

MITIGATING PROBLEMS ASSOCIATED WITH HOUSING PRIVATISATION IN MALAYSIA THROUGH IDENTIFYING PARTNERSHIP STRATEGIES ADOPTED BY OTHER COUNTRIES

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Abstract

This paper stems from information accumulated from extensive literature review, a pilot study and a formal interview for an ongoing research on housing privatization implemented by the government-linked companies in Malaysia. Through extensive literature review, issues pertaining to housing privatisation were identified. Expectations of public sector, outcome of housing privatisation and factors influencing such outcome have also been tentatively confirmed through pilot study and an ongoing postal survey. A formal interview with a project director of independent Public-private partnerships (PPP) organization in UK has also inspired some useful lessons for the local housing industry. Different modalities of PPP from various countries show that while housing privatization pose several problems, mitigating them is possible through appropriate strategies.

Keyword: *Housing privatisation, public sector, Public-private partnerships (PPP).*

1. Introduction

Privatisation is a way of delivering adequate for low cost houses in the face of the government's shortage of finance and resources. Through privatisation, finance and resources could be drawn from the private sector in return for government land for housing. Besides providing finance and resources, the private developers also contribute in terms of managerial expertise, maintenance service, designing, constructing, sales and promotions of the housing stock.

In Malaysia, housing privatisation are generally carried out by the local authorities, government agencies, Majlis Agama Islam (State Islamic Council), Land and Regional Development Authorities, State Economic Development Corporations (SEDC) and other ministry-owned companies. Examples of local authorities involved in housing privatisation are *Majlis Daerah Kinta Barat* and *Majlis Daerah Rahang*. Land and Regional Development Authorities include *Federal Land Development Authorities (FELDA)*, and *Lembaga Kemajuan Johor Tenggara (KEJORA)*. Examples of SEDCs are

Sarawak Economic Development Corporation and Penang Development Corporations (PDC). An example of government-linked agencies involved in housing development is the *Lembaga Tabung Haji Malaysia*.

Modalities of partnerships are many, but two has been identified from the desk research and pilot study as being common in Malaysia: (1) privatisation and (2) joint venture. In housing privatisation, the government transfer financing responsibility and development rights to the private sector together with publicly-owned land (Jahn-Kassim et al., 2006¹, Jahn-Kassim et al., 2006²). In housing joint ventures, the public sector organisation and private developer contribute shares in a new company of which the staked resources are used to develop housing facilities. While both privatisation and joint venture mechanisms are different, they both embed the concept of partnership between public and private sector in housing facilities' provision.

Although appearing novel and strategic in utilising the resources from the public and private sector, housing privatisation in Malaysia is not without drawbacks. The following section reports problems associated with housing privatisation as obtained from desk research and pilot study.

2. Problems associated with Housing Privatization in Malaysia

Problems associated with housing privatisation in Malaysia have been identified from literature review and a pilot study. The problems identified are: (1) conflicting interests of public and private sector, (2) unsatisfactory quality of low cost houses, (3) total release of control by the public sector and (4) lack of expertise in few government departments.

2.1 Conflicting interests of public and private sector parties

One of the most prominent issues of housing privatisation is the conflicting needs between the public sector and the private sector. Public sector has social motives and focus on delivering adequate, affordable, comfortable homes to the target groups, e.g. lower income group and *Bumiputeras**. For the private sector, the primary interest is to maximise returns on investment, while minimising costs and risks. Therefore, for a partnership to work, the private sector developers need to accept social responsibility, and the public sector need to be more market sensitive (Payne 1999), which is hardly the case in Malaysia (Jahn-Kassim et al. 2006¹, Jahn-Kassim et al. 2006²).

