected to reach adequate capitalization until 2020. The outline TAPERA design as reflected in the Law has already raised multiple questions in the calibration of key parameters that would have impact on subsidization, the equilibrium between savings and lending amounts, liquidity management, fiduciary treatment of savings, fairness and transparency in the establishment of eligibility criteria; all of which are not addressed by the Law but rather through proposed governing regulations. NAHP will provide policy advisory and technical assistance support to MPWH towards the effective design and regulation of the TAPERA system.
- iv. *Development of Mortgage Guarantee System:* Currently, the FLPP and SSB subsidized loans are supported by mortgage guarantee products, provided by two state-owned guarantee and insurance companies – *Askrindo* and *Jamkrindo*. These companies accept 100 percent of mortgage loans originated by all participating banks up to 100 percent coverage, without adding any soundness criteria to their eligibility for the risk coverage. Additionally, at claim, there is minimal claim validation and the vast majority of claims are accepted. Finally, the current pricing structure (annual premium of 24 bps) appears to be inadequate to cover the risk (e.g. *Askrindo* has already reported a loss ratio of 100 percent over for the 2014-2015 period). The current structure is a matter of concern on two fronts. First, the existing guarantee design is conducive to moral hazard allowing lenders to relax risk management practices to meet their volume target. Second, the credit risk is transferred directly to the government and the contingent liabilities can rise significantly, in particular during economic downturns, though are currently not well understood nor accounted for in the State Budget.

BP2BT is linked to a reformed mortgage guarantee product (described above) that addresses many of the contingent liability and moral hazard risks mentioned above. This component will provide continued technical assistance to support the development of a mortgage guarantee and insurance industry that can support the growth of the mortgage sector in a safe manner and toward long-term commercial sustainability. Technical assistance will be provided to: (i) support the design of mortgage insurance

- products that reflect a risk-reduction structure and build a system to collect performance data that would enable pro-active pricing adjustment over time to reflect the actual product profile risk; (ii) build capacity for the mortgage guarantee and insurance companies to reach the key critical industry operational best practices including credit risk guidelines, underwriting capacity, auditing of lender process and loan files, product design and loss mitigation and recourse processes; and (iii) support OJK and *Bank Indonesia* or BI to introduce the proper regulatory reform framework for the mortgage guarantee and insurance industry.
- v. *Policy Advisory on Housing Microfinance*: The component will support GoI with policy advisory on expanding access to housing microfinance (HMF) by: (i) reviewing microfinance institution (MFI) segmentation to assess binding constraints across MFI segments to deliver HMF products; (ii) developing and testing HMF products that would meet the needs of targeted lower-income consumers; and (iii) assessing and supporting necessary policy reform, incentives and regulations to enable increased responsible HMF activity.

57. Subcomponent 3.2: Addressing Low Income and Public Housing Provision. This subcomponent will support the provision of technical assistance to support policy reform, improve governance and enhance capacity of stakeholders in addressing constraints to the provision of affordable housing. Specifically, the subcomponent will support three primary areas of technical assistance outlined below. Other just-in-time areas of technical assistance may be supported during implementation.

- i. *Development and Reform of Public Housing Programs*: This activity will support policy advisory on subsidized housing programs administered by MPWH. The goal of this activity is to develop and/or improve housing policies and programs to respond to different housing needs and preferences. The advisory under this activity will assist MPWH to diversify, reform and expand physical housing typologies and tenure options for publicly subsidized formal housing. Specifically, technical assistance will assist MPWH to evaluate and reengineer public rental housing initiatives, including potentially a revised *Rumah Susun Sederhana Sewa* (Simple Public Rental Apartments - *Rusunawa*). Analysis of the current *Rusunawa* suggests that it suffers from issues related to poor targeting and location selection, which is of particular concern as the project is extremely expensive on a per unit basis (IDR 162.0 million per unit, compared to an average of IDR 14.0 million per unit of BSPS and IDR 66.0 million per unit delivered by FLPP). Assistance under this Project will explore with MPWH alternative models for promoting rental housing including, but not limited to, the use of housing rental assistance, collaboration with private developers, introduction of more effective asset and property management practices, enabling reforms to encourage investment in rental housing and, amongst other alternatives, increased co-production and collaboration with local governments. Advisory under the component may also explore new housing solutions (i.e. a ‘core starter’ product as a basic, incrementally expandable subsidized unit targeting lower income and vulnerable households in rural and/or peri-urban areas).

- ii. *Strengthening Perum Perumnas as a Public Affordable Housing Developer.* Technical assistance under the Project will seek to strengthen the role of the National Housing Development Corporation, Perum Perumnas (formerly *Perusahaan Umum Perumahan Nasional*), as an affordable housing developer through policy advisory and capacity building. Government Regulation No 83/2015 mandates that Perum Perumnas act as a land asset manager, public housing and urban developer, and building/estate manager for the release of state assets for affordable housing. The assistance provided under this activity will strengthen Perum Perumnas' capacity to perform these functions by providing support for market research, land inventory and utilization, consumer surveys, business planning, consumer databases and product management, as well as legal support related to land, building and housing regulations and benchmarks/best practices from other countries (e.g. Al Omrane in Morocco). The Project will also explore coordination between Perum Perumnas and BP2BT, to enhance the supply-side response to the BP2BT.
- iii. *Strengthening Local Government Housing Policy and Planning Capacity.* The Project will support a multi-year technical assistance, to be implemented in coordination with MoHA, to strengthen the capacity of medium- and large cities to develop and implement effective local affordable housing plans. The technical assistance will support cities to: (i) monitor and assess local land and housing markets (linked to HREIS development); (ii) inventory and develop plans for the mobilization of public land assets for affordable housing development; (iii) develop and implement local regulations and policies related to spatial planning, land use, zoning, land readjustment and permitting that would increase the availability of affordable land for housing; (iv) explore public-private partnership arrangements with private developers for the development of mixed-use and affordable housing development; and (v) develop integrated local housing plans across central (i.e. BP2BT, BSPS, slum upgrading and *Rusunawa*) and local initiatives.

Annex 3: Implementation Arrangements

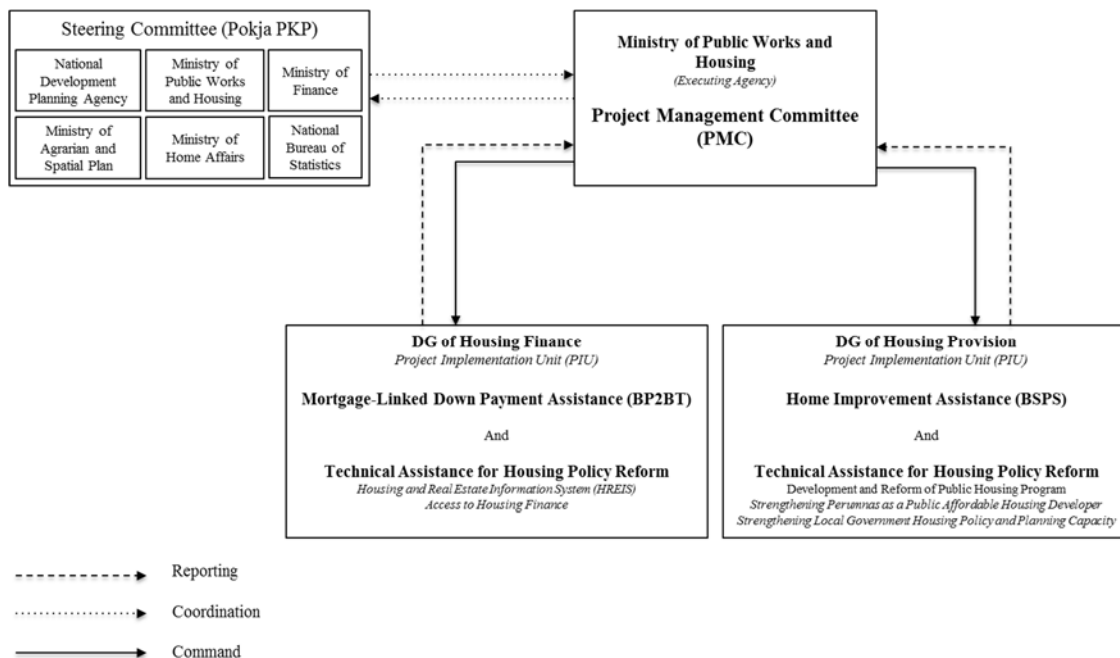
Indonesia: National Affordable Housing Program Project (P154948)

I. Project Institutional and Implementation Arrangements

1. **Project Policy Coordination and Oversight.** A national steering committee on housing, the *Kelompok Kerja Perumahan dan Kawasan Permukiman* or Pokja PKP, consisting of both high-level officials and technical staff across multiple ministries and agencies, will provide policy guidance and oversight to the Project. The Steering Committee will ensure cross-sector coordination and will have different working teams dedicated to housing finance, housing supply and housing information systems. The Pokja PKP will be chaired by the Deputy for Regional Development (Echelon I), Bappenas and will include high-level officials from the Ministry of Finance, the Ministry of Public Works and Housing, the Ministry of Home Affairs, the Ministry of Agrarian and Spatial Planning, and BPS.

2. **Project Executing Agency.** MPWH will be the executing agency for the Project. A PMC will be institutionalized to oversee and coordinate the implementation of NAHP. Additional key responsibilities will include budgeting, financial administration, monitoring and evaluation, and reporting of the Project. The PMC will be headed by the Echelon I of the Ministry of Public Works and Housing which will oversee the two PIUs. The PMC will regularly coordinate and report to the Steering Committee in the semi-annually coordination meeting. A Ministerial Decree establishing the PMC and the PIUs will be issued prior to the Project implementation and will be part of the NAHP condition of effectiveness.

Figure 1: NAHP Executing Agency Organization Structure



3. **Project Implementation Units.** Two PIUs will be established under DGHF and DGHP, respectively, and headed by an Echelon II level staff member. The PIU under DGHF will be responsible for the implementation of Component 1 as well as technical assistance activities under Component 3 related to the development of the HREIS and policy reforms associated with expanding access to housing finance. The PIU under DGHP will be responsible for the implementation of Component 2 as well as technical assistance activities under Component 3 related to supply-side policy reform and capacity building efforts.

4. Each PIU will be headed by an Echelon II (Director Level) official from each DG, reporting directly to the PMC and staffed by a combination of reassigned MPWH staff and consultants as necessary. A team of consultants will be contracted by each PIU to implement technical and capacity building activities anticipated under the Project. A ministerial decree will be issued prior to Project implementation to formalize the proposed institutional structure for each PIU. This decree will outline the organizational structure and include a detailed description of key responsibilities for each PIU and will be considered conditions of effectiveness.

5. Table 1 below summarizes key responsibilities at each level of the institutional structure. Further detail on institutional arrangements will be provided on the POM.

Table 1: NAHP Executing Agency Key Responsibilities

Structure	Key Responsibilities	Institution in Charge
National Steering Committee (Pokja PKP)	<ul style="list-style-type: none"> a. Endorse operational policy for NAHP implementation. b. Provide inputs to the development of guidelines required for NAHP implementation. c. Review overall implementation progress. d. Provide inputs to PMC and PIUs regarding NAHP implementation as well as take required measures to monitor the utilization of loan. e. Facilitate coordination across Pokja PKP members on key issues of housing policy reform and implementation. 	Pokja PKP: <ul style="list-style-type: none"> a. Echelon I of the Ministry of National Development Agency b. Echelon I of the Ministry of Public Works and Housing c. Echelon I of the Ministry of Finance d. Echelon I of the Ministry of Home Affairs e. Echelon I on the Ministry of Agrarian and Spatial Planning/Land f. Echelon I of the Central Agency of Statistics/ BPS
PMC	<ul style="list-style-type: none"> a. Issue a PMC Decree. b. Lead the coordination of the overall NAHP implementation, including chairing semi-annual management and coordination meetings. c. Lead preparation of semi-annual Project reports through coordination with all PIU members. d. Coordinate the financial reporting from the PIUs 	Chaired by Echelon I of the Ministry of Public Works and Housing

Structure	Key Responsibilities	Institution in Charge
	<ul style="list-style-type: none"> e. Coordinate NAHP effectiveness measurement. f. Coordinate the administration for Project budgeting and disbursement. g. Coordinate the audit arrangement for BP2BT and BSPS components and all technical assistance activities under Components 1, 2 and 3. 	
PIU for Housing Finance	<ul style="list-style-type: none"> a. Issue a PIU Decree for BP2BT and demand-side technical assistance management. b. Manage lending institutions to participate in BP2BT. c. Control, manage and approve applicants eligible for BP2BT assistance. d. Control, manage and disburse assistance as per BP2BT eligibility criteria. e. Develop and manage the BP2BT IT assistance system. f. Conduct and/or oversee lender process and loan files review to ensure BP2BT compliance. g. Conduct and/or oversee beneficiary physical property checks to ensure BP2BT compliance. h. Analyze Project data and prepare reports on Project performance for PMC and Pokja PKP on a regular basis. h. Oversee technical assistances activities under Component 3 related to the development of HREIS and on issues of housing finance policy. 	Chaired by Echelon II of DGHP
PIU for Housing Provision	<ul style="list-style-type: none"> a. Issue a PIU Decree for BSPS (<i>Perumahan Swadaya</i>) and supply-side technical assistance management. b. Manage BSPS implementation, including processes associated with community facilitation, construction planning and organization and overall Project monitoring and evaluation. c. Coordinate overall BSPS budget planning and execution. d. Oversee third-party output verification process for BSPS implementation. e. Undertake verification and reporting on the implementation of BSPS in coordination with the PMC. f. Administer implementation management of the technical assistance activities for housing provision includes development and reform of public housing programs, strengthening Perum Perumnas as a public housing developer, and strengthening Local Government housing 	Chaired by Echelon II of DGHP

Structure	Key Responsibilities	Institution in Charge
	policy and planning capacity through collaboration and coordination with MoHA.	

