

FEATURE ARTICLE 4:

Special Low Cost Housing Funds

I. Introduction

The Government has always given priority to housing development programme with a view to ensuring that all Malaysians, particularly the low income group, have access to adequate, affordable and quality houses. In consonance with this objective, the public and the private sectors have built 647,460 houses during the Sixth Malaysia Plan (1991-1995) period, of which 222,672 houses or about a third, were low cost. In order to accelerate the provision of low-cost houses, the Government established three special funds to ease the housing problem faced by the lower income group. The purpose of this article is to highlight the operation of these funds and assess their performance thus far.

II. Special Low Cost Housing Funds

The three special funds that were set up were:-

- (a) RM600 Million Housing Fund for Hardcore Poor;
- (b) Fund to Accelerate the Construction of Low-Cost Houses (FACLCH); and
- (c) Low-Cost Housing Revolving Development Fund (LCHRDF).

(a) RM600 Million Housing Fund for Hardcore Poor

Urban migration has placed strain on housing needs, particularly in urban centres of Kuala Lumpur, Penang and Johor Bahru. The strain has also led to the mushrooming of squatter settlements. As a measure to reduce the number of squatters, as well as providing housing for the urban hard core poor, the RM600 Million Housing Fund for Hardcore Poor was established. The RM600 million fund for this scheme was sourced from the Federal Government, which contributed a sum of RM300 million while the remainder was sourced from the financial institutions and other corporations from the private sector. Under the Scheme, grants are given to State Governments or City Council (in the case of Kuala Lumpur) to build low-cost high density flats for rental up to a period of five years, at a very nominal rate of RM120 per month. In Kuala Lumpur, the rental is slightly higher at RM124 per month. The rental

of these units is to allow the hard core poor to improve their financial position so that they can purchase houses of their own at a later stage.

As shown in **Table I**, 27 projects involving 14,721 units of low-cost flats valued at RM573.26 million have been approved. Of the total number of units, more than half are in urban areas, in particular Kuala Lumpur (35.8%), Johor Bahru (10.2%) and Penang (9.8%). In terms of implementation progress, work on all the projects has started and is currently at different stages of completion. To date, three projects have been completed, benefitting 865 families, as shown in **Table II**.

(b) Fund to Accelerate the Construction of Low-Cost Houses (FACLCH)

While units built under the RM600 Million Housing Fund for Hardcore Poor are for rent, the Fund to Accelerate the Construction of Low-Cost Houses (FACLCH) provides attractive funding to housing developers to undertake construction of low-cost houses. The Fund started with an allocation of RM300 million when it was set up in the 1994 Budget. It was subsequently increased to RM500 million. From this Fund, loans are provided to commercial banks at an interest rate of 0.5% which in turn are extended to developers at a

Table I: Amount Approved For RM600 Million Housing Fund for Hardcore Poor as of 30 September 1996

State	No. Of Projects	No. Of Units	%	Amount Approved (RM million)
Kuala Lumpur	7	5,273	35.8	225.20
Johor	1	1,502	10.2	48.45
Sabah	2	1,462	9.9	50.85
Penang	2	1,441	9.8	61.73
Selangor	1	1,152	7.8	49.43
Terengganu	4	955	6.5	37.35
Perak	2	868	5.9	30.46
Kedah	3	758	5.1	22.43
Malacca	2	720	4.9	26.20
Sarawak	1	250	1.7	10.00
N. Sembilan	1	190	1.3	5.00
Perlis	1	150	1.0	6.16
Total	27	14,721	100.0	573.26

Source: Ministry of Housing and Local Government.

**Table IV: Properties Planned Under Low Cost Revolving
Development Fund (LCHRDF)
as of August 31 1996**

State	No. Of Projects	No. Of Units				Percentage of Medium and Low Cost Units (%)	Total Sales Value (RM Million)
		Commercial Properties	High Cost	Medium Cost	Low Cost		
Selangor	14	3,143	2,604	15,814	22,050	86.8	1,928
Penang	12	1,310	2,259	10,933	9,008	84.8	943
Johore	3	698	1,804	8,034	11,257	88.5	924
Sabah	1	84	328	420	746	73.8	111
Total	30	5,235	6,995	35,201	43,061	86.4	3,906

Source: TPPT Sdn. Bhd.

