LOW INCOME HOUSING PROVISION IN MALAYSIA: THE ROLE OF STATE AND MARKET

By

Syafiee Shuid
PhD Researcher
School of City and Regional Planning
Cardiff University
Wales

Abstract

The debates on the role of state and market in housing provision in East Asia countries are still consider new. There is still huge gap in the literatures particularly in the low income housing segment. Therefore, the paper aims to examine the role of state and market in housing provision in Malaysia especially for the low income housing. Based on the study in many East Asian countries, there are tendencies for the state to move towards market-oriented in the housing provision. Situation in Malaysia is rather different since the state still actively involved in housing provision and allocation of low income housing. The paper will provide justifications of state continue involvement in the low income housing provision in Malaysia.

1.0 INTRODUCTION

During the 1970s and 1980s, it became increasingly clear that government could not maintains role as direct producers of housing and that this role must necessarily be performed by the formal or informal private sector (World Bank 1993, pp. 19). Government should played role as an enabler, facilitator and to encourage housing activities by the private sector. The role of the state and market has been at the centre of the housing policy debate, while low-income housing is of long term concern to every country particularly in Asia as described by Zhang and Sheng (2002, pp.1). The traditional conceptualization of state and market has been under increasing strain and since over the last two decades the conventional distinction between the state and market has been challenge.

The role of state has been shifting from control to influence and from direct provision to steering and enabling. The role of the private sector and non-governmental organizations has been extended and increasing government relying on the private sector to provide public housing services as described by World Bank (1993). Government was advised to abandon their earlier role as producers of housing and to adopt an enabling role of managing the housing sector as a whole. Most countries now rely on a public policy approach that augments and complements market processes rather than substitute for them. Recent research on the effect of housing policy on the supply of housing has provided empirical support for the view that having public sector enable rather than control or displace the private sector is essential to improving affordability of housing in general and thus for low income groups as well (Buckley & Kalarickel, 2005 pp. 240).

Researcher particularly from Asian countries such as Zhu (2005, pp. 4) argues without the participation of the state, the market initiated provision of low-income housing proves to be sub-standard. The last few decades have seen excessive urban growth in developing countries. That growth has largely overwhelmed the financial and administrative capacities of the governments to provide adequate housing especially for low income households (Zhang & Sheng, 2002 pp. 2). Experiences around the world indicate neither the state nor the market alone can provide a satisfactory solution to the housing problem. Lesson from developed countries recalled that the progress has achieved through a concerted effort by market, state and society to provide housing.
However, the Asian countries had unique characteristics of the institutional arrangements associated with national and cultural factors. Study on the role of state and market in few Asian countries shows mix result. China, India, Thailand and Taiwan demonstrate the increasing role of the market. Government in those countries is shifting its role from one of direct intervention, control and order to that of enabling and steering. The government restricts its role to that of providing assistance to low income group. Countries like China will undergo more radical changes, challenging the established housing systems and moving towards a more market-orientated approach.

Malaysia, unlike many other Asian countries as described by Zhang and Sheng is an exception to broad-based trend of market-orientated reform since there is a strong reluctance to relax state control and promote market mechanisms. The state maintains its tradition of strong intervention in housing, providing housing not only for low income groups but also for medium and high-income groups. It even restricts the distribution of low income housing developed by the private sector. The conflict and confusion over the role of state and market is undermining the competitiveness of the housing sector and may be blame for it under performance. The excessive state control over housing hinders the development of the market, while the potential of the private sector’s capacity is under utilized (Agus, 2002 pp. 49).

This paper will discuss the role of state and market in housing provision in general and low income housing in particular. It also will provide discussion on the trend of housing development in Malaysia whether going towards more neo-liberalism (market oriented) or state centric. The paper will also provide justifications of state continue involvement in the low income housing provision in Malaysia.

2.0 MALAYSIA IN GENERAL

Federation of Malaysia consists of 14 states including Federal Territory. Covers an area of 329,750 sq. km (refer to Map 1) and divided into 2 main areas of Peninsular of Malaysia and Sarawak/Sabah (Northern Borneo). Based on the latest population census in 2000, population of Malaysia is at 20,966,284 people with 81.6 % live in Peninsular of Malaysia. Most population concentrated along the west coast of peninsular of Malaysia and consists of 3 major races Malay/Bumiputera (65.7%), Chinese (25.6%) and Indians (7.5%).

In term of administration, it based on three-tier level of government known as Federal, State and District (total of 14 states and 136 districts). Meanwhile, local authorities come under state government jurisdiction. The Federal Constitutions clearly outlined the responsibility and division of power between the Federal and State government. Although most responsibilities lies within federal government jurisdiction such as education, health and security, but state government still have absolute power and control over land matters including housing. Thus, complicate the housing provision system in Malaysia.

