

Expanding Access to Housing Finance for Informal Workers

By: Martin Siyaranamual, Head of SMF Research Institute

One of the defining features of Indonesia's labor market is the large proportion of informal workers. As of February 2024, 59.2% of the workforce was employed in the informal sector (BPS, 2024). This high level of informality presents significant challenges, particularly regarding financial inclusion and access to essential services, such as housing finance. According to an analysis by the SMF Research Institute, using data from Susenas MKP, in 2019, only 24.4% of informal workers used mortgage (KPR) products to purchase homes. The remaining workers relied on non-mortgage instalment plans or paid in cash. By 2022, the percentage of informal workers utilizing mortgage products had dropped further to just 23%.

The World Bank's report *Housing Finance Policy in Emerging Markets* (World Bank, 2009) identifies five key challenges in expanding access to housing finance in developing countries: high mortgage interest rates, lack of formal credit history, limited diversity of financial products, weak regulatory frameworks, and macroeconomic instability. Of these challenges, the absence of a formal credit history and limited product diversity are particularly relevant to informal workers.

The lack of a formal credit history is a major barrier because informal workers generally do not have pay slips, tax returns, or other official documents that formal financial institutions typically require. To address this, financial institutions must develop alternative credit assessment mechanisms, such as informal income verification, transaction history records, or social credit systems. Digital finance is beginning to address these issues by utilizing mobile payment histories, but these systems are still in their early stages of implementation.

In terms of product diversity, the housing finance products currently available are often unsuitable for informal workers, whose incomes tend to be irregular and unpredictable. Most widely available mortgage products are designed for individuals with stable, regular salaries, leaving informal workers without appropriate financing options.

To better serve informal workers, more flexible loan repayment options are needed, along with the introduction of community-based savings and lending schemes. Additionally, the rent-to-own (RTO) model could provide an effective pathway to homeownership for this segment of the population.

RTO is an alternative homeownership scheme in which tenants rent a property with the option to purchase it at the end of the lease term. During the rental period, part of the tenant's payments is allocated toward the eventual purchase of the home. This model is well-suited for informal workers, as it allows them to save toward homeownership while living in the property. At the same time, financial institutions can assess the tenant's ability to make regular payments.

Expanding access to housing finance for informal workers requires innovative solutions. Offering flexible payment schedules and implementing rent-to-own schemes can provide homeownership opportunities to populations that have been

underserved by traditional financial products. Such initiatives represent meaningful steps toward improving financial inclusion and fulfilling the mandate of Article 28H(1) of the 1945 Constitution, which guarantees that "everyone has the right to the prosperous life physically and mentally, to reside, and to obtain a good and healthy living environment, as well as the right to health care services."