6. The operation between BP2BT and its related Technical Assistance activities are relatively different from the operation of BSPS and its related Technical Assistance activities. Nevertheless, the involved stakeholders remain similar at all level, which includes Ministry of Public Works and Housing, Local Governments, and Banks (both play role as the lender for BP2BT or for fund distribution bank for BSPS). The detailed implementation arrangements are elaborated further in the following paragraphs.

7. **Regulatory Framework.** The overall regulatory framework required to support the implementation of NAHP, including BP2BT, BSPS and Component 3 for technical assistance is presented in the Table 2 below. The table also sets out the proposed timeframe for issuance of each regulation. In all cases, completion of Project Appraisal will require the Bank to review the final drafts of each regulation.

Table 2: NAHP Regulatory Framework

Substantive Content	Regulatory Basis
NAHP Organization: Structure of Project Management Committee, PIU of Housing Finance, and PIU of Housing Provision Adoption of NAHP POM	Ministerial (of Public Works and Housing) Decree (<i>Keputusan Menteri</i>) <i>Effectiveness Condition</i>
Component 1: Mortgage-Linked Down Payment Assistance	
BP2BT Operational Guideline: Project basic principles on management and implementation mechanism BP2BT Detailed Eligibility Guideline: Provision of zoning for income and property price eligibility	Ministerial (of Public Works and Housing) Regulation (<i>Peraturan Menteri</i>) <i>Effectiveness Condition</i>
Satuan Kerja (<i>Satker</i>) for BP2BT	Ministerial (of Public Works and Housing) Decree (<i>Keputusan Menteri</i>)
Component 2: Home Improvement Assistance	
BSPS Operational Guideline: Project basic principles on management and implementation mechanism	Ministerial (of Public Works and Housing) Regulation (<i>Peraturan Menteri</i>)* * <i>Peraturan Menteri</i> No. 13/2016 on Technical Guideline for <i>Bantuan Stimulan Perumahan Swadaya</i> or any successor thereto
Satuan Kerja (<i>Satker</i>) for BSPS	Ministerial (of Public Works and Housing) Decree (<i>Keputusan Menteri</i>)* *Use the existing <i>Keputusan Menteri</i> for overall BSPS management

II. Implementation Arrangements for Component 1: BP2BT

8. *Bantuan Pembiayaan Perumahan Berbasis Tabungan* or BP2BT will be implemented in four stages: (a) preparation; (b) origination; (c) validation and disbursement; and (d) monitoring and evaluation. Implementation arrangements vary slightly depending on the property type being financed (developer built, new or existing, and self-built).

A. Preparation

9. BP2BT begins with policy formulation conducted by the DGHF, which will be reflected in the *Pedoman Umum* (general guidelines), signed by the Minister of Public Works and Housing in a Ministerial Regulation. These regulations govern each stage of implementation.

10. The public relations staff of the Ministry socializes the Project in order to attract housing stakeholders to participate. Financial Institutions who want to become participating lenders must submit a LoI to DGHF. The Directorate General then assigns a team to examine the LoI and if the potential lenders pass GoI procurement of services regulation criteria, they can sign a MoU with the DGHF. This MoU will be sent to PIU to be followed with a *Perjanjian Kerjasama Operasional*/PKO (Operational Cooperation Agreement). The PIU official, together with the FIs, then signs the PKO in which further detailed implementation arrangements are regulated as part of a contractual agreement between the two parties.

B. Origination

11. Lenders market the Project through their own sales and distribution channels. In order to access the assistance, beneficiaries are required to submit a set of documents (See Annex 2 for a detailed list of documents required) as part of the loan application to the lenders. After receiving the application, lenders undertake eligibility verification, repayment capacity evaluation, and a check of the physical unit to be financed. Once the lenders are satisfied with the loan application, lenders submit the relevant data through electronic data transfer to *Satker* for BP2BT verification and assistance disbursement.

C. Validation and Disbursement

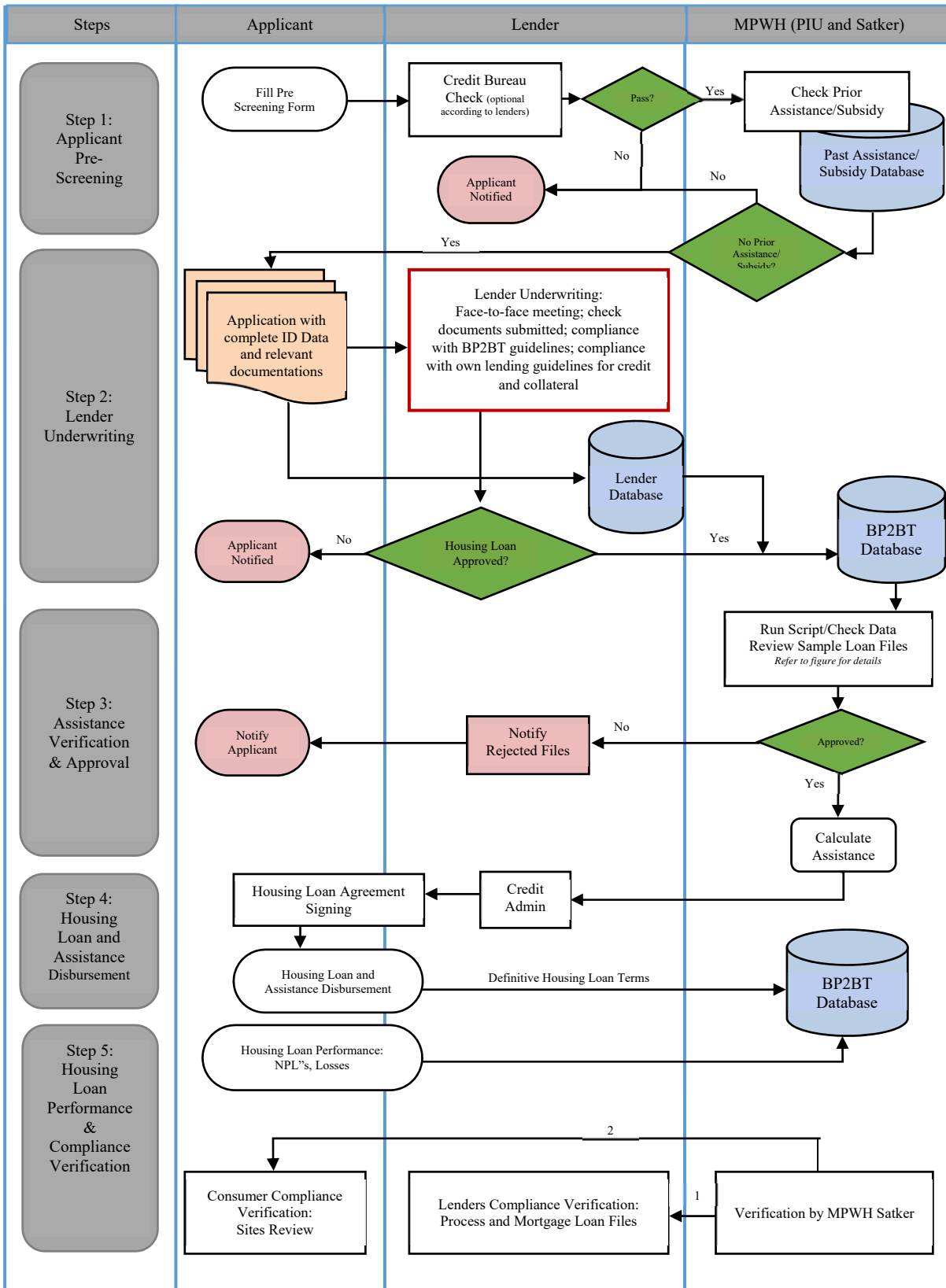
12. The *Satker* examines the data submitted by lenders for BP2BT assistance approval. The data will be run through an automated ruled-based application system that sorts and identifies loans that do not meet BP2BT eligibility and those deemed to be high-risk requiring manual review. *Satker* may decide to request the loan files and for all the high-risk loans and also conduct third-party valuation on high-risk properties, on a sample basis. Based on the review, *Satker* notifies lenders on whether the assistance has been approved or rejected, followed by lenders notifying the applicants of the same. If the assistance is approved, the *Satker* issues a *Surat Perintah Membayar*/SPM (Payment Request) to *Kantor Pelayanan Perbendaharaan Negara*/KPPN (State Treasury Service Office) for assistance disbursement to the lenders. The assistance will only be disbursed to lenders after both the loan agreement and the assistance agreement are signed between the customer and the lender. KPPN then disburses the assistance to lenders to add to consumers'

equity for a mortgage loan. These processes are archived in the BP2BT Assistance IT system and recorded in the Project database.

D. Monitoring and Evaluation

13. The *Satker* oversees and monitors the implementation of the Project. This includes auditing lenders' operational processes and loans filed on a sample basis in order to ensure that lenders comply with BP2BT processes requirements. Moreover, the team also monitors the physical condition of properties in order to ensure that lenders have properly assessed beneficiaries' eligibility criteria and that beneficiaries comply with BP2BT residential requirements in terms of occupancy.

Figure 2: BP2BT Implementation Flow Chart



14. The ministerial team will conduct a monthly review of BP2BT performance by utilizing data collected in the BP2BT IT system. In addition, routine meetings will be held between the PIU and lenders to discuss BP2BT performance and to potentially make adjustments to operational process and provide inputs to enhance key eligibility criteria by utilizing market data.

III. Implementation Arrangements for Component 2: BSPS

15. Description of BSPS Delivery System. BSPS implementation is conducted in four stages: (a) preparation; (b) beneficiary selection; (c) assistance delivery; and (d) construction. Figure 2 is a schematic overview of BSPS implementation. See Figure 3 for a description of each stakeholder and their role in each stage. The implementation of component activities varies somewhat depending on whether the assistance is cash or materials based, however, the general process is the same.

A. Preparation

16. Preparation includes the process of formulating policy improvements and revisions to BSPS and policies, which are then reflected in the following year's *Petunjuk Teknis* (technical/operational guidelines). Policy revisions take place during the calendar year prior to implementation (year n-1). Preparation also includes internal coordination activities, information dissemination, procurement, trainings and coordination of stakeholders during the implementation year (year n). These activities take place in the first months of the implementation year. Specifically, each year the Minister MPWH determines the amount of the BSPS and budget, which is published in a Decision Letter of the Directorate of Self-Help Housing (*Swadaya*). Following, the decision letter, each unit under the Directorate *Swadaya* prepares their annual work plan and disseminates information on the Project to subnational governments. The *Petunjuk Teknis* then used as a single guidance for BSPS implementation by all stakeholders, including the provincial level structure authorized for handling BSPS' budget, the *Satuan Non Vertikal Tertentu* (Non-Vertical Specific Unit) or SNVT.

17. The *Satker* then procures the services of a national management consultant, *Konsultan Manajemen Pusat* (Central Management Consultant), or KMP, to manage Project implementation at the national level and to build and maintain coordination with regional stakeholders. Regional stakeholders consist of coordination teams at the provincial level and a technical team at the regency/city level. Both of these teams are appointed by the SNVT and consist of local government institutions/staff responsible for housing development. In order to provide support to activities management at the regional level, the SNVT procures the services of a *Konsultan Manajemen Provinsi* (Provincial Management Consultant), or KMProv. Lastly, to manage and respond to any issues that may arise during implementation, the *Satker* also procures the services of a *Konsultan Manajemen Strategis* (Strategic Management Consultant), or KMS, a national level consultant responsible for managing strategic issues.

