

Questioning TAPERA and its effectiveness to solve our housing crisis problem

RYZ Property Consulting Internal View

The idea

On 20 May 2020, Government Regulation Number 25/2020 (GR 25/2020) was issued as the by-product of Law Number 4/2016 about *Tabungan Perumahan Rakyat* (TAPERA) which complement the Law Number 1/2011 about *Perumahan dan Kawasan Permukiman*. The creation of TAPERA is a clear manifestation of a welfare state concept which ingrained deep in Indonesia's 1945 Constitution. The principle of mutual aid is the primary idea behind TAPERA. In many ways, TAPERA is identical to the housing trust fund (HTF) in many other countries, although with some notable differences. One country that has been exemplary in its success to provide housings for its citizens through a similar scheme is our closest neighbor, Singapore.

The scheme

To be able to fulfill its intended role, TAPERA requires full cooperation and contribution from nearly every person who lives and works in Indonesia. The scope of TAPERA also includes foreign individuals if they live and work in Indonesia. The nature of TAPERA is compulsory, and the fund collection scheme is an exact copy of the *Badan Penyelenggara Jaminan Sosial* (BPJS) scheme.

TAPERA will collect about 3% of a worker's monthly gross salary, where 0.5% of it will be contributed by the employer. Like the BPJS *Ketenagakerjaan* scheme, the money taken is not gone, but rather 'forcibly' borrowed, and still belong to the rightful person. TAPERA intends to amass cheap long-term funds, so in turn, they can provide cheap mortgages for many of those who in need and eligible. Funds collected will be reinvested by TAPERA into some financial assets through third-party investment managers until it matures or called for redemption. To maintain their liquidity, TAPERA imposed a very long lock-up period to ensure they have enough reserve funds.

A person's fund will mature once they reach their retirement age of 58. If a person never used TAPERA's benefit, they may withdraw the funds plus the interest of the investment upon maturity. If otherwise, they may withdraw any remaining balance on their account. TAPERA scheme also includes various kinds of administrative penalties for late payment and non-compliance of their stakeholders.

How is it looks like in other countries?

The Academic Paper (*Naskah Akademik*) that was created to justify the creation of Law Number 4/2016 has mentioned a few countries as benchmarks such as France, Germany, China, Singapore, and Malaysia. The press release by *Badan Tabungan Perumahan Rakyat* (BP TAPERA) on 3 June 2020 also mentioned India and South Korea as benchmarks, although they are nowhere to be found in the Academic Paper. Besides, it is interesting to learn from another reference that the TAPERA scheme has an uncanny resemblance to Nigeria's National Housing Fund (NHF), especially on the part of 2.5% contribution collected from the workers.



Restaditya Harris
Partner
restaditya@ryzconsulting.com

RYZ Property Consulting is a collective of progressive, data-driven, diverse, and young professionals, who are passionate about real estate industry. We bring innovation, collaboration, and professionalism to deliver excellence in area of property consultancy services. Visit our www.ryzconsulting.com to learn more.

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. The information provided herein does not, and is not intended to, constitute formal advice. The readers should not rely on this information without seeking professional advice as applicable.

Questioning TAPERA and its effectiveness to solve our housing crisis problem

RYZ Property Consulting Internal View

As demonstrated in the Academic Paper, we can see the key features of the HTF in each country. France and Germany are similar in terms of their voluntary nature to the scheme. Meanwhile, China, Singapore, Malaysia, and Nigeria, as well as Hong Kong, chose to make it compulsory for all their domestic workers to enroll in the program. While some countries prefer to manage their program at the national level, China chose to manage its HTF at the province or city level, which also a common practice in the United States of America. Germany and China have been exceptional, where they allowed their HTF to be used in conjunction with commercial mortgages. Meantime, under some terms and conditions, Singapore, Malaysia, and China offer some flexibility to let their HTF members manage their funds so they can invest their money in any instrument to their liking.

About the source of funds, some states in the United States of America introduces a variety of creative ways to fund their HTF. For example, funds can be collected from real estate transfer taxes, origination fees, developer proffers, property taxes, rental deposits, hotel taxes, and many more. One thing clear to us is, it is possible not to rely on the worker's and company's contributions alone to fund the HTF program. Could this elaborate specifically targeted measures lead to the equitable solution that our society is looking for?