Mismanagement of the conflicting interests has previously led to unsatisfactory outcome in the country's housing privatisation efforts. In the case of the joint development of *Medan Rahang* between Majlis Agama Islam Negeri Sembilan (MAINS) and a developer, the selling price of the *Bumiputera* units was too high, rendering the Bumiputera communities unable to buy the residential facilities (Ketua Audit Negara 2003). According to a pilot study respondent (Jahn-Kassim et al. 2006²), one of the

* Bumiputeras refer to the origins in Malaysia.

organisation's project's social objectives was not achieved as the agreed portion of low-cost units were constructed in another remote land instead on the purchased urban public-owned land in order for the developer to maximize return of investment.

2.2 Unsatisfactory quality of low cost houses environment

In a housing privatization scheme, a private developer is usually required to build certain units of low cost houses in return for the land. However, including low cost houses in the development scheme has put constraint to the profit-motivated developers. This is because, the price of the low cost houses was pre-determined by the public sector, forcing the private sector to get creative in reducing their adversity. In Penang for instance, the development cost of a low-cost unit is roughly RM60,000, which exceeds the price ceiling of RM42,000, causing the developer to lose about RM18,000 for a low cost unit.

Bearing cost constraint has led private developers to get creative in maximizing their profits at the expense of constructing quality low cost houses. Firstly, the private developer might suggest building the low cost houses in a more remote area with lower land price and sparing the land purchased from the government for high-end development. This restricted the low income earners in suburb or rural areas and deprived them of urban areas near employment centres. Secondly, the developers might suggest building high-rise instead of landed low cost houses, causing high-density living areas which have been identified as leading to domestic social problems in the country. Thirdly, facilities' standard in low cost houses and living may be provided at minimum.

In worst case, the private developer constructs the development in phases, with low cost phase as the final phase. According to a respondent of a pilot study, constructing housing scheme in phases has always been a start to an abandoned housing project. Upon constructing the final phase, developers reasoned the need for variation to suit changes in the housing market, and waiting for the approved variation usually leave the project abandoned (Jahn-Kassim et al. 2006²).

2.3 Total Release of Control by the Public Sector

Another problem associated with housing privatization in Malaysia is the government's lack of control of the development once the development rights have been transferred to the developer. The SEDCs in particular, act only as 'land banks' in which their involvement as decision makers in the housing development scheme stop once the land has been successfully transacted (Jahn-Kassim et al. 2006²). After the transaction, the private developer is left to control the financing, design and construction of the development.

Such release of control however has resulted in many problems. Firstly, the unmonitored private developers might divert and build the scheme favouring their interests, such as postponing the construction of low cost houses, changing the design of low cost houses and diverting the initially-agreed decision of selling specified units to *Bumiputeras* or low-income earners (Jahn-Kassim et al. 2006¹, Jahn-Kassim et al. 2006²). Secondly, the

public sector's mere contribution of land not only affects the development of low cost houses, but also puts constraints to the private developers who have to bear the financing responsibility alone. Under such situation, the private sector was left with no option but to get creative in maximising profits at the expense of developing affordable, quality low cost houses.

By adopting privatisation, the public sector is drawn to become more profit motivated than socially obligated. During interviews with two personnel of government-linked companies (GLC) (one of which from SEDC) in a pilot study, it was found that the priority of some GLCs are to get payments of the land according to agreement and a project is considered a failure if land payments are not received on time and development value does not exceed the land value. Such change of direction and focus certainly does not benefit the target home-buyers. As in the case of privatization of state government assets by *Kerajaan Negeri Selangor*, the primary expectations of the government was to collect premium of land from developers, and had made no action plans and even depended on the developer to identify projects suitable for privatisation (Ketua Audit Negara 2000b). As a result, Ketua Audit Negara (2000b) concluded that the whole privatization scheme has made the government lose approximately RM24.88 million due to unfeasible development.