Figure 3: Component 2 Implementation

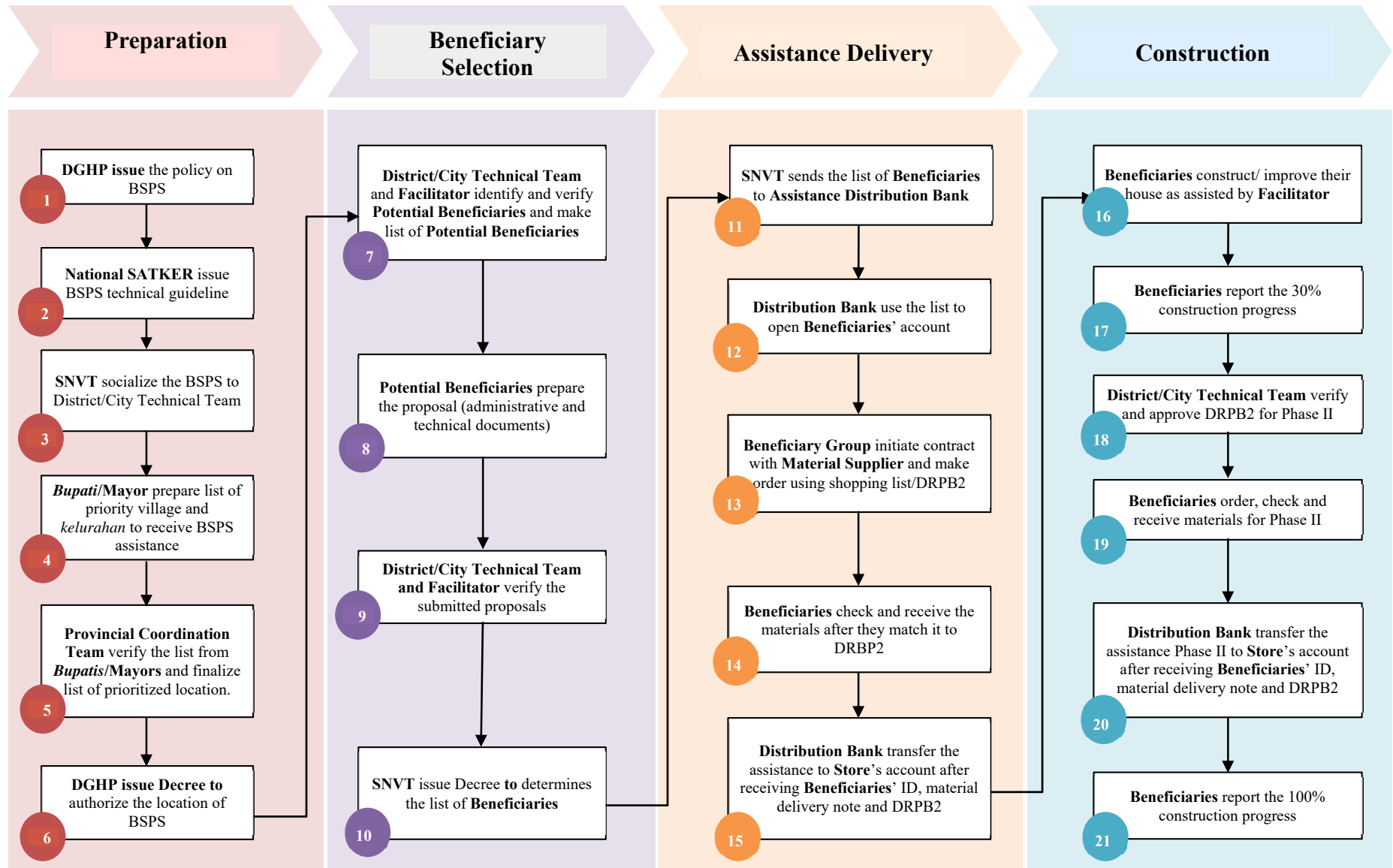
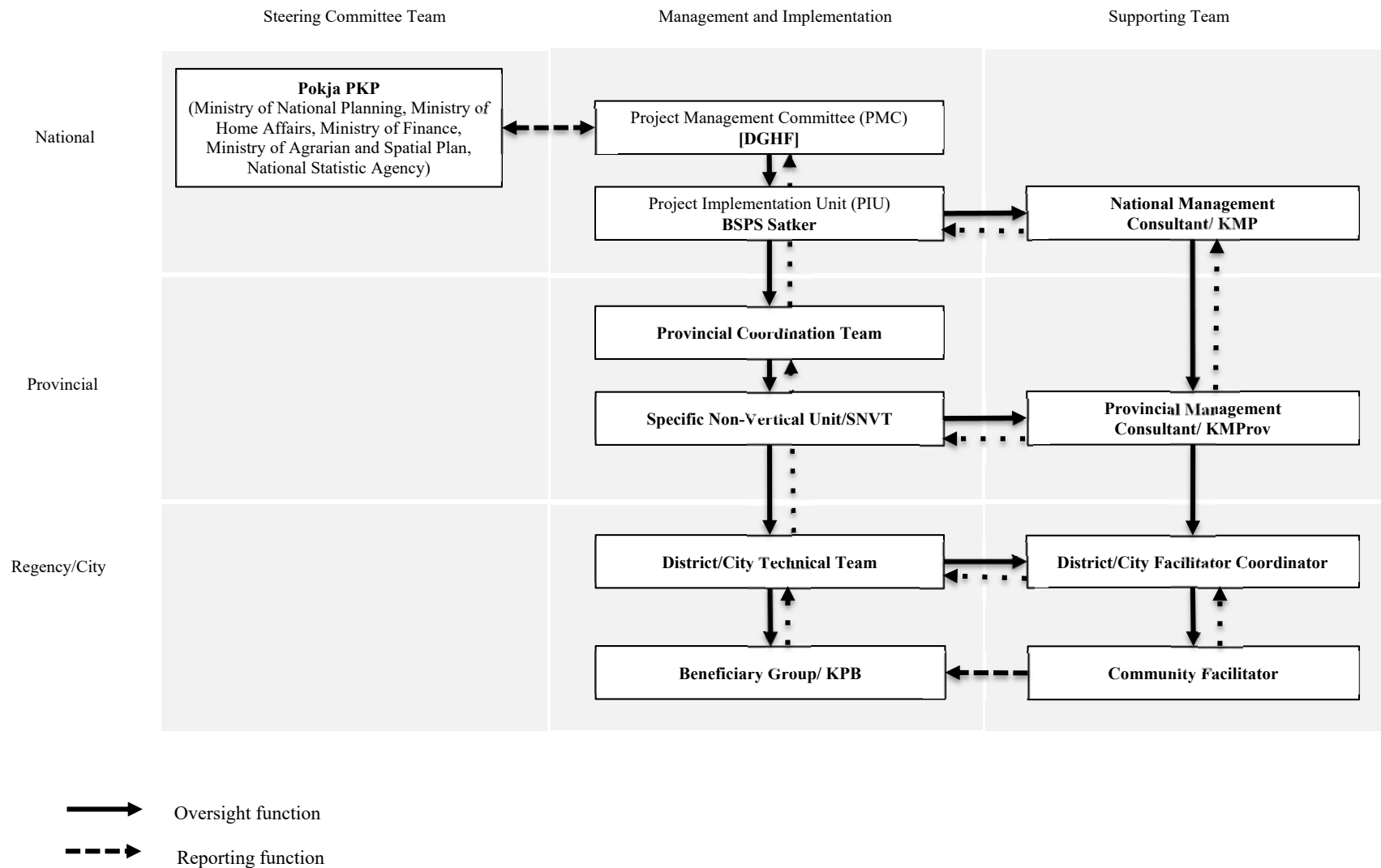


Figure 4: Component 2 Organization Structure



18. Once BSPS information has been disseminated to local governments, the local technical team prepares a list of villages/*kelurahans* to be nominated as locations for the Project. This list is created based on the number of substandard houses in the area as well as the magnitude of the local housing deficit. The list is then submitted to the provincial level coordination team – which consists of provincial government agencies, chaired by agencies in charge for housing affairs – for verification. Verification consists of checking the number of substandard houses in the particular regency/city, the magnitude of the housing deficit, the poverty rate, and the regency/city government capacity to implement the Project. In addition to carrying out the verification, the coordination team consults with the provincial *Kelompok Kerja Perumahan dan Kawasan Permukiman/ Pokja PKP* regarding the proposed locations. These activities result in a finalized proposal for the location of the Project, which is then submitted to the budget commitment officer at provincial level, or *Pejabat Pembuat Komitmen* (Commitment Making Official) or PPK.

19. Concurrent with the village/*kelurahan* nomination process, the KMS receives a list of locations nominated as part of national development priorities. These may include priority initiatives from the office of President (The “Special Acceleration of Development in Papua, or UP4B, was one such example) or programs from other line ministries/state institutions, etc. These nominations will be submitted to the national PPK for their decision.

20. The national PPK and the provincial PPKs meet to deliberate on the locations nominated by both the local coordination teams and those nominated as part of national development priorities. The PPKs apply a scoring methodology based on the number of substandard houses in the particular regencies/cities, the magnitude of the housing deficits, the poverty rates, and the regency/city government capacity to implement the Project, taking into account the amount of available budget for the Project. This deliberation and scoring process results in the determination of the final list of locations for BSPS. This final list of locations is then officially authorized by the Director General for Housing Provision through a Decision Letter.

21. In order to provide a channel for assistance disbursement, the PPK of each SNVT then makes an agreement contract with a bank that will deliver the BSPS to each beneficiary.

22. During the final nomination deliberations, the KMP develops training materials for BSPS support systems and the PPK/technical teams begin the recruitment of facilitators and facilitator coordinators. Facilitators are nominated by the local technical team, while the facilitator coordinator is responsible for BSPS implementation and facilitator performance in a regency/city. The KMP then delivers BSPS and technical training to KMS and KMProvs first (training of trainers). Following this, the KMS/KMProv pass on the training to facilitator coordinator and last one to facilitator. At the end of this yearly training process, the facilitator coordinator works with the technical team in order to begin stage 2 – selection of beneficiaries.

B. Selection of Beneficiaries

23. The beneficiary selection process begins with the facilitator coordinator sending the facilitators out to the selected villages/*kelurahans*. Before the beneficiary selection process begins, the technical team, facilitator coordinator, and facilitators consult with the village headman/*lurah*.

The local technical teams and facilitators then disseminate information on the Project to the respective communities.

24. Community members, assisted by facilitators, self-identify substandard housing conditions in their village/*kelurahan* and create a list of specific houses or households that need assistance as well as the type of housing assistance required (i.e. reconstruction or home improvement). The community then comes together in a series of meetings, assisted by the facilitator and village headman/*lurah*, to deliberate and verify the list. After this deliberation and verification, a final list of potential beneficiaries is produced that is authorized by village headman/*lurah*.

25. Households included in the list of potential beneficiaries are then assisted by the facilitator to form groups, consist of approximately 20 beneficiaries each. This group will later be officially established when the village headman/*lurah* signs a ‘group establishment letter’. Each beneficiary works as part of their group to prepare administrative documents and technical documents that are compiled into proposals. Administrative documents consist of documents to prove beneficiary eligibility for the assistance while the technical documents consist of a construction plan and budget.

26. The compiled proposals will be verified in a cascading manner by the facilitator, facilitator coordinator and technical team, respectively. After verification, the technical team authorizes the proposals, makes a cover letter for the assistance, and submits both to the provincial PPK. The provincial PPK processes the proposals and divides the list based on the type of assistance (cash or materials). Assistance in building materials are delivered to beneficiaries who live in areas that have limited access to building material vendors. Later, the PPK will issue different decision letters for each assistance type, both of which are authorized by SNVT.

C. Assistance Delivery

27. Assistance delivery consists of the disbursement process through banks and the procurement of materials through material vendors. The specific process depends on the type of assistance (i.e. cash or materials).

28. For assistance delivered in cash, the PPK requests banks to open a specialized account registered by the SNVT, the PPK then sends the bank a *Daftar Penerima Bantuan* (Beneficiaries List), or DPB, and requests that the bank open an account for and on behalf of each beneficiary. The PPK channels the assistance by submitting a *Surat Permintaan Pembayaran* (Payment Request), or SPP, to the *Kantor Pelayanan Perbendaharaan Negara* (State Treasury Service Office), or KPPN, to disburse the assistance from the State Treasury to the specialized SNVT account.

29. In the event that the number of beneficiaries in a district exceeds 100, the following procedure applies. After the assistance is disbursed, the PPK requests the bank to transfer the funds to the beneficiary accounts based on their respective assistance amounts as stated in DPB. In the event that the number of beneficiaries is less than 100, the PPK requests KPPN to disburse the assistance directly to beneficiary accounts.

30. Beneficiaries will not under any circumstances be able to withdraw funds from their account, as BSPS procedures will require beneficiaries to sign a letter confirming that such funds will be directly transferred to the material supplier account to pay for all materials ordered prior to the assistance disbursement.

31. Delivery of assistance in materials is conducted through materials procurement by the PPK directly. The PPK makes a recap list of beneficiaries eligible for this type of assistance and makes a contract agreement with a supplier deemed to have sufficient capacity to provide the required materials. Required materials in this context are based on the technical documents submitted as part of the beneficiary proposals. Suppliers subsequently send materials to beneficiaries. Facilitators assist beneficiaries to check the suitability of materials delivered as per the specification required according to proposals. Should the materials satisfy the suitability criteria, beneficiaries will officially receive the materials by signing an assistance handover note.