Rapid economic growth at the end of 1980s and early 1990s has transformed the country into second generation of Newly Industrializing Countries (NICs) in Asia (Trezzani, 2001 pp. 325). During 1988 – 1997 periods, annual growth rate of Malaysia Growth Domestic Product (GDP) averaged more than 8 percent and much of this economic progress was credited to the unique Malaysian development model (Pillay, 2000 pp.203). Thus, the housing scenario has changed significantly since 1990s towards adequate house for all and better quality living condition.
3.0 HOUSING PROVISION SYSTEM IN MALAYSIA

Malaysian Government, since independence in 1957 from British has always encouraged its people to own their house. Therefore, housing in Malaysia has been focusing on consumers either through state or market provision (refer to Figure 1). Uniquely in Malaysia and as many other East Asian countries, homeownership is part of government strategies to eradicate poverty and redistribute income particularly among the low income people.

a) Role of State

State involvement in housing can be divided into two levels, the federal and state governments. Federal government, mainly through Ministry of Housing and Local Government Malaysia (MHLG) is responsible in formulating policies and guidelines for housing provision. National Housing Department (NHD), a department under MHLG is directly responsible to provide housing for the low income people throughout the country with cooperation from the state governments. Other federal government departments and agencies also involved in housing provision particularly quarters for its staffs with no or minimum rental charges. Meanwhile government statutory bodies such as Urban Development Authority (UDA) or Regional Development Agencies (RDA) also provide housing but targeted to special groups or development in specific areas.

The state government will cooperate with federal government on the implementation of the low cost housing projects in the state. According to the Federal Constitution of Malaysia, land and housing matters is under state responsibility, therefore the state will be responsible to identify suitable location for the low cost houses projects. Federal government then will provide grants or loan and technical expertise to undertake the development. State government also involved in housing through state economic and development corporations (SEDC) which operating just like private housing developers but at the same time to fulfill objectives outlined by the state. They built houses for sale and expected to make profit from the development.
Since Seventh Malaysia Plan (1996-2000), the government begin the programs to built houses for the hard core poor those people not entitle even to purchase low cost houses (income less than RM350 per month) mainly for people in the rural areas. State government through district offices will be responsible to identify the group and built the houses. Interestingly, there is limited involvement of local authorities in housing provision in Malaysia except by Kuala Lumpur City Hall KLCH).

**Figure 1: Housing Provision System in Malaysia**

b) **Roles of Market**

In the early 1982 the Malaysian government introduced privatization policy to encourage private sector involvement in national development including housing sector. This is in line with World Bank enabling strategy for public sector support of private market activity in housing provision in developing countries (World Bank, 1988). From 1990 to December 2005, the private sector alone has completed 2,469,816 units various types of houses throughout the country (Ministry of Housing and Local Government Malaysia, 2006). Malaysian government effort to overcome squatter problem under ‘Zero Squatter Programs by 2005’ since 1999 significantly reducing number of residents from 409,792 people in 1999 to only 102,045 people December 2005 (Ministry of Housing and Local Government Malaysia, 2006). With continuous housing programs and construction of new low cost houses, it was believe the problem will be resolved in the near future. Privatization policy adopted by government since 1982 further enhance role of private sector in housing provision in the country. But it not come cheaply as more and more new laws and regulations introduced by the government to regulate the housing industry as well to improve quality of houses produced. This paper does not intend to discuss the issue since many studies has been done including by Malpezzi & Mayo, 1997 and Bertaud & Malpezzi, 2001.
Private housing developers in Malaysia as described by Johnstone (1979, pp.115), generally provide the organization, entrepreneurial skills and capital required for residential development, including the purchase, conversion and subdivision of land, but actual construction is undertaken by firms working on contract tendered by both by housing developers and public sector. He added many development companies belong to a group of companies with diversified interest in which invested capital, much of which originates in agricultural and mining sectors since the large companies tend to have better access to finance than other kinds of companies.

Private housing developers have been involved actively in housing provision in Malaysia especially for high and middle income people since independence. Since Fifth Malaysia Plan (1980-1985), the private developers had played bigger role in low income housing provision in line with government privatization policy introduced in 1982. Housing developers in Malaysia governed by the Housing Development (Control and Licensing) Act, 1966 (Act 118) (Amendment 2002). Therefore, require all private housing developers who undertake housing development comprise more than four units of houses to obtained license from Ministry of Housing and Local Government Malaysia prior selling the unit. The Act gives power to the government to scrutinize housing developer’s background (mainly in term of financial and technical) and monitoring construction progress.