2.4 Lack of Expertise in the Government Department

According to a respondent in the pilot study, one of the factors contributing to unsuccessful outcome of housing privatization is the lack of expertise in certain government departments primary activity is not physical development, such as the Ministry of Defense (Jahn-Kassim et al. 2006²). Due to lack of competent negotiators, risk managers, legal and financial advisers, these departments usually barge into finalizing the partnership agreements without confirming their rights are protected. Such hasty agreements result in the private developer taking advantage of the public sector department's ignorance by not giving the scheme at best value or incompliance to agreement. In the case of the partnership between *Majlis Daerah Tampin* and a private developer for the rebuilding of Tampin town, the negotiation did not include the expected return to the public sector and actions to be taken by the public sector should the developer fail to deliver the project (Ketua Audit Negara 2000a). In the case of the partnership between *Majlis Agama Islam Negeri Sembilan (MAINS)* and private developer for joint development in Medan Rahang, a thorough market study and cost analysis was not conducted to protect the interest of MAINS and independent land and property valuation company was not appointed (Ketua Audit Negara 2003). All of the cases concerning lack of expertise in the government department have led to upsetting delays.

3. How Other Countries Respond to Similar Problems

In the attempt to find solutions to the problems discussed in the previous section, partnership strategies adopted in other countries were studied through literature review. The focus of the review was to identify whether similar problems have been faced by

other countries which adopt the partnership approach for housing provision and relate the problems with the strategies that have been adopted. For this purpose, partnership strategies in Canada, UK, South Africa, India, USA have specifically been highlighted, even though it is acknowledged that partnership strategies across the globe greatly vary as described by Payne (1999). Strategies adopted in those countries that relate to problems that appear to be similar to the local scene are reported in the following sections.

3.1 Lesson 1: Managing Conflicting Interests between Public and Private Sector Parties

In countries like Canada, India and South Africa, PPP is one of the viable means to produce adequate houses and issue of conflicting interest between public and private sector parties were addressed by scholars in the respective countries. Payne (1999), for instance, acknowledged that the potential for commercially attractive returns are lower in areas designated for lower-income group. Hence, PPP strategies in Canada, India and South Africa, for example, have adopted profit maximization strategies instead. Housing PPP in other countries show that this issue is generally responded by (1) allowing developers to build large-scale development or higher density project and (2) providing incentives to developers to help them maximize profits.

The first strategy is to allow developers to build large-scale or higher-density projects, which includes low cost housing scheme on the publicly-owned land. Pertaining to Let's Build project in Canada, Jeffrey (2006) said that higher-density projects can render PPP a win-win solution to government, private developers and home-buyers when undertaken by established, reputable and financially-capable developer. Hence, sufficient time is needed to ensure ample competition between bidders in order to get best value for the project. In the case of the development of *Raintree Park* in Hyderabad, India, the engagement of capable developer is one of the contributory factors to the success of the project (Abdul-Aziz et al. 2006). IJM is a part of a larger group with diverse interest in construction and was an experienced construction contractor in Hyderabad area.

The second profit maximization strategy was for the public sector party to lighten the developers' financial burden by providing necessary incentives. Incentives by authority can come in different forms. In the Let's Build program in Canada, the City of Toronto provides core investment which includes various grants, city-owned land, interest free loans, waived development charges, reduction of permit fees and property taxes (Griffin 2004). The incentives given by government also attract investments not only from the developers, but from philanthropies and third sectors as well. Eventually, debt service costs charged to developers are minimised (Griffin 2004). In the Delft project in South Africa, the subsidies to low income households are paid by the Housing Board provided through the developers, which acts as source of bridging finance (Dewar 1999). Other profit maximisation strategy is to provide land at cheap rates such as in the case of *Raintree Park* development in Hyderabad, India (Abdul-Aziz and Usman Awil 2006) and the *Participatory Development Scheme (PDS)* at Navi Mumbai (Adusumilli 1999).