D. Construction Process

32. The construction process includes the selection of material vendors, transfer of funds to vendors, home construction and reporting. Beneficiaries who receive assistance in cash survey potential materials store assisted by facilitators. This survey must be reported and authorized by the technical team. After listing potential vendor options, the beneficiary group deliberates and selects a store. After the group selects the vendor, they make a contract agreement, which must be witnessed by the facilitator, facilitator coordinator and technical team.

33. Facilitators then assist the beneficiaries to prepare phase one of the *Daftar Rencana Pembelian Bahan Bangunan* (Building Materials Purchase Plan), or DRPB2, together with the selected vendor. This phase one DRPB2 is verified by the facilitator coordinator and authorized by the technical team. Beneficiaries then submit the DRPB2 to the vendor. The store then delivers building materials to beneficiaries based on the DRPB2. Before officially receiving the materials, the beneficiaries, assisted by the facilitator, check the suitability of materials to the specifications required according to their submitted DRPB2. If the materials are deemed satisfactory, the beneficiaries will accept the materials and receive an official delivery note from the store.

34. In order to submit the payment for the materials received, beneficiaries submit their IDs, their phase one DRPB2 and official delivery note to the bank. Based on these documents, the bank pays the store 50 percent of the total assistance.

35. Beneficiaries immediately start construction as soon as they receive the materials, as they are given a limited period of time to complete 30 percent of the planned construction. Facilitators assist beneficiaries during the construction process. After passing the due date, beneficiaries must make a progress report, explaining that they have already finished 30 percent of construction progress and that they have used 100 percent of the first tranche of their allotted funds. Facilitators assist beneficiaries to prepare the report. The report and progress are verified by the facilitator coordinator. Based on this verification, the technical team makes a recommendation on whether a beneficiary is allowed to continue to the second phase of construction. Should the beneficiaries fail the verification, they are required to return the assistance.

36. Beneficiaries that are recommended by the technical team to continue to the second phase of construction prepare a phase two DRPB2. This follows the same procedure as the first construction process, including submitting a materials order to the store, the store delivering the materials, beneficiaries checking and receiving the materials, and the bank paying the store the remaining 50 percent of the total assistance. After the second construction phase, in which beneficiaries are expected to finish 100 percent of the construction, beneficiaries are assisted by facilitators to prepare progress reports outlining construction progress and the utilization of funds. This report and construction progress are verified by a facilitator coordinator. Based on the verification, the technical team will make recommendations on whether to accept the report for those who finished the construction or ask beneficiaries who did not finish construction to return the funds.

37. Construction by beneficiaries who receive assistance in materials can be conducted as soon as they receive materials. Facilitators assist beneficiaries during the construction process. There is only one phase of construction for these beneficiaries. Therefore, after passing the construction due date, the beneficiaries must prepare a 100 percent construction progress report. Facilitators help beneficiaries prepare this report. The facilitator coordinators verify the report and construction progress. Based on the verification, the technical team makes recommendations on whether to accept the report for those who finished the construction or ask beneficiaries who did not finish construction to refund the assistance.

38. For BSPS reporting, each stakeholder reports to their superior regarding BSPS implementation. By the end of BSPS fiscal year, beneficiaries who received assistance in cash must report on fund utilization, including a report on construction progress, DRPB2, and contracts with material store. Beneficiaries who received assistance in materials must report the construction progress to PPK through the technical team. Facilitators make reports periodically to the provincial PPK via the technical team. These reports describe the beneficiary selection and construction facilitation process. Banks must make periodic reports to the PPK regarding the assistance transfer, while the materials vendors must make periodic reports to the PPK regarding the delivery of materials. At a higher level, the *Satker* must submit a report to the Minister of MPWH through the Director General for Housing Provision. In regards to BSPS documentation, KMP, KMS and KMProv are responsible for archiving all documentation of activities including the activity report that stakeholders submit to the PPK.

IV. Financial Management (FM)

39. A Financial Management Assessment (FMA) was conducted as part of Fiduciary Assessment of the Project. The FMA assesses the adequacy of the financial management system of the implementing agencies, DGHF and DGHP in the MPWH, to produce timely, relevant and reliable financial information on Project activities. The FMA also assesses whether the accounting systems for Project expenditures and underlying internal controls are adequate to meet fiduciary objectives and allow the Bank to monitor compliance with agreed implementation procedures and appraise progress towards its objectives.

40. In summary, the financial management risk for the Project is assessed as **substantial before mitigation and moderate after mitigation**. The main financial management risk

identified are: (i) DGHF and DGHP insufficient experience of in managing Bank funds; (ii) inadequate budgeting and monitoring in FLPP implementation (which may also impact the implementation of BP2BT); and (iii) the need to strengthen internal control in fund distribution. The proposed action plan to mitigate the associated risks require: (i) DGHF and DGHP to prepare and agree to implement POM covering all arrangements for the Project; (ii) MPWH Ministerial Decree and technical guidelines for BP2BT should indicate that the PKO with distribution banks have to be sufficiently allocated in the yearly DIPA; (iii) the agreement with distribution banks for BSPS should indicate requirement for sufficient documentation on transfers made to suppliers; and (iv) strengthen monitoring mechanism for both BP2BT and BSPS.

41. **Budgeting.** In Indonesia, financing arrangements for Bank project implemented by Central Government Agencies are governed by integrated budget or DIPA. Source of financing for project activities, including financing percentage, are detailed in DIPA and strictly followed. As such, project activities identified to be financed by the Bank will be financing at 100% of its respective share. The budget for the project will be included in the relevant budget documents DIPA of DGHP and DGHF in central government budget (APBN). The budgeting process will be outlined in greater detail in the POM. DGHF should ensure that, as per the PKOs which specifies assistance volumes disbursement with each participating lending institution, a sufficient allocation is included in the current year budget and that no outstanding balance of unpaid BP2BT is pending at the end of each fiscal year. MPWH will need to properly plan the budget for the Project based on demand for BP2BT and BSPS.

Internal Controls

42. **Component 1 (BP2BT).** MPWH decrees and Technical Guidelines for BP2BT should cover at minimum the following:

- Implementation guidelines for participating distribution banks, developers and beneficiaries.
- Monitoring and evaluation mechanism for BP2BT should be designed to ensure beneficiaries receive acceptable homes from developers and/or in the secondary market.
- DGHF should ensure that, as per the PKOs which specifies assistance volumes disbursement with each participating lending institution, a sufficient allocation is included in the current year budget and that no outstanding balance of unpaid BP2BT is pending at the end of each fiscal year.

43. **Component 2 (BSPS).** SNVTs at the provincial level, with guidance from PIU in DGHP, issues list of beneficiaries. SNVT enters into an agreement with each distribution bank. The agreement with the distribution bank should include requirement for the distribution bank to conduct periodic supervision of all branches involved in distributing BSPS to ensure: (i) bank branch implementation complies with BSPS guidelines; (ii) BSPS assistance allocation is made based with sufficient documentation (incl. received of material by beneficiaries and facilitator supervision); and (iii) unused assistance amounts should be returned to state treasury by the end of the year.

44. **Component 3 (Technical Assistance).** To support the implementation of Component 3, the POM should cover the following:

- Organization structure
- Type of Project expenditures
- Funds flow mechanism
- IFR preparation and its submission to the Bank
- Disbursement mechanism
- Withdrawal application preparation process
- Internal and external audit arrangement
- Coordination mechanism across Project stakeholders

45. **Payment Verification.** Payment verification will be different for each Project component. For BP2BT, the PIU in DGHF will be supported by an IT system (as part of TA financed under the Project) to conduct verification on payment requests from distribution banks in-line with the agreed beneficiary selection criteria. Progress of the Project will also be available in the website of DGHF, MPWH. As for BSPS, each *Satker* (SNVT) at the provincial level will verify the list of beneficiaries with support from public works agency at local government level and facilitators in locations. The verified beneficiaries list will be used as a basis for SNVT to transfer funds to beneficiaries account at the distribution banks. The distribution bank will then transfer to the supplier selected by group of beneficiaries (supported with receipt of material and authorized letter from beneficiaries). BSPS progress will be monitored by facilitators and SNVT. The information and progress of BSPS will be uploaded at the website of DGHP, MPWH.

46. **Monitoring and Evaluation.** The monitoring and evaluation unit within DGHP and DGHF are responsible for monitoring and conducting evaluation of Project implementation and submit reports regularly to PIUs. All of the above arrangements will be reflected in the POM.

47. **Internal Audit Arrangements.** The internal audit unit of MPWH will conduct internal audits of each component of the Project. The Bank will have access to the report of the Inspectorate General of MPWH related to BP2BT, BSPS and the Project in general.

48. **External Audit Arrangements.** The Project will be subject to external audit. Each audit will cover a period of one fiscal year of the recipient. Audit reports will be furnished to the Bank by no later than six months after the end of the respective fiscal year and shall be made available to the public. The audit will be conducted in accordance with audit terms of reference acceptable to the Bank and has been agreed during the negotiation that BPK (Supreme Audit Institution – SAI) will be the auditor of the Project. DGHF will make the annual Project audit reports available on its website.

49. **Accounting and Reporting.** Project implementation will follow the Government Accounting System. The accounting system records all Project transactions in the Government Accounting System and produces monthly financial reports at the MPWH level. The PMC, with support from PIUs will be responsible to prepare the quarterly Interim Financial Report (IFR) submission to the Bank. IFRs will be submitted in an agreed format on a quarterly basis within 45 days after the end of the reporting period to the Bank through Ministry of Finance. Simple

guidelines on IFR preparation will be part of the POM. The PMC will appoint staff responsible for IFR submission. Simple guidelines on IFR preparation will be part of the POM to be prepared for the Project.

50. **Disbursement Arrangements and Flow of Funds.** The applicable disbursement methods are Advance and Reimbursement. A Designated (Special) Account (DA) denominated in US dollars will be opened in the Central Bank under the name of Ministry of Finance. The DA will be a segregated account with fluctuated ceiling based on 6-month forecast. The DA will be used for financing eligible expenditures from this Loan. Payments from the DA will follow the Government arrangement and reflected in POM and agreed with the Bank.

51. The disbursement category and allocation for activities financed by the Bank is described in the table below.

Table 3: Allocation of the Loan Proceeds

Category	Amount of the Loan Allocated (expressed in US\$)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Mortgage-Linked Down Payment Assistance under Part 1(a) of the Project	205,000,000	100%
(2) Home Improvement Assistance under Part 2(a) of the Project	175,000,000	100%
(3) Goods, non-consulting services, consultants' services and Training under Parts 1(b), 2(b), 2(c) and 3 of the Project	70,000,000	100%
TOTAL AMOUNT	450,000,000	

52. Advance method. The following are flow of funds for advance payment method:

- A Designated Account (DA) will be open in the Central Bank under the name of Ministry of Finance
- The PMC, with input from both PIUs, will submit a request for an advance to the Bank through MoF
- MoF forwards such request to the Bank
- The Bank will transfer initial deposit (advance) to DA based on the request (using IFR format which include projection of Project needs for the 6-month period)
- PIUs will transfers the funds from the DA to participating distribution banks for BSPS and BP2BT
- PIUs also may use the DA funds to make payment to consultants
- Additional transfer can be made based on request (using IFR format which include projection of project needs for the 6-month period)

53. Applications for the replenishment of the DA advance may be submitted through quarterly IFR which consist of report on the use of the DA funds, supported by: (i) list of payments for contracts under Bank's prior review and records evidencing such expenditures; or (ii) statement of

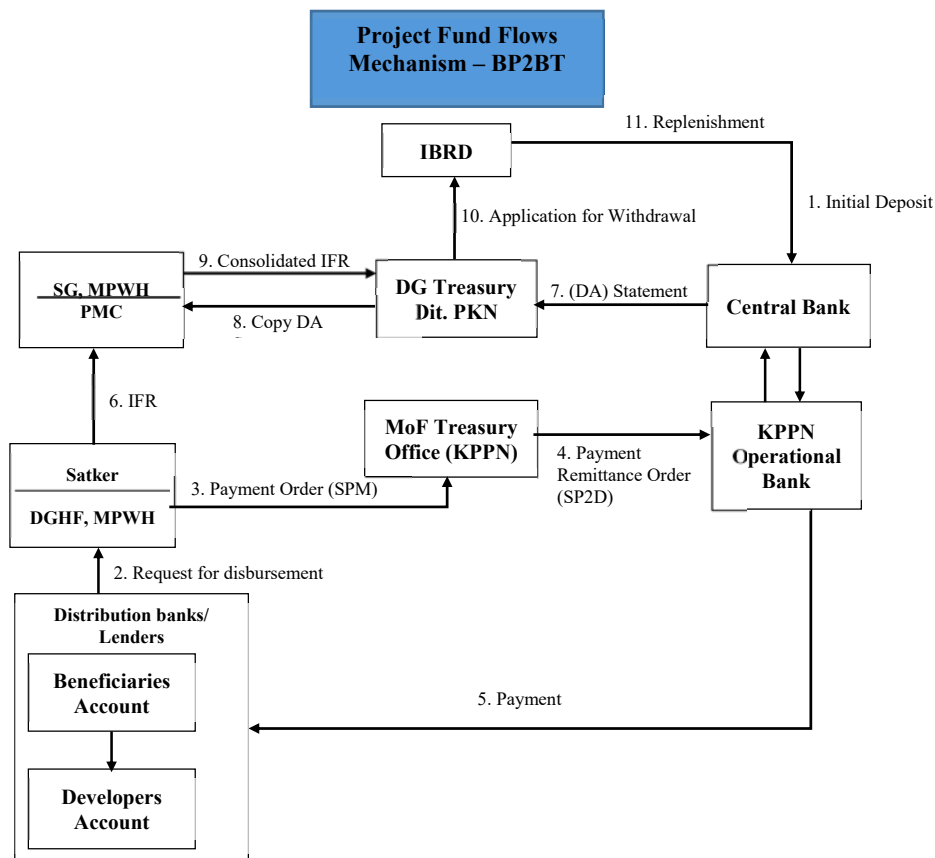
expenditures (SOEs) for all other expenses; and (iii) DA reconciliation statement. Additional transfers can be made based on request (using IFR format).