Licensing and issuance of Advertising Permits to housing developers is needed due to ‘Sell and then Built Concept’ applied by Malaysian housing market. Since housing developers who built and then sell the unit are not require to obtain the license by the law. This is to ensure only financially strong and technically capable developers involved in the housing industry. Currently there are more than 1,846 private housing developers registered with Ministry of Housing and Local Government Malaysia through Division of Licensing and Advisory Services. Meanwhile, monitoring and enforcement of housing projects oversee by Monitoring and Enforcement Division. Private housing developers also subject to numerous housing laws and regulations in conducting housing developments.

The source of funds for land and housing construction normally come from private financial institution and banks who offer not only loan for land purchase but also bridging financing to undertake construction works. Meanwhile, lands for housing development normally available from company’s own land bank or direct purchase from open market. Housing developers also requested the state government to acquire private land under the Land Acquisition Act 1960 or undertake joint venture development with the landowners. Joint venture development between the housing developers and state government or local authorities also undertaken by housing developers since the state can provide land and they provide capital and expertise.

In 1990s many of the country largest plantation companies diversified their activities into property development and thus provide more agriculture lands for conversion into housing development. Private housing developers are also subject to 30% low cost housing units quota imposed by the government since 1982. Other provider includes housing cooperative, private corporations and individuals. Table 1 shows the share of public and private sector housing provision in Malaysia since 1996 -2006. Data from 1971 – 2005 also shown increasing reliance of government to private sector to built houses for people of Malaysia (refer to chart 2).

Interesting to note, the State in Malaysia not only involved in direct housing provision but also control the allocation of housing especially to the low income people. All buyers intended to purchase low cost housing in Malaysia is required to register in the Computerized Open Registration System (ORS) introduced by the government since 1997 to check the eligibility. This not only applied to the government projects but also houses built by the private housing developers.
Table 1: Housing Provision by Public and Private Sector from Seventh to Ninth Malaysia Plan

<table>
<thead>
<tr>
<th>Sector</th>
<th>Public 7&lt;sup&gt;th&lt;/sup&gt; Malaysia Plan (1996-2000)</th>
<th>8&lt;sup&gt;th&lt;/sup&gt; Malaysia Plan (2001-2005)</th>
<th>9&lt;sup&gt;th&lt;/sup&gt; Malaysia Plan (2006-2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>%</td>
<td>Achieved</td>
</tr>
<tr>
<td>Hard Core Poor</td>
<td>35,000</td>
<td>15.2</td>
<td>17,229</td>
</tr>
<tr>
<td>Low Cost</td>
<td>60,000</td>
<td>26.1</td>
<td>60,999</td>
</tr>
<tr>
<td>Low Med. Cost</td>
<td>110,000</td>
<td>47.8</td>
<td>18,782</td>
</tr>
<tr>
<td>Medium Cost</td>
<td>20,000</td>
<td>8.7</td>
<td>21,748</td>
</tr>
<tr>
<td>High Cost</td>
<td>5,000</td>
<td>2.2</td>
<td>2,866</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>230,000</td>
<td>100</td>
<td>121,624</td>
</tr>
<tr>
<td>Share of Supply</td>
<td></td>
<td>29.0</td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Cost</td>
<td>140,000</td>
<td>24.6</td>
<td>129,598</td>
</tr>
<tr>
<td>Low Med. Cost</td>
<td>240,000</td>
<td>42.1</td>
<td>53,800</td>
</tr>
<tr>
<td>Medium Cost</td>
<td>110,000</td>
<td>19.3</td>
<td>206,208</td>
</tr>
<tr>
<td>High Cost</td>
<td>80,000</td>
<td>14.0</td>
<td>348,250</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>570,000</td>
<td>100</td>
<td>737,856</td>
</tr>
<tr>
<td>Share of Supply</td>
<td></td>
<td>71.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>800,000</td>
<td></td>
<td>859,480</td>
</tr>
</tbody>
</table>

Source: Various Five Years Malaysia Plan

**Note:**
1. Low cost housing price below RM42,000 per unit
2. Low medium cost housing price RM42,001 – RM80,000 per unit
3. Medium cost housing price RM80,001 – RM150,000 per unit
4. High cost housing price RM150,000 and above per unit

RM1 = £0.143
Source: Ministry of Housing and Local Government Malaysia, 2001
4.0 ROLE OF STATE AND MARKET IN LOW INCOME HOUSING PROVISION