The probable upside effects of TAPERA

The introduction of TAPERA will be a life-changing moment for many people. Undoubtedly, it will help a lot of people to buy and own their house. The government can also sell their bonds and other debt financing instrument by utilizing TAPERA's fund, therefore reducing our reliance on foreign money and increasing our financial market depth. Moreover, the economic multiplier effect will be felt by many, especially the real estate industry and its supporting industries. Finally, the introduction of TAPERA will increase people's awareness of the importance of savings and investing, notably when it comes to purchasing a house.

The probable downside effects of TAPERA

Apart from the upside effect, TAPERA contains some potential downside effects too. As we can see from the implementation of the BPJS scheme, it is logical to ask whether we are ready to have another scheme with a similar method while the success of the previous scheme is questionable. On the other side, the BPJS *Ketenagakerjaan* scheme already provides housing benefits for their members and it could lead to double benefits and double contributions situation with TAPERA. Despite that, the creation of BP TAPERA and the use of third-party investment managers will incur unnecessary additional costs. More importantly, there is an inherent downside risk in any investment, and the third-party investment managers cannot be held liable for any loss if they have been following the proper investment procedure.

After that, comes the question about the opportunity loss that people will face should TAPERA fund performance is below the market in general. Since GR 25/2020 only offer people to choose conventional or sharia system, and it did not mention anything about if people can have some sort of flexibility regarding



Restaditya Harris
Partner
restaditya@ryzconsulting.com

RYZ Property Consulting is a collective of progressive, data-driven, diverse, and young professionals, who are passionate about real estate industry. We bring innovation, collaboration, and professionalism to deliver excellence in area of property consultancy services. Visit our www.ryzconsulting.com to learn more.

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. The information provided herein does not, and is not intended to, constitute formal advice. The readers should not rely on this information without seeking professional advice as applicable.

Questioning TAPERA and its effectiveness to solve our housing crisis problem

RYZ Property Consulting Internal View

where they want to invest their money, it is very likely that TAPERA will face stronger resistance from people thus threatening their ability to gather funds. A circumstance which is amplified by the fact that in the short term, TAPERA is an additional cost to both workers and companies on top of the existing BPJS contributions and could reduce the people's purchasing power.

Upon the implementation of the TAPERA scheme, vague eligibility criteria will hinder the scheme to reach its goal to solve the housing affordability for those who in need. While TAPERA original intention is to facilitate the informal and freelance workers as well, we doubted if it will be an immediate success. As a part of their procedure, TAPERA is using the conventional bank's system to assess the creditworthiness of the applicants. However, under the current regime, informal and freelance workers are at a great disadvantage since we do not have a robust credit rating system, thus may impede their mortgage application.

It is very unfortunate that the Academic Paper used as justification for the creation of this TAPERA scheme does not clearly demonstrate the pro and cons of the suggested scheme based on the lesson learned from the other countries. One of the references used in the Academic Paper is from Chen and Wu (2006), which ironically highlighted China's failure with their Housing Provident Fund (HPF), and even suggested it as inequitable and inefficient. Therefore, it is imperative for us to reexamine and questioning the TAPERA scheme to mitigate all potential problems and ensure it can solve our housing problem.

The 'real' problem

At the onset, TAPERA was created to solve the homeownership problem, but will it really solve our 'housing crisis' problem? To understand the fundamental of our housing crisis problem, perhaps we should have a look as far as the concept of human rights itself. Human rights have been stated in our 1945 Constitution and later emphasized in Law Number 39/1999 about Human Rights. Article 40 of Law Number 39/1999 says: "Everyone has the right to a place to live and the right to an adequate standard of living." As we know, both Laws are providing a legal basis and guiding principles for TAPERA.

Based on the above, we are intrigued to say this: both Laws only mentioned that people have the right to a place to live, but they never mentioned whether that place should be owned, or not. For all we know, it could be just rented, and the human rights aspect can be satisfied too. This is the flaw in the very principle of our approach to solving the housing crisis problem in the country, we neglect people who live in rented houses as well as those who live in multi-family houses. Not only to TAPERA, but this fundamental flaw also applies to nearly every solution that the government has ever created to solve the housing crisis in Indonesia.

According to GR 25/2020, it seems that TAPERA does not provide any assistance for people renting their homes, but instead reducing their purchasing power even more by making it compulsory to contribute to TAPERA scheme. In a simple manner, we can conclude that unlike the healthcare system, people do have



Restaditya Harris
Partner
restaditya@ryzconsulting.com

RYZ Property Consulting is a collective of progressive, data-driven, diverse, and young professionals, who are passionate about real estate industry. We bring innovation, collaboration, and professionalism to deliver excellence in area of property consultancy services. Visit our www.ryzconsulting.com to learn more.