54. Reimbursement method. DGHP and DGHF may opt to use the reimbursement method, where instead of transferring the funds to the DA, the Bank transfers the funds to the government treasury account. The flow of funds arrangement will be described more detail in POM.

55. Each Project component will have a different flow of funds due to different type of expenditures in each component.

56. Component 1. Beneficiaries will open an account at the distribution bank. DGHF will also open an account at the distribution bank. Upon the request for assistance received from a participating lending institution, DGHF will deposit the funds to its account (after verification) at the participating lending institution. Distribution to the beneficiaries account should be completed within a period stipulated in MPWH ministerial decree. Subsequently, beneficiaries will issue authorized letter for the participating lending institution to transfer funds from the beneficiaries account to the developer when the house is ready and acceptable to criteria agreed by the beneficiary.

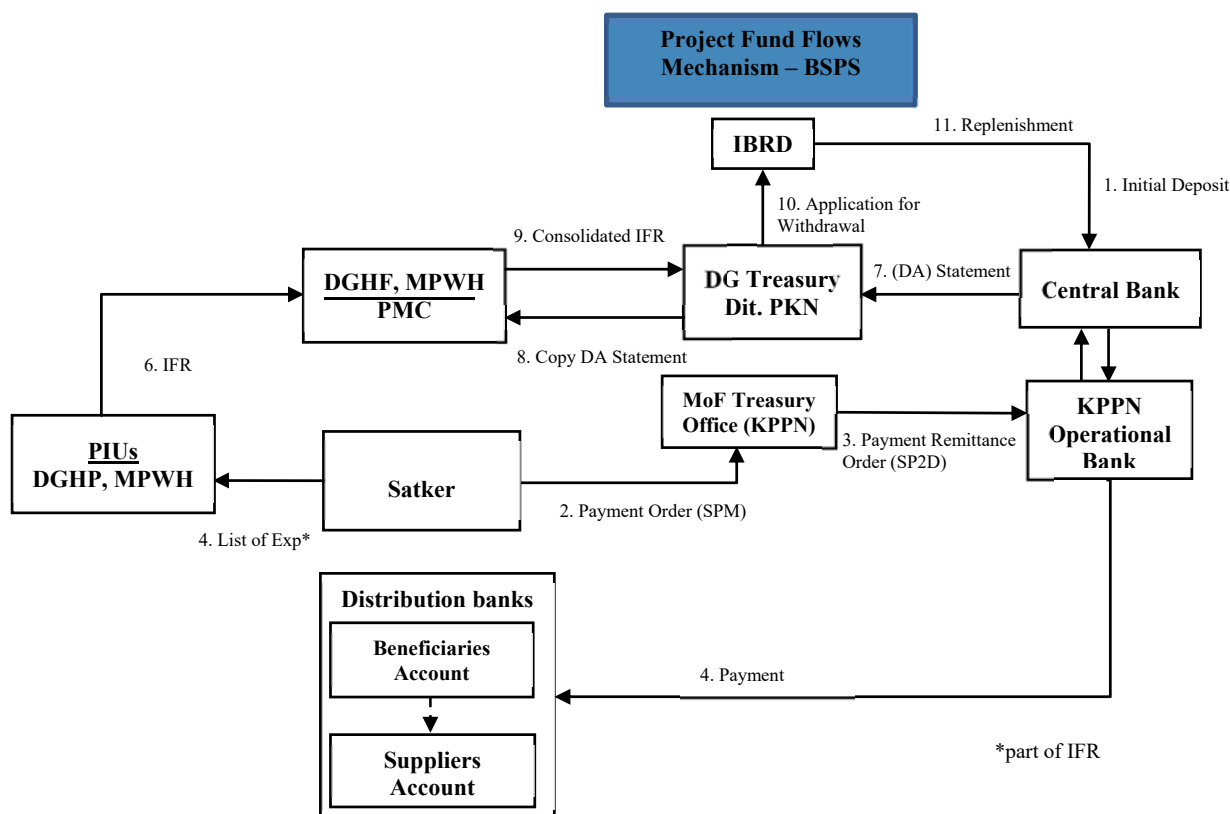
Figure 5: BP2BT Funds Flow



57. Component 2. BSPS verified beneficiaries are required to open an account at the distribution banks. SNVT will also open an account at the distribution bank. SNVT then deposit

the funds to its account (based on verified list of beneficiaries) and request the distribution bank to distribute the funds to the beneficiary account. Distribution to the beneficiary account should be completed within 30 days after SP2D (payment remittance order) is issued. The distribution bank will then transfer to the supplier selected by a group of beneficiaries (supported with receipt of material and authorized letter from beneficiaries). Transfer to supplier will be made into two tranches based on progress, material receipt and validation by facilitator.

Figure 6: BSPS Funds Flow



58. **Component 3.** Funds flow of will depend on the contract entered into by PIU at either DGHF or DGHP with consultant related to technical assistance for the Project.

59. **Supervision Plan.** Risk-based supervision of Project financial management will be conducted. This will involve desk supervision, including review of IFRs, audit reports and two supervision missions in one year. Financial management supervision will be conducted by Financial Management Specialist with consultant support (if necessary).

V. Procurement

60. Procurement for the proposed Project will be governed by the World Bank’s “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and grants by World Bank Borrowers” dated January 2011, revised July 2014, and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by

World Bank Borrowers” dated January 2011, revised July 2014; and the provisions stipulated in the Legal Agreements.

61. Procurement expected under the Project will include selection of consulting firms for the National Management Consultant and Provincial Management Consultants following QCBS method, hiring several individual consultants and facilitators to support the PMC in Project implementation; and hiring several consulting services both individual and firms as part of Technical Assistance under Components 1, 2 and 3. Based on experience from past programs for the hiring of similar consultants, it is expected that a significant number of firms are available in the market to enable reasonable competition in the selection of such services.

62. The Bank has provided assistance to the PMC in preparing the Procurement Plan, which was submitted for Bank’s prior review and no objection through letter dated January 31, 2017. The Bank has issued its no objection by February 7, 2017, which then should be uploaded and published in the MPWH’s website as well as in UNDB online. The Procurement Plan will be updated in agreement with the Bank at least annually or as required to reflect the actual Project implementation needs and improvements in institutional capacity within the Project. In addition to the Bank’s prior review, it is recommended that at least one implementation support mission to visit the field will be conducted each year during the Project duration.

63. Based on past experience and lessons learned from the other Bank financed Projects, particularly under MPWH, it is expected that several issues and risks concerning procurement could be anticipated and will be mitigated during the Project implementation.

64. There is a possibility of delays in procurement, particularly selection of main consultants such as National Management Consultant and Provincial Management Consultants, due to weak procurement capacity at the central level. Since MPWH DGHP and DGHF have not had recent experience with handling Bank-financed procurement, the Bank will provide procurement training to each respective PIU to enhance their capacity and understanding of Bank procurement guidelines. The PMC, with support by the Bank and consultants, will also provide procurement training for staff at the Procurement Service Unit (ULP) at the provincial level with a focus on improving the understanding of Bank procurement guidelines for consultants.

65. To mitigate procurement risks due to the overall weak governance environment in the country, and to promote transparency, information on contract awards, management, and payments against contracts will be published on the MPWH’s website. Any fraud or corruption cases will be followed up by the MPWH through their internal system, which will be detailed in the POM, as well as by the Bank. The POM will also include specific indicators and tables to measure the performance of consultants and contractors, as well as the respective sanction mechanisms for poor performance.

66. Based on the above analysis, the procurement risk is rated as Substantial, based on the result of the procurement capacity assessment.

VI. Social (including safeguards)

67. The Project expects that individual houses purchased or built by the BP2BT beneficiaries will not require significant size of land plots. In the case that any beneficiary household builds their own house, it will obtain land through willing buyer-willing seller scheme, use of its own land, use of inherited land or donated land from relatives. In the case that BP2BT beneficiaries buy houses from a developer, land for the housing site will have been bought through willing buyer-willing-seller scheme between the developer and land owners. Individual house improvement or redevelopment under BSPS will use existing land plots. New house will be developed on the land that is already owned with certificate, or is physically occupied/tenure proven by a Statement Letter issued by the head of the village /*kelurahan*.

68. The PIUs in DGHF and DGHP have prepared an Environmental and Social Management Framework (ESMF), which specifies a set of requirements and eligibility screening criteria adopted by the lenders for BP2BT and local governments for BSPS. These requirements which include legal status and availability of housing land plots are also included in the BP2BT Operations Manual and in the current BSPS Technical Guidelines. The ESMF also includes requirements and procedures for consultation and inclusion in cases where potential beneficiaries are individuals who are members of vulnerable peoples and IPs or *MHA* community. The ESMF includes an RPF for Component 3 and elements of IPPF that need to be considered in the BP2BT and BSPS, as well as a grievance redress mechanism (GRM). An IPPF was also developed as part of the ESMF for Component 3. A draft ESMF had been disclosed in the www.bspsupr.org on October 4, 2016 and was consulted with relevant stakeholders on October 13, 2016.

69. The ESMF was developed in reference to the Indonesian Laws and Regulations and the triggered World Bank Safeguards Policies, i.e. OP 4.01, OP 4.10, and OP 4.12. The ESMF is integrated into all operational documents, i.e. POM for BP2BT and Technical Guidelines for BSPS. The POM and Technical Guidelines specify eligibility criteria that are applied for all applicants, including vulnerable peoples. The POM will be disseminated to lenders and Technical Guidelines will be disseminated to provincial *Satker*, consultants, facilitator and local government. The ESMF should be distributed as the safeguard instrument for the project. The TORs for activities supported by Component 3 will include the requirements for land acquisition and IPs as specified in the RPF and IPPF (both are also part of ESMF), respectively.

70. For BP2BT, lenders will also play a key role in ensuring that the ESMF is followed by BP2BT beneficiaries. The Directorate of Financing scheme will monitor lenders in ensuring that the ESMF is consistently followed by BP2BT beneficiaries. For BSPS, the roles of provincial *Satker*, local governments and facilitators hired by the *Satker* are key to ensure and monitor that implementation of the Project meets the requirements specified in the ESMF. For Component 3, the Directorate of Planning of the two DGs involved in the BP2BT and BSPS will ensure that the Terms of References (TORs) for advisory services, technical assistance and policy development will include environmental and social safeguards management, as relevant.

71. Currently, both PIUs (DGHF and DGHP) do not have a special unit in their organizational structure for environmental and social safeguards management. At appraisal, the sub-directorate of facilitation under the Directorate of Housing Provision is in charge of the BSPS safeguards

management. Capacity of technical staff under these two PIUs on safeguards management is limited. Further, the awareness and knowledge of provincial *Satker* as well as local governments, consultants and facilitators who are involved in the BSPS on environmental and social safeguards need to be improved through training and assistance. On the other hand, lenders such as BTN, have a certain level of awareness and implement requirements of environmental and social safeguards through screening, IMB implementation and audit of the developers who built houses for FLPP beneficiaries. Awareness training and assistance should be expanded for lenders of BP2BT including BRI, BTN, and other potential Banks and non-Bank institutions.

72. As part of the capacity building program, both PIUs have developed a capacity building program for stakeholders involved in BP2BT and BSPS. This will be part of the Component 1, 2 and 3 of the Project. The capacity building program is part of the ESMF. The DGHF and DGHP will ensure that the ESMF is consistently implemented in the three Project components. During Project implementation, the sub-directorates of Monitoring and Evaluation under each of these directorates will monitor and evaluate the compliance of the Project implementation with the ESMF.

73. The Project will ensure that vulnerable beneficiaries such as women-headed families, women, disabled, Indigenous Peoples (IPs) or *Masyarakat Hukum Adat (MHA)* and the elderly are given the same opportunities as other beneficiaries by lenders to access BP2BT and by local governments and the *Satker* to access BSPS. The current BSPS Technical Guidelines specifies eligibility criteria for lower income households to access BSPS support and provides special attention to elderly and disabled people. Unlike common beneficiaries, the latter two are eligible to receive additional assistance for labor costs. The DGHP responsible for BSPS is planning to incorporate other vulnerable groups to be given special attention in the Project including in the next update of the BSPS Technical Guidelines.