III. Open Registration System

In order to ensure that low-cost houses are allocated to eligible buyers, the Government has started an open registration system. Under this system, eligible applicants will have to register with the respective State governments where they wish to rent or purchase low-cost flats or houses. For low-cost flats to be rented out, only those with household income of RM500 per month and below are eligible for consideration. In Kuala Lumpur and other larger towns, because of the generally higher cost of living, the eligible household income has been raised to a higher level. The eligibility of low-cost home buyers is also based on the selection of eligible buyers through the open registration system.

Under the open registration system, applicants will have to furnish information relating to, among others, their age, household income, family size and place of work. Applicants whose homes have been demolished to make way for development or destroyed due to natural disasters will be given greater priority. These information will determine the ranking of applicants. Short-listed applicants are interviewed to verify the information submitted by them and, in some cases, visits to applicants' homes are also made. This thorough process of open registration, interview and verification on the ground are to ensure that only genuine applicants who are in need of housing will be provided with low-cost housing. It is envisaged that the registration system in the various states will be integrated into one central registry to ensure that low-cost housing really reach the target group.

Services Sector

With growth in the primary and the secondary sectors of the economy as well as external trade moderating, value added in the **services sector** is expected to expand at a slightly slower pace of 8.9% (1995: 9.4%). The impetus to growth in the services sector in 1996, as in recent years, can be attributed to the Government's promotional efforts to develop the services sector with the view to reducing the deficit in the services account of the balance of payments, overcoming infrastructural constraints and preparing the services sector for the imminent further liberalisation of the sector to global competition in line with Malaysia's commitments under the General Agreement on Trade in Services (GATS). These efforts have induced capacity expansion and modernisation of key services sub-sectors which include land, sea, and air transportation, telecommunications, financial services (including insurance and reinsurance), tourism, education and professional business services. With the value added of the services sector envisaged to expand at a rate higher than the average real GDP growth in 1996, its contribution to real GDP is expected to increase from 44.3% in 1995 to 44.6% of total GDP.

The sub-sectors within the services sector that are expected to record relatively stronger growth rates are transport, storage and communication; electricity, gas and water; finance, insurance, real-estate and business services as well as wholesale, retail trade, hotels and restaurants. The growth rates of the various sub-sectors and their respective contributions to GDP are shown in Table 4.12.

Despite growing by more than 9% in recent years, the services sector is still relatively inward-looking and depends on the primary and secondary sectors of the economy for growth. It still lacks the capacity to export services and substitute imported services, in particular with regard to freight and insurance, education and professional services, including financial services. Consequently, its share to real GDP has stagnated at about 44% in recent years, far below the 60-70% in developed economies. There is still much scope for expansion, in view of the large services imports

Table 4.12

Services Sector Performance in Constant 1978 Prices %

	Share of GDP		Annual Growth Rate	
	1995	1996 ^a	1995	1996 ^a
Electricity, gas and water	2.3	2.4	13.1	12.1
Transport, storage and communication	7.4	7.7	13.9	13.2
Wholesale and retail trade, hotels and restaurants	12.3	12.4	10.1	9.5
Finance, insurance, real estate and business	10.8	10.9	10.5	10.0
Government services	9.5	9.1	3.9	4.0
Other services	2.1	2.0	7.8	4.5
TOTAL	44.3	44.6	9.4	8.9
^a estimate				

and expanding market for services in trade in the region. Vigorous efforts are, therefore, being made to develop the services sector into a vibrant foreign exchange generating industry as well as a catalyst for future economic growth.

Transport, storage and communications sub-sector is envisaged to continue to record double-digit growth of 13.2% in 1996 (1995: 13.9%). Growth in this subsector has been strongly underpinned by continuous investment in recent years to improve, expand and modernise the land, sea and air transportation systems, including port development such as the West Port in Port Klang, and the telecommunications system. In terms of land transportation, the number of licenses issued to commercial vehicles registered with the Road Transport Department increased by 9.0% during the first eight months of 1996 (January - August 1995: 10.9%). In terms of air transport, the national carrier, Malaysia Airline System Berhad (MAS) has by August 1996 expanded its services to over 104 destinations, of which 68 were international.