Until mid 1980s the government still failed to overcome most of housing issues particularly for the low income people (Agus, 1986, p.1). To overcome the problem, in 1981 Malaysian government implemented policy in which makes it compulsory to private housing developers to allocate at least 30% low cost houses in their housing projects at the ceiling price of RM25,000 per unit regardless of projects location. The targeted for people with household income less than RM750 per month. The policy implementation marked a significant change in low income housing provision in Malaysia. Three ideological justifications were officially given by government as follows (Sirat et al. 1999, p. 75):

a) Government recognition that the private sector housing industry has attained maturity and that it has the efficiency, capability and capacity to be dominant producers of adequate and affordable homes for the community.

b) To achieve economic of scale, the private sector should be able to come up with more innovative designs and technologies.

c) Private sector participation would allay any accusation of the government posing unfair competition through its own involvement in housing.

In June 1998, the federal government introduced the new policy for low cost housing as shown in Table 2. This revision was done by based on the study conducted by the Ministry of Housing and Local Government Malaysia in 1998 after considering the increased construction and land cost. The guideline also includes regulation to stop low cost house buyers from selling the house within 10 years after purchase. Nevertheless, the 30% low cost houses quota in every housing development projects still remained.

Within 35 years period 1971 to 2005) a total of 1,047,861 units of low cost house were built by public and private sectors in Malaysia. Nevertheless, the figure only represents 55% from the total number of low cost houses planned by government (refer to Table 1). Thus, the achievement of public and private sector in low income housing provision in Malaysia still not satisfactory despite numerous programs initiated by government and regulations imposed to private sector to build low cost houses.
Table 2: Four-tier pricing for low cost houses

<table>
<thead>
<tr>
<th>Cost per Unit (RM)</th>
<th>Location (land cost per sq. meter)</th>
<th>Income Group (RM)</th>
<th>Types of House</th>
</tr>
</thead>
<tbody>
<tr>
<td>42,000</td>
<td>Cities and major towns (RM45 and above)</td>
<td>1,200 to 1,500</td>
<td>More than 5-storey flat</td>
</tr>
<tr>
<td>35,000</td>
<td>Major towns and fringes (RM15 to RM44)</td>
<td>1,000 to 1,350</td>
<td>5-storey flat</td>
</tr>
<tr>
<td>30,000</td>
<td>Small towns (RM45 and above)</td>
<td>800 to 1,200</td>
<td>Terrace and cluster</td>
</tr>
<tr>
<td>25,000</td>
<td>Cities and major towns (RM45 and above)</td>
<td>750 to 1,000</td>
<td>Terrace and cluster</td>
</tr>
</tbody>
</table>

Source: National Housing Department Malaysia, 2001

Note: The minimum floor space increase to 650 Sq. ft. with 3 bedrooms per unit.
RM1 = £0.143

Overall, private sector achievement is much better than public sector although they only began active involvement after 1980 with total 546,563 units completed as compared to public sector at only 501,298 units completed. Private sector also managed to complete 64% of total unit planned as compared only 48% by the public sector. Since Sixth Malaysia Plan (1991), the private sector steadily improved its performance and surpassed public sector in term of completed units.

During the rapid economic growth in the early to mid 1990s the private sector actively built low cost houses and almost achieved the total number of unit targeted. Reduce roles of government during this period also in line with the World Bank effort for government to play the enabling role in housing provision including low income housing. Interestingly to note during the economic slowdown periods in 1986-1987 and after 1997 economic crisis, the government began to increase its role in low income housing provision. Understandably the objective of Malaysian government is to stimulate the economy after the crisis.

Interestingly in Malaysia, state involvement in low income housing allocation either built by public or private sectors. Unlike in many Western European countries, the control of allocation of low income housing is created for rental social housing particularly by the local authorities or in the case of Singapore or Hong Kong, the public housing sell and built by the government. Uniquely in Malaysia, the state also controlled the allocation of low income housing built by the private sector.

In January 1996, the federal government through Ministry of Housing and Local Government Malaysia issue the Guidelines for Selection of Low Cost House Buyers under The Computerized Open Registration System (ORS). The ORS aims to standardized the policies and selection criteria for buyers of low cost houses developed by the public and private sectors. The system also incorporates systematic and effective measures for the buying and selling of low cost houses. The computerized ORS represents part of the efforts by the MHLG to achieve its objective of ensuring only the targeted and eligible buyers will be able to buy and eventually own low cost houses in Malaysia (Rashid, et al 2005, p. 299). Previously most state government developed and maintained individuals system of registration and allocation of low cost house buyers.
Table 2: Low Cost Housing Achievement by Public and Private Sector in Malaysia (1971-2005)