VII. Environmental (including Safeguards)

74. The Project is not expected to have significant environmental impacts as a result of the implementation of Component 1 (BP2BT) and Component 2 (BSPS). Component 1 of the Project supports a mortgage-linked down payment assistance for lower income salaried and non-salaried households to enable each beneficiary household to either: (i) purchase a new or existing home; or (ii) construct a home. The component will indirectly involve physical works in housing and involve small investments per beneficiary household. Under this component, the value of housing investment will vary across regions and income levels, ranging between US\$ 7,700 – US\$ 18,080 per unit thereby typically involving small-scale civil works with an average housing size of 36 m² (max. up to 60 m²). Component 2 will involve home improvement for poor and lower income households. For example, roof, floor and wall repair and re-construction of new small houses (average 36 m²), that takes place in individual land plots or small land areas with small group of houses in each cluster.

75. Each potential housing site is distinct and discrete from others, geographically spread in wide areas in the urban or peri-urban area of a district or city, and located in already developed residential areas. The potential environmental impacts of the Project are expected to be insignificant, non-irreversible, localized, and manageable by the involved parties by implementing

sound construction practices. The main source of impacts will be from the civil construction activities on the improvement and/or rehabilitation of existing homes and construction of new houses that will be done on an individual basis, in relatively short-term periods (1-2 months) and not through large-scale development. Cumulative impacts are unlikely.

76. Given the nature of the Project as explained above, it is expected that it will have minor, non-irreversible, small-scale, and site-specific environmental and social impacts. Thus it is a Category B project and triggers OP 4.01 Environmental Assessment. The Project benefits the environment by improving the living quality of individual households, as well as the environmental quality of the neighborhood where housing conditions are improved. This may lead also to the improvement of water supply and sanitation conditions that are triggered by the better home conditions.

77. The key environmental issue identified with regard to the Project include possible unsustainable harvesting of natural resources as construction material, timber, sand and rock (the last two are known as Type C quarry material). Proper mechanisms have been incorporated into Project design to ensure that unsustainable resource extraction practices are not permitted.

78. Component 3 on Technical Assistance will include policy advisory and capacity building for housing sector governance. The supply side technical assistance may potentially create environmental and social impacts as a result of downstream housing sector investments. This component should refer to the Bank's Interim Guidelines on the Application of Bank Safeguard Policies to Technical Assistance and Trust Funds Administered by the Bank (January 2014) wherein the terms of reference of these activities will be assessed accordingly.

79. The final ESMF had been disclosed in the www.bspsupr.org on November 18, 2016 after it was consulted with relevant stakeholders on October 13, 2016. The ESMF has also been disclosed through Infoshop on December 9, 2016.

Annex 4: Implementation Support Plan

Indonesia: National Affordable Housing Program Project (P154948)

1. The strategy for implementation support has been discussed with the DGs for Housing Finance and Provision at the MPWH. The main objective of planned World Bank implementation support is to assist the GoI on their overall supervision and technical assistance to improve the Project implementation. The Project includes a number of measures aimed at ensuring implementation proceeds as follows.
2. The Bank will maintain sizable core team. The team includes specialists in housing finance, urban planning, engineering, safeguards, economics, and monitoring and evaluation. Having the core team based in Jakarta will facilitate frequent dialogue with the government counterpart teams, and permits ongoing implementation support. The core team will be supplemented with specialists in housing finance, urban and spatial planning, social accountability, gender, and land expert, and others as needed.
3. The Project team will conduct at least two formal implementation support missions per year covering selected number of local governments under each component of the Project. The missions will be carried out jointly with the stakeholders, and will include Bank fiduciary and safeguards staff, and other specialists as required.
4. The Bank will periodically conduct various types of assessments, each of which will be designed to mitigate any issues and answer different questions about Project implementation. Such assessments will include technical verification, value-for-money verification, forensic audits and rolling audits. Decisions about which approach to pursue in a given year will be made in consultation with the PMC.
5. Findings, recommendations, and agreed decisions in the Aide Memoires will be used jointly by the GoI and the task team for improving Project implementation through improved and targeted technical assistance, FGD as needed, or any other follow-up discussions. Detailed description of each specialist from the team are given below:
 - a. **Housing Finance.** The international housing specialist will regularly conduct supervision to ensure that the design of this Project are implementable, and observe if there are any improvements needed in the design of the BP2BT. Local housing specialist for BSPS will regularly monitor the improved BSPS and provide recommendations and feedback as needed for the improvement of this Project.
 - b. **Monitoring and Evaluation.** The Project will develop a new monitoring system for BSPS, called SMIS, and a new monitoring system for housing and real estate, called HREIS. These two information system will be financed through Component 2 and 3, respectively. Specialists with support from IT consultants, as needed, will assist MPWH on drafting ToRs, developing the system within MPWH, supervising implementation and monitoring the maintenance and sustainability of these two systems, once developed.

- c. **Housing or Construction Engineer.** Appropriate technical specialists will review, supervise, and provide guidance on the implementation of the overall Project and support the technical assistance components of the Project. The engineer will participate in missions, and review the quality of infrastructure works and social activities financed in a sample of locations.
- d. **Financial Management and Procurement.** Financial management specialists will conduct regular financial management assessments on a risk-based sample of Project locations to gauge compliance with key elements of formal and informal fiduciary controls, including: (i) budgeting and counterpart funding; (ii) disbursement status; (iii) internal controls (including internal audits); (iv) accounting and financial reporting; and (v) FM facilitation. Formal supervision of financial management will be undertaken as part of each formal supervision mission. Procurement specialist will visit the field on a regular basis to carry out spot checks post review of BSPS procurement. The procurement team will provide training at the central level, and suggest improvements as needed.
- e. **Environmental and Social Safeguards.** The safeguards team will conduct continuous supervision of the Project and will join the biannual supervision missions. World Bank safeguards specialists will conduct training to the PMC, PIUs and participating lending institution lenders, as needed, and will review the implementation of safeguards policies in the field.
- f. **Other Experts.** Other experts such as the economist, urban planner, public finance specialist, and gender specialist will participate in formal and routine supervision missions as needed to assess the Project implementation. They will propose strategies and modifications to Project design as needed, and provide recommendations for technical assistance needed to improve Project implementation. In addition, these experts will also monitor the achievement of indicators and provide inputs for adjustment or improvement of operations guidelines, as needed.

Implementation Support Plan

Table 1: Implementation Support Focus

Time	Focus	Skills Needed	Resource Estimate (# Staff Weeks)
E nee	Team Leadership	TTL/co-TTL	15/15
	Capacity Building	Institutional capacity building	10
		Governance	5
		SMIS	5
		HREIS	5
		LG Training	5
	Environmental monitoring	Environmental Specialist	2
	Social monitoring	Social Specialist	2
	Gender Specialist	Gender	2

Time	Focus	Skills Needed	Resource Estimate (# Staff Weeks)
	Engineering Construction	Housing/Construction	10
	Financial management	Financial Specialist	6
	Procurement, include training for central and local, and supervision	Procurement Specialist	6
	Housing Finance	Housing Finance Specialist	10
	Housing Analyst	Urban and Housing Analyst	10
	Public Finance	Economist	6
	Urban and spatial planning	Urban Specialist and Analyst	6
	M&E	M&E Specialist	10
	Safeguards	Safeguards Specialists (land, indigenous people, resettlement, environmental)	8
	Implementation Support	ACS	12

Table 2: Skill Mix Required

Skills Needed	# Staff Weeks	# Trips	Comments
Team Leadership (TTL/Co-TTL)	10/10	6	International/International
Housing finance	12	3	International/Local
Environmental monitoring	2	2	Local
Social monitoring	2	2	Local
Gender Specialist	2	2	local
Engineering Construction	10	8	Local
Financial management	6	4	Local
Procurement, include training for central and local, and supervision	6	4	Local
Housing Finance	10	6	Local/International
Housing Analyst	10	6	Local/International
Public Finance	6	4	Local
Urban and spatial planning	6	4	Local
M&E	10	4	Local/International
Safeguards	8	6	Local
Implementation Support	12	2	Local

Annex 5: Economic and Financial Analysis

Indonesia: National Affordable Housing Program Project (P154948)

A. Project Objectives

1. The objective of the Project is to improve access to affordable housing for lower income people. The Project will accomplish this objective through: (a) the implementation of a new down payment assistance scheme for affordable housing finance, *Bantuan Pembiayaan Perumahan Berbasis Tabungan – BP2BT*; (b) support for MPWH's home improvement assistance, *Bantuan Stimulan Perumahan Swadaya* (BSPS); and (c) strengthening the institutional environment for affordable housing.

B. Down Payment Assistance Scheme

2. The BP2BT consists of down payment assistance linked to housing finance targeting lower income households in Indonesia aspiring to be first time home-owners. The Project aims to improve the affordability of lower income households to access formal housing finance either for the purchase of a new (or existing) developer built landed house/multi-story house/low-rise vertical house (and similar new housing prototypes) or towards the cost of construction of a self-built landed house. To be eligible for assistance under the BP2BT, beneficiary households may be required to save some of their income in order to accumulate funds for part of the down payment and to demonstrate capacity to pay.

3. The requirements for minimum savings period are 6 months for fixed and non-fixed income beneficiaries. Furthermore, the minimum down payment is fixed at five percent. The percentage of down payment assistance provided by the Project will diminish as household incomes rise. The World Bank will support US\$ 215.0 million for the BP2BT. It covers two sub-components which are (i) BP2BT assistance (cost of US\$ 205 million) and (ii) Operations and roll-out support (US\$ 10 million). The bank-financed component of the Project targets an estimated 100,981 loans/credits to build or renovate multi-story house, landed house, low-rise vertical house, self-construction and reconstruction of new house during three year of implementation.

Table 1: BP2BT Budget

Description	Value
WB BP2BT Budget (US\$ million)	215
BP2BT assistance Cost (US\$ million)	205
Budget for Operations support (US\$ million)	10
Average BP2BT assistance (US\$)	2,030
Estimated No. Of Loans (Phase I)	100,981

4. The Project provides down payment assistance to allow beneficiaries to access loans to finance the purchase or construction of a residential property, which is secured by the underlying property. The amount of down payment assistance varies by the property value and household income. There are several probable economic benefits from a housing project that can be measured

and quantified such as an increase in the property value, reduced health cost, benefits related to avoided rent expenses, benefits generated from the government assistance for housing loans, etc. Based on data availability, a set of analyses was prepared to quantify economic benefits. The first analysis is to compare the average down payment assistance with an average of net benefits generated from this Project. The average of net benefits is calculated by taking the difference between the present value of total payment for housing mortgage “with” and “without” the Project.

Table 2: Net Benefit per Household Income Level (in IDR million)

HH Income	Interest Rate (p.a.)	Prop. Value	Revised Down Payment	Max loan	Assistance	PV Total Payment with Assistance	PV Total Payment without Assistance	Net Benefit
2.7	13.0%	80.68	3.47	44.81	32.40	52.55	82.82	30.27
2.8	13.0%	83.22	3.75	47.27	32.20	54.20	85.43	31.22
2.9	12.9%	85.83	4.05	49.78	32.00	55.90	88.11	32.20
3	12.9%	88.52	4.37	52.36	31.80	60.54	89.84	29.30
3.1	12.8%	91.29	4.69	54.99	31.60	62.43	92.64	30.21
3.2	12.8%	94.13	5.04	57.69	31.40	64.37	95.52	31.15
3.3	12.8%	97.04	5.40	60.45	31.20	66.36	98.48	32.12
3.4	12.7%	100.04	5.77	63.27	31.00	68.41	101.52	33.11
3.5	12.7%	103.12	6.17	66.15	30.80	70.52	104.65	34.13
3.6	12.6%	106.27	6.57	69.10	30.60	72.67	107.85	35.17
3.7	12.6%	109.51	7.00	72.11	30.40	74.89	111.13	36.24
3.8	12.5%	112.82	7.44	75.18	30.20	77.15	114.50	37.34
3.9	12.5%	116.22	7.91	78.32	30.00	79.48	117.94	38.47
4	12.5%	119.70	8.38	81.52	29.80	89.48	121.48	31.99
4.1	12.4%	123.27	8.88	84.78	29.60	92.15	125.09	32.95
4.2	12.4%	126.91	9.40	88.11	29.40	94.87	128.80	33.92
4.3	12.3%	130.65	9.93	91.51	29.20	97.67	132.58	34.92
4.4	12.3%	134.46	10.49	94.98	29.00	100.52	136.46	35.94
4.5	12.3%	138.37	11.06	98.51	28.80	103.44	140.42	36.98
4.6	12.2%	142.36	11.66	102.10	28.60	106.42	144.47	38.05
4.7	12.2%	146.44	12.27	105.77	28.40	109.47	148.61	39.14
4.8	12.1%	150.61	12.91	109.50	28.20	112.59	152.84	40.25
4.9	12.1%	155.03	13.73	113.30	28.00	123.72	157.33	33.61
5	12.0%	159.22	14.25	117.17	27.80	127.06	161.58	34.52
5.1	12.0%	163.66	14.95	121.11	27.60	130.60	166.08	35.48
5.2	12.0%	168.19	15.67	125.12	27.40	134.22	170.68	36.46
5.3	11.9%	172.81	16.42	129.19	27.20	137.91	175.37	37.46
5.4	11.9%	177.53	17.18	133.34	27.00	141.67	180.16	38.49
5.5	11.8%	182.34	17.97	137.56	26.80	145.51	185.04	39.53
5.6	11.8%	187.24	18.79	141.85	26.60	149.43	190.02	40.59
5.7	11.8%	192.24	19.63	146.21	26.40	153.42	195.09	41.68