The railway services and development programmes continue to concentrate on increasing haulage capacity and enhancing operational safety for both freight and passenger services. Major projects undertaken include the electrical double track project, track rehabilitation and modernisation of the signalling and communications systems. With these upgrading programmes and the introduction of the commuter service, the passenger volume more than tripled to 9.1 million passengers during the first seven months of 1996 (January - July 1995: 2.85 million passengers). The growth rate in passenger revenue was 35.9% over the same period (January - July 1995: -3.8%). As for cargo handling, its growth was 3.3% over this period (January - July 1995: 6.7%). The Government has also proposed the construction of double-tracking railway line from Rawang to Ipoh, costing about RM1.8 billion. In addition, the Light Rail Transit (LRT) from Ampang to Jalan Sultan Ismail has been completed and trial services have started since August 1996. The LRT System 2 is under construction and phase 1 of the project will be completed in 1998.

Existing port facilities are being upgraded and developed to meet demand from increased trade. Total tonnage of cargo handled by the eight major ports during the first seven months of 1996 increased by 18.5% (January-July 1995: 11.4%). This increase is mainly attributed to containerised and liquid bulk cargo. Meanwhile, the volume of containers handled through these ports moderated by 17.6% in the first seven months of 1996 (January-July 1995: 20.5%).

Efforts to improve the efficiency and productivity of port facilities and also the clearance of cargo and ships at ports were undertaken with the full implementation of the Berth Appropriation Scheme, Advanced Immigration Clearance System (AICS), pre-customs clearance for container operations and the Electronic Data Interchange (EDI). In addition, the gazettement of the West Port of Port Klang as a free commercial zone will enhance the attractiveness of Port Klang as a transshipment centre.

With modernisation in the telecommunications sub-sector to improve efficiency and productivity in meeting growing demand, growth in this sub-

sector is expected to accelerate. Emphasis has now shifted from providing basic telephone lines to value-added services. Licences were issued to new operators to provide basic network, international gateway, public land mobile radio, satellite and Very Small Aperture Terminal (VSAT) services. In addition, paging, cellular and other value-added services were further liberalised to enhance competition and efficiency. During the first half of 1996, 3.5 million subscribers of Syarikat Telekom Malaysia Berhad received telephone services in the various categories.

In 1996, the telecommunications sector also saw the launching of Malaysia's first satellite, Measat 1, into space and the launching of the Multimedia Super Corridor (MSC). Measat 1 will further boost Malaysia's capability in the field of telecommunications and as recently announced, through the All Asia Television and Radio Company (Astro), Malaysians will have access to 23 TV and eight radio channels. The development of MSC will act as the catalyst in propelling Malaysia into the forefront of information technology advancements.

Value added of the **finance, insurance, real estate (including owner-occupied dwellings) and business services sub-sector** is estimated to expand moderately by 10% in 1996 (1995: 10.5%). The growth of this sub-sector has been driven by ample liquidity and strong credit expansion of the banking industry, improved performance of the insurance industry and higher turnover in the capital market in the first half of 1996. Loans and advances extended by the banking system rose by 16.1% during the first eight months of 1996 (January-August 1995: 17.1%). The services provided by the banking system have also widened in scope, as the two-tier regulatory system, which has been extended to merchant banks and finance companies in 1996, has enabled banking institutions which satisfy the minimum capital requirement and the criteria set under the CAMEL framework to undertake a wider array of banking activities and conduct certain aspects of their operations under a more liberal operating environment.

Encouraging growth is also envisaged in the insurance industry, driven by larger consumer base and capacity expansion, especially in reinsurance business. Total premium income for both the life and general insurance increased by 19.0% during the first half of 1996 (1995: 20.4%). With the passing of the Insurance Act 1996, policy holders will be accorded with greater protection as insurers will be required to enhance their financial position and operate within stipulated guidelines and principles. This could enable insurers to attract more policy holders. The performance of the Kuala Lumpur Stock Exchange improved during the first eight months of 1996 compared to the corresponding period of 1995. The volume and value of shares traded was 45.3 billion shares valued at RM294.3 billion in the first eight months of 1996, representing a significant increase of 33.4% in volume and 64.5% in value over the corresponding period of 1995. During the first eight months of 1996, the amount of funds raised through the capital market was RM20.4 billion, 64.2% higher than the corresponding period of 1995. Continuous policy support in terms of strengthening financial intermediation as well as liberalisation of the regulatory framework for the financial and capital market to develop Kuala Lumpur as a financial hub for the region will further enhance growth of the financial sector.