<table>
<thead>
<tr>
<th>Malaysia Plan</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Planned</td>
<td>Completed %</td>
<td>Planned</td>
</tr>
<tr>
<td>Second Malaysia Plan</td>
<td>44,000</td>
<td>13,244</td>
<td>30</td>
</tr>
<tr>
<td>(1971-1975)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Malaysia Plan</td>
<td>73,500</td>
<td>26,250</td>
<td>36</td>
</tr>
<tr>
<td>(1976-1980)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth Malaysia Plan</td>
<td>176,500</td>
<td>71,300</td>
<td>40</td>
</tr>
<tr>
<td>(1981-1985)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth Malaysia Plan</td>
<td>398,570</td>
<td>201,900</td>
<td>51</td>
</tr>
<tr>
<td>(1986-1990)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sixth Malaysia Plan</td>
<td>126,800</td>
<td>46,497</td>
<td>37</td>
</tr>
<tr>
<td>Seventh Malaysia Plan</td>
<td>60,000</td>
<td>60,999</td>
<td>102</td>
</tr>
<tr>
<td>(1996-2000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eight Malaysia Plan</td>
<td>175,000</td>
<td>81,108</td>
<td>46</td>
</tr>
<tr>
<td>(2001-2005)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,054,370</td>
<td>501,298</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Five Years Malaysia Plan (various years)

Note: The official statistic for low cost housing in Malaysia only available after 1970 and data for private sector achievement in low cost housing provision only available after 1980.

The ORS is a mechanism employed by the MHLG in the processes and procedures associated with the buying and owning of low cost houses by eligible Malaysian citizens. The main purposes of the ORS are as follow:-

1. To provide a countrywide “waiting list” of eligible low cost house buyers;
2. To standardized the criteria for the selection of eligible buyers that are considered qualified and therefore can be “short listed”;
3. To avoid misconduct in the selection of eligible low cost house buyers
4. To ensure that only eligible buyers will be entitled to buy and subsequently own low cost houses and that no buyers shall be allowed to purchase more than one unit of low cost house; and
5. To make the selection process are more transparent.

The ORS reflects objectivity in its implementation. Data on the applicants are sorted by computers and on the basis of their incomes, dependence, age and their housing needs; numerical scores are assigned to each applicant. Priority will be given to eligible applicants with the highest points to buy based on 'Waiting List System'.
According to MHLG full implementation of the ORS throughout Malaysia may derive the following benefits:

1. Data on the potential and eligible applicants and supplies of low cost housing stocks can be compiled by relevant authorities in a more systematic and comprehensive manner;
2. The processes can be monitored with relative ease;
3. Evaluation of backgrounds of the applicants and selection of eligible buyers can be done within a shorter time frame; and
4. The ORS affords a more transparent and fair distribution of low cost houses.

5.0 CONCLUSION

State intervention in housing can be categorized into two main areas, the direct housing provision and regulations imposed to private housing developers. State through its agencies built and allocated the housing direct to the buyers. Meanwhile state imposed various regulations to the private developers involved in housing sector particularly ceiling price at RM42,000 for low cost housing, thirty percent low cost housing units quota in every housing projects and to obtain list of eligible buyers for low cost housing from the Computerized Open Registration System data base.

Malaysia government still maintained its role in low income housing provision and allocation due to several reasons as follows:-

a) To ensure the low income people have access to low cost housing especially if the market failed to deliver (i.e. during economic crisis).
b) To achieve government social and economic objectives such as New Economic Policy (i.e. to increase home ownership among the Malays) and squatter elimination programs.
c) To stimulate the economy during the economic crisis since the construction sector largely depend on housing industry.
d) The low income housing segment still important aspect in politic at local, state and national level. Thus government must be seen sensitive toward housing need for the poor and continuously involved in low cost housing provision.
e) Fair and free from corruption allocation system is important not only for the house buyers but among the private housing developers. Both buyers and developers have long complaining about corrupted system of allocation in the past. Thus government under the Prime Minister Abdullah Badawi, are worked hard to improve government image with corruption in past including in housing allocation system.

In conclusion, the Malaysian housing still cannot rely fully to the market due to reason listed above, thus confirmed outcome of the study by Zhang & Sheng 2002 and Agus 2002. There are mix approach used in housing development in Malaysia particularly reliance on the private sector to built medium and high income housing but at the same time to provide low cost housing. The price control by government and most regulations imposed to private sector mainly focused on low income housing. Therefore, private housing developers are free to decide prices for medium and high cost housing. Meanwhile, government focused mainly in low income housing and housing for civil servants.
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