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. The information provided herein does not, and is not intended to, constitute formal advice. The readers should not rely on this information without seeking professional advice as applicable.

Questioning TAPERA and its effectiveness to solve our housing crisis problem

RYZ Property Consulting Internal View

choices and varying needs or requirements when it comes to housing. Therefore, any solutions to housing crisis problems such as TAPERA should really consider that kind of situation.

Furthermore, the housing backlog number that is used as the justification for many housing-related programs still lacks in clarity if they exclude people who live in rented or multi-family houses. The unclarity of the housing backlog number raises another issue about the actual houses needs to be built, and finally leads to a series of final question about the numbers' accuracy in TAPERA's scheme. For example, do TAPERA really need a 3% contribution? How much money will it raise? How many houses can it build in a year? How much money needed annually to sustainably maintain TAPERA's capabilities to provide a cheap mortgage for future generations to come?

On the side note, the success of the *Fasilitas Likuiditas Pembiayaan Perumahan (FLPP)* and One Million House program should be evaluated carefully. The success of the program, especially about the actual owner-occupier data of the program should be examined quantitatively and qualitatively to see whether the program has been a success or not. Moreover, issues surrounding the eligibility criteria should be reconsidered if the TAPERA scheme wants to provide solutions for a wider group of people. As we understand it, the housing crisis problem happens across the different social structures, not only in the lower-income group but also in the middle-income group. TAPERA's stakeholders must also be aware that cheap credit will induce greater demand and could lead to inflation, which in turn impacts the housing prices as well. This notion is particularly true if the fundamental issues around the housing supply side have not yet addressed and solved properly.

Ways forward

There are no immediate retreat options from the GR 25/2020 and Law Number 4/2016; therefore, we must go forward and make changes where and when it is needed. As a start, we propose that the upcoming BP TAPERA regulation allow a hybrid funding mechanism with a commercial mortgage to bridge any gaps between TAPERA's credit allowance and the housing price. The hybrid funding will be most likely feasible to be implemented for those who earn above the current maximum eligible salary limit of IDR 8 million and up to a certain upper limit.

Additionally, with certain terms and conditions, BP TAPERA can introduce flexibility to let people choose their preferred financial asset to invest their fund, and not only a matter of choosing between conventional and sharia system. By doing so, people can actively control their long-term investment with TAPERA, and more importantly, they will feel being included, thus increasing the chances that they will be supportive of this scheme in the long run.

In the long term, the government might want to amend the laws and regulations to enable TAPERA to source the funds from any alternative ways. As this scheme is going forward, active management of the contribution tariff is needed to ensure that TAPERA extracts just the right amount of money needed from the people.



Restaditya Harris
Partner
restaditya@ryzconsulting.com

RYZ Property Consulting is a collective of progressive, data-driven, diverse, and young professionals, who are passionate about real estate industry. We bring innovation, collaboration, and professionalism to deliver excellence in area of property consultancy services. Visit our www.ryzconsulting.com to learn more.

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. The information provided herein does not, and is not intended to, constitute formal advice. The readers should not rely on this information without seeking professional advice as applicable.

Questioning TAPERA and its effectiveness to solve our housing crisis problem

RYZ Property Consulting Internal View

Integrating BP TAPERA with BPJS is also desirable to reduce the administrative burden on the government, people, and companies. The government may also wish to develop a more inclusive credit rating mechanism in the financial system to facilitate informal and freelance workers. Finally, it is the utmost importance that the government to ensure the quality and accuracy of their housing backlog data to make accurate solutions to our housing crisis problem.

Date published: 10 June 2020

References:

Chen, C., and Wu, Z.G. (2006). *China housing provident fund: inequitable and inefficient*. Proceeding of Chinese Research Institute of Construction Management International Symposium on Advancement of Construction Management and Real Estate.

Naskah Akademik Rancangan Undang-Undang Tentang Tabungan Perumahan Rakyat (TAPERA)



Restaditya Harris
Partner
restaditya@ryzconsulting.com

RYZ Property Consulting is a collective of progressive, data-driven, diverse, and young professionals, who are passionate about real estate industry. We bring innovation, collaboration, and professionalism to deliver excellence in area of property consultancy services. Visit our www.ryzconsulting.com to learn more.

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. The information provided herein does not, and is not intended to, constitute formal advice. The readers should not rely on this information without seeking professional advice as applicable.