The real estate sector continues to enjoy brisk business during 1996 as investment in real estate as a form of hedging against inflation and capital preservation remains a favourite choice for both local and foreign investors. A total of 156,216 transactions valued at RM27.8 billion were registered during the first seven months of 1996, an increase of 10.7% and 31.6%, respectively compared to the same period of 1995. Reflecting the bullishness of the real estate sector is the 33.5% increase in net loans extended by the banking system to the real estate sub-sector during the first eight months of 1996 over the corresponding period of 1995.

Strong domestic consumer demand underpinned by higher disposable income and increased inflow of tourists continue to provide the main sources of growth for the **wholesale and retail trade, hotels and restaurants sub-sector**, which is expected to register a 9.5% growth in 1996 (1995:10.1%). Reflecting the moderate growth in the wholesale and retail trade are indicators such as food sales which increased by 11.2%, sales

of television sets by 1.7% and household purchases of refrigerators by 15% in January-July 1996 (January-July 1995:10.4%, 75.4% and 15.4%, respectively). Hotels and restaurant business is envisaged to remain brisk in 1996 as an estimated 8.7 million tourists will be visiting Malaysia in 1996, an increase of 16.0% over 1995. To cater for this increase, it is estimated that there will be 1,276 hotels (those with more than 10 rooms) supplying 88,585 rooms in 1996, an increase of 15.9% in hotel accommodation. 56 new hotels with 12,212 additional rooms are expected to come onstream in 1996. Indicating the brisk business for hotel and restaurants is the 28.6% increase in sales tax collected during the first eight months of 1996 (January-August 1995: 20.0%). As part of the overall strategy to improve the deficit in the current account of the balance of payments, the Seventh Malaysia Plan has earmarked tourism as an important foreign exchange earner. Towards this end, tourism development services have been

Table 4.13
Growth Performance Indicators for
Transport, Storage, Telecommunications,
Electricity and Water Supply
(% annual change)

	January-July	
	1995	1996
Malaysian Airlines		
Revenue from cargo	43.7	15.6
Revenue from passengers	16.4	12.8
KTM Berhad		
Revenue from cargo	5.4	5.3
Revenue from passengers	-3.8	35.9
Eight major ports		
Cargo throughput	11.4	18.5
Containerised cargo	20.5	17.6
Telekom Malaysia Berhad		
Total Subscribers	18.4	16.3
Cellular phones subscribers*	61.9	31.9
Tenaga Nasional Berhad		
Electricity consumption	14.9	11.5
Installed capacity**	32.8	7.1
Public Works Department		
Water consumption	14.9	12.9
Total production**	8.9	4.9

Note: * Only include Mobikom, Celcom and Telekom.
** For whole year.

Source: MAS, KTM, various ports, TMB, TNB and PWD.

focussed on expanding the range of activities, products and markets. One of the activities to promote Malaysia as a tourist destination is the Meetings, Incentives, Conventions and Exhibitions (MICE) programme, which is expected to be one of the major growth areas in tourism. It is increasingly seen as a higher-yield market with potential in attracting volume and quality visitor arrivals to Malaysia. In this context, the Government will continue to support the private sector in its efforts at generating greater awareness of the country's capabilities in hosting international meetings, conventions and exhibitions.

Growth in the **government services sub-sector** is expected at 4% in 1996, similar to the growth in 1995. The moderate growth in 1996 is attributed to the arrears payment for salary adjustment and an increase in allocation, particularly for human resource development, education and health services.

Value added of **electricity, gas and water sub-sector** is expected to grow moderately by 12.1% in 1996 (1995: 13.1%). The growth of this sub-sector is driven by expansion of consumer base, as a result of rapid industrialisation and urbanisation, as well as capacity expansion. Electricity consumption is envisaged to increase by 11.5% during the first seven months of 1996 (January-July, 1995: 14.9%) while installed generating capacity of power plants is projected to increase at a rate of 7.1% in 1996 (1995: 32.8%) following upgrading of three projects among the Independent Power Producers. Water consumption on the other hand, is expected to record an increase of 12.9% during the first seven months of 1996 (January-July 1995: 14.9%) against a 4.9% increase in water output capacity to 9,904 million litres per day (mld) in 1996. For an overview of key performance indicators of major services sub-sector please refer to Table 4.13.