HH Income	Interest Rate (p.a.)	Prop. Value	Revised Down Payment	Max loan	Assistance	PV Total Payment with Assistance	PV Total Payment without Assistance	Net Benefit
5.8	11.7%	197.34	20.49	150.65	26.20	157.49	200.27	42.78
5.9	11.7%	202.53	21.38	155.16	26.00	161.63	205.54	43.91
6	11.6%	207.83	22.29	159.74	25.80	163.20	210.91	47.71
6.1	11.6%	213.22	23.23	164.39	25.60	167.43	216.38	48.95
6.2	11.5%	218.71	24.19	169.12	25.40	171.75	221.95	50.21
6.3	11.5%	224.30	25.18	173.92	25.20	176.14	227.63	51.49
6.4	11.5%	229.99	26.19	178.80	25.00	180.61	233.41	52.80
6.5	11.4%	235.79	27.24	183.75	24.80	185.16	239.29	54.13
6.6	11.4%	241.69	28.30	188.78	24.60	189.79	245.27	55.48
6.7	11.3%	247.69	29.40	193.89	24.40	194.50	251.36	56.86
6.8	11.3%	253.80	30.52	199.07	24.20	199.30	257.56	58.26
6.9	11.3%	260.01	31.67	204.33	24.00	202.72	263.86	61.15
7	11.2%	266.32	32.85	209.67	23.80	207.64	270.27	62.63
7.1	11.2%	272.75	34.06	215.09	23.60	212.65	276.79	64.14
7.2	11.1%	279.28	35.30	220.58	23.40	217.74	283.42	65.68
7.3	11.1%	285.92	36.56	226.16	23.20	222.92	290.16	67.24
7.4	11.0%	292.67	37.86	231.82	23.00	228.19	297.01	68.83
7.5	11.0%	299.53	39.18	237.55	22.80	225.33	303.98	78.65
Average					27.60			43.34

Exchange Rate: US\$ 1.0 = IDR 13,157.5

5. As shown in Table 2 above, the average net benefit (IDR 43.34 million) from this Project is larger than the average down payment assistance (IDR 27.60 million). Beneficiaries will be better off due to the savings (or lower debt-to-income ratio) they receive during the tenor of their housing loan allowing them to dedicate such savings to other productive expenses. Specifically, every IDR 1 spent for housing assistance will leverage an economic benefit of approximately IDR 1.47.

6. For the second analysis, a complete cost-benefit methodology was conducted to evaluate the feasibility of the Project. Three variables were utilized as proxies to unit benefit. These included: (i) monthly rent saved; (ii) annual home price increases; and (iii) average down-payment assistance. Data on average monthly rent was extracted from the Indonesia Family Life Survey (IFLS, 2015). This variable was chosen because avoided rent cost reflects the benefit new homeowners receive. The economic/social costs are annual mortgage payment, maintenance cost, other costs such as insurance, as well as the actual down payment amount. Two types of houses, landed house and low-rise vertical house, were considered based on data availability. Moreover, discount rate or opportunity cost of capital is set to 10 percent with a time span of 15 years. This is equal to the estimated average tenor of the BP2BT. The cost-benefit calculations (as shown in Table 3 below) produce positive net present values and economic internal rate of returns that are above the discount rate. Essentially, the Project is considered as economically feasible.

Table 3: Cost-Benefit Analysis (in IDR)

Indicator	Landed House	Low Rise Vertical
Net Present Value	IDR 711,564,103.26	IDR 103,567,219.26
EIRR	21.89%	19.83%
Feasibility	<i>Feasible</i>	<i>Feasible</i>

C. Home Improvement Assistance (*Bantuan Stimulan Perumahan Swadaya, BSPS*)

7. Since 2006, the Government of Indonesia has provided an assistance to support incremental self-built housing, targeting rural and peri-urban areas. Eligible lower-income households, with income below IDR 1.5 million or US\$ 112.6 per month, receive an assistance of IDR 10.0-30.0 million or US\$ 751 – 2,253 for home improvement or new construction. From 2010 to 2013, BSPS reached 544,000 beneficiaries, with an average per unit cost of IDR 20 million or US\$ 1,502. NAHP will expand and strengthen the BSPS home improvement assistance. World Bank financing will increase the targets of BSPS, enabling the delivery of around 144,650 additional housing units, while supporting the Project's deployment in urban areas and strengthening the Project's management and operations systems.

8. The envelope of Bank financing for the first sub-component under Component 2, which will lead to the improvement or reconstruction of an addition 144,000 housing unit, is US\$ 200.0 million. The other two sub-components, i.e. Support to BSPS operations and home improvement program development, are estimated at US\$ 15.0 million. Table 4 below summarizes breakdown number of units divided into their intervention needs, assistance per house, and percentage of beneficiaries per category. Houses that need small improvement (30 percent of maintenance cost) receive IDR 7.5 million or US\$ 563; whereas those that require immense improvement of around 65 percent upgrading cost will receive IDR 15 million or US\$ 1,127. This Project will also support the construction of new units where the recipient will receive an allocation of IDR 30 million or US\$ 2,253.

Table 4: Estimated BSPS 2017 Breakdown

	No of Houses	Assistance Per House (IDR million)	Share of Beneficiaries per category (national average)
Small Improvement	49,920	7.5	39%
Medium Improvement	74,240	10	58%
Large Improvement	3,840	15	3%
New Construction	16,650	30	100%
Total	144,650		

9. MPWH have specified a total number of improved units per category in each of Indonesia's 33 provinces, excluding Jakarta. Table 5 below displays the figure in more detail. Three provinces in Java Island, namely Central, West, and East Java, receive the highest allocation for the 2017 BSPS. In addition, Central Sulawesi and West Sumatera are the two largest recipient outside Java with 5,786 and 4,959 units, respectively.

Table 5: BSPS 2017 Policy

No	Province	Total House per Category (based on 2017 policy)				Total
		Small	Medium	Big	New	
1	Central Java	4,564	6,788	351	1,522	13,225
2	West Java	3,994	5,939	307	1,332	11,572
3	East Java	4,564	6,788	351	1,522	13,225
4	NTB	1,426	2,121	110	476	4,133
5	South Sulawesi	1,426	2,121	110	476	4,133
6	West Sumatera	1,712	2,545	132	571	4,959
7	Southeast Sulawesi	1,426	2,121	110	476	4,133
8	West Kalimantan	1,141	1,697	88	381	3,306
9	Gorontalo	1,141	1,697	88	381	3,306
10	Lampung	1,426	2,121	110	476	4,133
11	DIY	1,141	1,697	88	381	3,306
12	North Sumatera	1,426	2,121	110	476	4,133
13	Central Sulawesi	1,997	2,970	154	666	5,786
14	South Sumatera	1,712	2,545	132	571	4,959
15	South Kalimantan	1,141	1,697	88	381	3,306
16	Central Kalimantan	1,141	1,697	88	381	3,306
17	Bali	1,141	1,697	88	381	3,306
18	Aceh	1,141	1,697	88	381	3,306
19	North Maluku	1,426	2,121	110	476	4,133
20	West Sulawesi	1,141	1,697	88	381	3,306
21	Bengkulu	1,141	1,697	88	381	3,306
22	Maluku	1,426	2,121	110	476	4,133
23	Jambi	1,141	1,697	88	381	3,306
24	West Papua	1,141	1,697	88	381	3,306
25	Papua	1,141	1,697	88	381	3,306
26	North Sulawesi	1,141	1,697	88	381	3,306
27	Banten	856	1,273	66	285	2,480
28	East Kalimantan	856	1,273	66	285	2,480
29	Riau	1,141	1,697	88	381	3,306
30	Riau Islands	856	1,273	66	285	2,480
31	North Kalimantan	856	1,273	66	285	2,480
32	Bangka Belitung	856	1,273	66	285	2,480
33	NTT	1,141	1,697	88	381	3,306
		49,920	72,240	3,840	16,650	144,650

10. In order to analyze the full economic costs and benefits, investment cost (consisting of physical and non-physical investments) and annual maintenance costs resulting from the investments under this Project were included in the analysis. The average maintenance cost across all provinces is set to 30 percent. The benefits arising from this component include benefits that are readily quantifiable in monetary terms. Therefore, the economic benefit is derived from the annual incremental property value adjusted for inflation. Housing price data in the 33 provinces is collected from the Ministry of Public Works and Housing to measure the incremental price change. Moreover, the Project investment will have a service life of at least 15 years.

Figure 1. Estimation Model of Net Economic Benefit

$$\sum_{i=1}^n Net\ benefits = \left(\delta \sum_{i=1}^n AIPV \right) - \left(\delta \sum Investment\ and\ maintenance\ cost \right);$$

δ = Discount factor

Note: AIPV: Annual Incremental in Property Value

Cost-Benefit Analysis

11. The net present value (NPV) is a monetary estimate, in today's terms, of the generation of net benefits over the life of a project. Typically, projects with positive NPV are seen as favorable. The NPV for these subcomponent investments were calculated over a period of 20 years (2017-2037). There will be no re-investment during this period of analysis. The discount rate used was 10 percent given reasonable estimates of the full lifetime costs and benefits associated with the Project. An Economic Internal Rate of Return (EIRR) equal to at least the appropriate opportunity cost of capital at 10 percent. The results of the cost-benefit analysis are summarized in Table 6 below. The Project NPV over 20 years, at a discount rate of 10 percent is estimated at US\$ 178,637,385; with an economic internal rate of return (EIRR) of 42 percent. The positive gap of EIRR to discount rate means this Project is economically feasible.

Table 6: Net Economic Benefit of BSPS (in US\$)

Year	Total Benefit	Total Cost	Net Benefit
2017	0	81,666,667	-81,666,667
2018	140,015,701	168,334,011	-28,318,310
2019	466,719,004	415,423,783	51,295,221
2020	485,387,764	409,455,073	75,932,691
2021	504,803,275	432,179,829	72,623,445
2022	524,995,406	456,165,810	68,829,596
2023	545,995,222	481,483,012	64,512,209
2024	567,835,031	508,205,320	59,629,711
2025	590,548,432	536,410,715	54,137,717
2026	614,170,369	566,181,510	47,988,860
2027	638,737,184	597,604,583	41,132,601
2028	664,286,671	630,771,638	33,515,034
2029	690,858,138	665,779,464	25,078,675
2030	718,492,464	702,730,224	15,762,240
2031	747,232,162	741,731,751	5,500,411
2032	777,121,449	782,897,864	-5,776,415
2033	808,206,307	826,348,695	-18,142,388
2034	840,534,559	872,211,047	-31,676,488
2035	874,155,941	920,618,761	-46,462,819
2036	909,122,179	971,713,102	-62,590,923

Year	Total Benefit	Total Cost	Net Benefit
2037	945,487,066	1,025,643,179	-80,156,113
NPV			178,637,385
EIRR			42%

Sensitivity Analysis

12. The sensitivity of the Project net benefit was analyzed with respect to two key variables: (i) the average percentage of maintenance cost; and (ii) the number of units of houses. The results of this sensitivity analysis are presented in Table 7 below in terms of switching values, i.e. the percentage change in the values of the selected variables at which NPV becomes zero, for each of the infrastructure supported by this Project. The results of the sensitivity analysis reveal that the overall net economic benefits of the Project are relatively insensitive to changes in either average unit costs or average inflated home price, and in no case would changes in unit costs or benefits in these sub-sectors alone result in the Project's NPV being reduced to zero.

Table 7: Switching Values of Selected Key Variables

Description	BSPS
Average percentage of maintenance cost	+5 percentage points
Average Inflated Home Price	-45 percentage points

Annex 6: Key Risks

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Overall Risk Rating and Explanation of Key Risks

1. The overall Project faces a Substantial risk. Risks in the following areas have been identified: (i) political and governance risk; (ii) macroeconomic risk; (iii) sector strategies and policies risk; (iv) technical risks; (v) institutional capacity risks; (vi) fiduciary; (vii) environmental and social safeguards risk; and (viii) stakeholders risks.

2. Political and Governance Risk: Moderate. Overall political and governance risk is considered moderate. The Jokowi government benefits from considerable political stability, a strong coalition of support in Parliament and high approval ratings – suggesting continuity in policy and overarching governance.