3.2 Lesson 2: Producing Satisfactory Quality of Low Cost Houses Environment

Because land in city is at premium, it is impossible to provide low density living to the low income group at urban areas near prime employment opportunities. However, following the success of partnerships in Canada (Griffin 2004), UK (Archer 1999) and USA (Myers 1997) in producing quality homes for the poor, comfortable living for the poor can generally be concluded as homes with (1) reasonable standard facilities, (2) conducive surrounding neighbourhood and (3) energy efficient homes. While the mechanisms of partnerships are different in these countries, they do share one common strategy – the inclusion of community and housing organizations in the partnerships.

In Canada, the *Project Amik* and *Trellis Garden* were developed under the Let's Build programme by the City of Toronto, non-profit developers and the third sector parties (Griffin 2004). Griffin (2004) described the successful Project Amik and Trellis Garden as generally providing facilities and landscaping. Project Amik in Toronto for instance, has included a three-storey, 31 units building containing a mix of one-, two-, and three-bedroom apartments. The residence is also provided with parking bays, a day-care centre, an art gallery, attractive landscaping elements and recreational parks. Another project borne by Let's Build was the Trellis Gardens, which contains three-storey building housing 24 rental units comprising of two-bedroom and three-bedroom apartments. The apartments are bright and spacious, with high quality kitchen fixtures and new appliances. Facilities also include a child care room and communal kitchen with a large dining room. To build such facilities, developers were given flexibility to construct houses at permitted height, density, site configuration, open-space and parking requirements and mixed-use zoning, thus ensuring that the poor are not deprived of comfort living.

In UK, the *Satley New Homes For Old* see Birmingham City Council, Birmingham Friendship Association, local residents and Wimpey Homes team up to develop quality affordable housing (Archer 1999). According to Archer (1999) an independent evaluation study conducted by Salford and Manchester Universities confirmed that the rebuilding grant scheme was successful in meeting the objectives of the partnerships. The houses produced were good, large, overcoming previous overcrowding, with high standard of facilities, heating and layout. Archer (1999) stated that the houses were felt by the buyers to be a substantial improvement in almost every respect.

In Atlanta, USA, the Department of Environment teamed up with the US Department of Housing and Environment (HUD), community-based housing providers, private developers, and professional associations for *Partnership for Affordable Housing Program*. The Partnership for Affordable Housing Program intends to produce energy efficient homes so that low-income home buyers will have lower energy bills. Improved energy efficiency also frees operating funds for other capital needs, improves comfort and living environments, and results, ultimately, in housing that is both affordable and of high quality.

Quality living can also be realised through profound solutions by the developer. In Springfield Terrace project in South Africa, the partnership was successful in revitalising the surrounding community facilities, upgrading of the surrounding neighbourhood and it has demonstrated the importance of the public spatial environment in lower-income housing projects (Dewar 1999). Central to the approach taken by the developer was to compact towns and cities by infilling new housing within their existing boundaries. The compaction results in vibrant, intensive urban environments conducive to economic enterprise and particularly the promotion of the small business sector.

3.3 Lesson 3: Retaining reasonable Public Sector control in Partnership

Freedman (1998) stated that one of the mistakes made by the public sector that leads to failure of housing PPP is assuming the PPP is simply using a different funding source and delivery system to accomplish standard modernization or development. Successful partnership strategies adopted around the world mostly demonstrate that while the public sector transfer of development rights to the private developer is not at the expense of the government's position as decision makers throughout the development process. Lessons from the practice of housing PPP around the world show that the government's attendant commitment could be demonstrated from (1) dedicating their time and commitment in setting a thorough/inclusive partnership agreement, (2) consistent monitoring, (3) taking charge of the disposal of low cost units, and (4) taking a strategic partnership approach.

In relation to HOPE IV partnership for affordable housing in Atlanta, Freedman (1998) stated the most important consideration for the public sector in partnership with the private sector is control. According to Freedman (1998), a housing authority can reserve for itself all of the control it wishes to exercise through HOPE IV loan documents, the Regulatory and Operating Agreement that it will execute with the owner entity, a development agreement, a management agreement, and other documents. More fundamentally, they must understand how the partnership works – who decides what issue, who leads, and how disputes are to be resolved.