3. Macroeconomic Risk: Moderate. GoI has faced significant fiscal pressures since 2015. Steps have been taken to mitigate financing risks arising from a shortfall of revenues through pre-financing. Furthermore, as the overall macro-policy framework is responsive to risks of imbalances, some contingency financing is available and crisis protocols have been put in place. However, even if the financing risks are mitigated, major expenditure cuts in response to revenue shortfalls in 2015 and 2016 may have a negative impact on the GoI objective of increasing housing finance access to lower-income people, as it involves a new budget commitment for housing assistance. The constrained fiscal environment could impact the ability of this Project to move forward with the introduction of a new assistance scheme. Limited GoI revenues may also affect the budget allocation to BSPS, potentially decreasing the amount of beneficiaries reached by this Project.

4. Sector Strategies and Policies Risk: Substantial. In order to enable Project implementation GoI will need to issue: (i) a MPWH Ministerial Decree to establish BP2BT and specific detailed eligibility criteria and operating procedures for the Project; and (ii) a MPWH Ministerial Decree updating provisions of the BSPS. Draft decrees are currently under preparation and review with MPWH and will be finalized by Appraisal and issues as a condition for Effectiveness. More broadly, the Project envisions supporting a series of policy regulatory reforms under Component 3 in multiple policy areas including secondary mortgage market development, housing provident fund, mortgage guarantee product development, strengthening local government housing policy and, amongst others, strengthening the role of public affordable housing developer. A risk exists that momentum for reform across multiple areas will not be sustained. The Project has benefited from considerable advisory and analytical work with the Bank under the Land, Housing and Urban Settlements PASA, including during preparation the development of detailed ToRs for many of the key policy advisory activities. The Project allocates considerable resources to procure high quality policy advisory across these areas of reform.

5. Technical Design of Project or Project Risk: Substantial. Component 1 introduces a new approach to public assistance to increase access to mortgage finance for lower income segments. Multiple technical risks exist including: (i) limited uptake from consumers due to non-familiarity

with BP2BT and down payment assistance model; (ii) inadequate calibration of assistance level to consumer affordability levels; (iii) lack of penetration of Project into non-salaried income segments due to both consumer and lender familiarity and risk appetite; (iv) limited uptake of Project by lending institutions due to constrained risk appetite, market conditions and/or concerns regarding Project administration; and (v) limited supply side response from developers.

6. BP2BT development has benefited from a detailed preparation process that has taken into account these risks and outlined mitigation measures. First, a broad salaried and non-salaried consumer consultation process was conducted involving over 24 focus group discussions in multiple regional markets to understand consumer preferences and appetite for the BP2BT product. Feedback on issues related to savings requirements, mortgage product design, assistance model and administrative processes have been incorporated into Project design. The Project will also support MPWH to work closely with participating lenders during implementation.

7. Assistance levels were carefully modeled in collaboration with MPWH taking into account household affordability and multiple income levels and have been sounded with lenders. The preparation process also benefited from extensive interaction and consultation on Project design with potential participating lenders leading to multiple adjustments and calibration of the Project. Interest of the participating lenders is evidenced by the signature of five LoIs from financial institutions (as noted above). Consultations with developers, including through the primary real estate associations REI and APERSI, were conducted with developers. The Bank team also conducted rapid assessments of market available properties in target segments across different regions within Indonesia to set the maximum home price criteria. A draft MPWH Ministerial Decree covering both the concept design and operations manual for BP2BT is under preparation and will be finalized and issued prior to Effectiveness.

8. Technical risks related to Component 2 relate to the ability of BSPS to effectively scale up implementation in urban areas in order to address affordable housing needs in urban slum areas, the BSPS will closely coordinate in implementation with NSUP. Specifically, starting in 2017, BSPS will: (i) ensure the integration of SIAPs developed under NSUP into RP3KPs to be developed under NAHP in select urban local governments; (ii) develop and conduct joint facilitator training and module development on affordable housing development; (iii) utilize, verify and integrate data on housing deficit and home improvement generated under NSUP into the SMIS; and (iv) conduct joint planning and implementation 2017 exercises in 10 medium and large cities (in 2017, to be scaled up in ensuing years) where NSUP and the BSPS overlap.

9. Targeting risk cross both the BP2BT and BSPS are considered substantial. A key constraint to the effectiveness of both demand and supply side housing assistance programs include the leakage of benefits to non-eligible beneficiaries. Multiple measures have been introduced under the Project to assist MPWH to strengthen the targeting regimes for both BP2BT and BSPS.

10. For BP2BT, the Project includes: (i) clear household income eligibility with a methodology for participating lending institutions to assess all household income (as a departure from FLPP model which only assess basic salaried income of single applicant thereby enhancing risk of poorly targeting government assistance); (ii) clear operating procedures for eligibility assessment and verification ex-ante to assistance disbursement; (iii) third-party verification system to assess

compliance with targeting framework and eligibility criteria for ex-post to assistance disbursement; and (iv) improved MIS and data sharing protocols between participating lending institutions to ensure that all key eligibility information is transparently available.

11. Component 2 targets low income beneficiaries in the bottom 40 percent of income earners. The Project involves three layers to mitigate targeting risk. First, at the community level, beneficiary eligibility is verified by a system of community facilitators, village heads/*lurah*, residents, and MPWH staff). Second, NAHP has strengthened the BSPS targeting system by introducing into BSPS eligibility framework a mandatory cross-check of beneficiaries against the UDB for social assistance programs. Lastly, NAHP introduces a system of third-party verification of BSPS targeting and implementation.

12. Institutional Capacity Risk: Substantial. The BP2BT scheme requires considerable build-up in the administrative management capacity within the DGHF to operate a new Project incorporate rigorous operating procedures and systems. Recent steps with the Directorate General indicate an investment in project management processes. For example, while the BLU of FLPP has demonstrated suboptimal monitoring, evaluation, lender control, and management processes, a newly appointed management team has made significant strides in putting in place lender control mechanisms and improved internal operational processes. The FLPP subsidy database has been aggregated and significantly revamped, improving the BLU's ability monitor and control program delivery. Technical assistance as part of Component 1 will support MPWH to put in place effective systems for the administration and management of BP2BT. In parallel, the Project supports expenditures related to institutional strengthening, including, for example, the development of a BP2BT assistance database for better monitoring and evaluation. For BSPS, institutional capacity risks are moderate. MPWH systems manage the Project effectively and successfully coordinate stakeholders at various levels of government (central, provincial, and local). While existing systems and capacities are largely adequate, the Project will support improved management information systems, monitoring and evaluation to modernize Project administration.

13. Fiduciary Risk: Substantial. Fiduciary risk is summarized in Annex 2 above.

14. Environmental and Social Safeguards Risk: Moderate. Environmental and social safeguards risk is summarized in Annex 2 above.

15. Stakeholder Risk: Moderate. The Project will require alignment between lenders, MPWH, mortgage guarantee companies, local governments, BPN, MoF and Bappenas. The risk of poor coordination between any of these stakeholders may undermine the overall objectives of the Project. Overall Project coordination will be overseen by the Pokja PKP, an inter-ministerial steering committee involving all key stakeholders at the national level which will be convened on a six-monthly basis. Under Component 3 the Project will support detailed technical assistance and outreach to a cohort of urban local governments to ensure for effective integrated planning and coordination at the city level. The Project will additionally sustain deep relationships in the sector built during the implementation of the Land, Housing and Settlements PASA and NAHP preparation with market actors including lending institutions, guarantee companies, PT. SMF, developers, Perum Perumnas, amongst others.

Annex 7: Building Climate Resilience

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Climate change vulnerability context of Indonesia³⁹

1. Many parts of Indonesia are highly vulnerable to multiple climate change hazards, including drought, floods, landslides, and sea level rise. The eastern and western portions of densely populated Java, the coastal regions of much of Sumatra, parts of western and northern Sulawesi, and southeastern Papua island all rank highly in mapping of multiple climate hazards. At the same time, Indonesia's location along the 'Pacific Ring of Fire' means that it is exposed to a wide range of natural disasters, including earthquakes, volcanic eruptions and flooding.
2. Climate warming by itself is not the greatest risk; warming-related changes in wet and dry season rainfall, as well as extreme events, are the larger issue for Indonesia. More intense rainfall and sea-level rise are expected to adversely affect food security, health, farming and coastal livelihoods. Rainfall variability would negatively affect water resources, including drinking water supplies. Sea level rise would threaten productive coastal zones and affect livelihoods; low-lying coastal areas would be affected not just by rising seas, but by higher tides and storm events. More than 40 million Indonesians live within ten meters above the average sea level. Coastal cities such as Jakarta, Semarang, and Surabaya are areas of great concern because of high population densities. Women and female-headed households are disproportionately represented among Indonesia's poor and are more susceptible to negative shocks from natural disasters, economic downturns, or climate-induced impacts.

Characterization of climate risks related to housing

3. The specific climate risks that housing units are, or would be, exposed to depend primarily on where they are located. In general, housing built in vulnerable areas like coastal locations or on steep terrain may be exposed to risks such as sea-level rise, flooding and landslides. Higher average temperatures and more frequent heatwaves may require improved house designs that allow for more airflow and natural cooling or shading.
4. Lower income households tend to be disproportionately exposed to climate and natural disaster hazards. They may occupy locations that are particularly vulnerable, such as river banks or low-lying coastal areas – land that has been eschewed by higher income groups who are able to access formal housing in less vulnerable areas. Moreover, many Indonesian cities feature high population density in urban villages that are the result of unplanned and informal development. In these areas, the coverage of basic services such as piped water supply and sewerage is often very low. Individual housing units are typically self-built and developed incrementally over time. Whether in urban or rural areas, the self-built housing of lower income households tends to be of poor quality. For any given occurrence of a hazard mentioned above, these characteristics increase the vulnerability of lower income households to that hazard.

³⁹ The information contained in this section is largely drawn from the Program Document of the Indonesia Climate Change DPL, 2010 (Report No. 54238-ID), and the Climate Change Knowledge Portal's Climate Adaptation Country Profile for Indonesia (accessible through <http://sdwebx.worldbank.org/climateportal/>).

Approach for building climate resilience under NAHP

5. As described earlier in this PAD, NAHP aims to improve access to affordable housing for lower income households. Specifically, first-time homebuyers will receive assistance to purchase a home through Component 1, while Component 2 will provide existing homeowners with in-kind assistance for incremental home improvements. The targeted beneficiaries are lower income households that are currently unable to afford to purchase a home, or who own a house that is of substandard quality, respectively.

6. Component 1 is expected to contribute to the climate resilience of beneficiaries by enabling them to purchase and live in a home that meets all the specified eligibility parameters, including basic amenities and construction standards. These parameters ensure that any housing unit purchased through Component 1 is less vulnerable to the hazards described above. Without the assistance of Component 1, *ceteris paribus*, these beneficiaries would not be able to afford such housing, and would in all likelihood have continued to live in more vulnerable substandard housing.

7. Component 2 will work through the existing BSPS program, to help ensure that houses that are improved through this component are more resilient to climate and disaster risks. The basic steps in this approach are as follows:

- Screening: A simple process for identifying the climate and geophysical hazards that exist for each house to be improved under BSPS would be built into the BSPS guidelines. This hazard screening would include extreme rainfall, flooding and landslides; sea level rise; earthquakes; and heatwaves.
- Technical guidelines: For each type of hazard, practical guidance will be developed on the ways in which specific home improvements can be done, in order to reduce vulnerability to each type of hazard. Where applicable, these guidelines would draw on existing guidance, such as the national standard SNI 1726:2012 and the *Pedoman Teknis* of MPWH on structural resilience of houses and other buildings to earthquakes.
- Socialization: As part of regular socialization activities of BSPS, information will be included to raise the awareness of homeowners on climate and disaster risks. This awareness would help increase the willingness of homeowners to undertake their home improvements with a view to increasing resilience.
- Training of facilitators: The regular trainings for BSPS facilitators will include material related to the screening and technical guidelines above, so that facilitators become familiar with the materials and are able to support homeowners in making the actual home improvements.
- Hands-on guidance: The hands-on support that facilitators provide to homeowners during the actual work on the improvement of a home will include guidance and advice based on the technical guidelines.

Climate change adaptation co-benefits

8. All IBRD financing under this Project for Components 1 and 2 can be understood to provide direct climate adaptation co-benefits. As a direct result of this Project, beneficiaries under both Project components will enjoy improved housing, whether as a first-time homebuyer of a house that meets the Project parameters for basic amenities and construction standards, or as an existing homeowner whose house will be physically improved. Regardless of the specific location of each house, climate change can be expected to result in more extreme rainfall events throughout Indonesia, and thus any housing purchased under Component 1, or improved under Component 2, would result in reduced vulnerability compared to the previous housing occupied by beneficiary households. The benefits would be even greater for houses in locations with specific vulnerabilities, such as coastal areas, flood-prone areas, or in areas of steep terrain. It is not possible, however, to estimate the exact number of houses in such locations that would be supported by the Project.