In a partnership in Ghaziabad, India, the public sector did not only invite investors to join the development, but the state was even made answerable towards its commitment (Adusumilli 1999). For the partnership, a joint venture committee was formed, consisting of members from both Ghaziabad Development Authority (GDA) and the investors' group to decide the project schedule, minimum specifications and planning norms, such as floor area ratio, etc. A joint account was opened to handle all transactions from which payment would be withdrawn by GDA and investors on a 70:30 ratio. To time matters for the investors, a nine-months moratorium was agreed, during which time no payment would be made, after which the bid money was payable in instalments. An interesting part of this experiment is that while the investor was levied penalties at 2 to 5 per cent per annum for delayed works within the premises, GDA also agreed to pay for delayed external infrastructure development works.

Another lesson learned from partnership in India was for the government should take the responsibility of disposing the low cost units instead of transferring the duties to the private developer. Lessons learned from success of APHB-IJM partnership in Hyderabad, India (Abdul-Aziz and Usman Awil 2006) and other Indian *Participatory Development Approaches* (PDS) (Payne 1999) demonstrate that disposal of the social component should remain strictly with the state. In the case of Raintree Park, the low cost units were handed to the APHB for disposal.

Another way public sector can retain its role as decision maker is through strategic partnering with private developers and community. According to Payne (1999), the joint venture approach is where different powers and capabilities of the public and private sectors are harnessed for a shared purpose. In United Kingdom, housing PPP is demonstrated through the setting up of *joint enabling agencies* (Archer 1999), which either have indirect or direct relationship with development activities. For example, the *Birmingham Heartland Development Corporation (BHDC)* is a corporation made up of 50 per cent representatives from Birmingham City Council, representatives of private commercial companies, and of the local community. In the agency, BHDC follows the same planning policies as in other parts of Birmingham, and for development control to be handled by a planning team from Birmingham City Council. It was also decided by BHDC to use the City Council's chief planning officer as their planning adviser. With strategic partnering, a local authority enters into a partnership with one or more major developers at the outset, and proceeds to redevelop land on an 'open book' basis, with the sharing of any profits. This way of working has several advantages, i.e. the community gains from the input of extensive development expertise at no cost, whereas the private partner avoids the necessity of continuously having to tender for work in competition with an unknown number of other potential developers.

3.4 Lesson 4: Engaging Independent Expertise to Protect Interest of Public Sector

In UK, an independent PPP advisory organization was available to assist the public sector in providing solutions for wide-range of PPP projects including health, education, defense, accommodation, transport, environment, criminal justice and IT (Partnerships UK 2006). It provides senior strategic support to public bodies, shares responsibility for delivering successful PPP solutions, from the appointment and management of advisers to the scoping, development, troubleshooting and negotiation of value for money projects.

PUK provides knowledge, advice and expertise to support the delivery of better public sector services and major infrastructure programmes, whether in project evaluation, implementation or the operational phase of PPPs. According to Abdul-Aziz (2006), expertises available in PUK are qualified and experienced in dealing with public sector's PPP projects. PUK provides support to the Government in the development of PPP policy in areas such as contract standardisation and best practices. It also helps public bodies to turn their under-utilised assets and innovative ideas into business and joint venture opportunities.

4. Conclusion

This paper highlights the problems associated with housing privatisation in Malaysia and relates these problems with appropriate strategies adopted in other countries, i.e. India, Canada, South Africa, Atlanta and UK. Certainly there are many factors to consider when deliberating on housing policies and housing delivery systems of different countries. For certain, other developing countries have led the way in demonstrating that it is possible to have recurring issues in housing public-private partnerships managed. That fact alone warrants policy makers in Malaysia to examine the lessons for possible application in this country.

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