

# **Housing the urban poor: A case study of institutional and governance issues in a developing economy**

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The role of institutions in housing markets has a significant bearing on the output and quality of housing. Building and planning regulations in particular help shape how housing is produced, exchanged and consumed. Due to the fragmented and differentiated nature of housing markets across and within countries, an institutional analysis offers the potential to uncover the role of agents and regulations in shaping local housing outcomes. In the past, analysis of the impact of regulations on housing has mainly sought to quantify the effects of specific regulations on house prices. However, such analyses often fail to appreciate differences in the structures of housing provision in different countries and regions and do not address the implications of different legal structures on the practices of housing agents. This paper critically examines the role of the Federal Government and the State Authority in the provision of low cost housing in a developing region in Malaysia. It shows how rules and regulations condition inter-agency operations in the study area. This paper presents results from a preliminary investigation into how the institutional structure of governance influences the provision of low cost housing.

## Introduction

In the context of developing economies, the economic benefits of housing have only recently been acknowledged. More than twenty years ago, housing was generally seen as “consumptive” rather than “productive” in the context of the national economy (Kitay, 1987). In contrast, economists now widely acknowledge housing to be a sectoral tool for economic development in less developed economies in terms of better workforce productivity (Harris & Arku, 2006). This economic linkage helps to propel the provision of adequate housing on the national agenda of developing countries, with particular focus on housing the urban poor.

The positive economic role of housing in developing countries has also captured the attention of the World Bank (Harris & Arku, 2006, 2007). An area that was extensively studied by World Bank economists was the impact of policy on housing supply elasticity, market efficiencies and house prices (Bertaud et al., 1988; Dowall & Clarke, 1996; Hannah et al., 1989). The World Bank’s neo-classical economic approach suggests a leaning towards a pure market provision, suggesting that deregulation may reduce house prices (Bertaud & Malpezzi, 2001; Dowall & Clarke, 1996; Malpezzi & Mayo, 1997; Mayo & Sheppard, 1996). Unsurprisingly, the powerful rhetoric of the World Bank studies has had an influence on the housing policies of developing countries.

Nonetheless, the above approach puts the roles and interactions of housing agents in a ‘black box’, when in practice institutional factors have a significant bearing on the output and quality of housing. Indeed, the housing market comprises a nexus of actors with roles to play within a regulatory framework which is specific to a country. Housing regulations determine how housing is produced, exchanged and consumed. In the past, analyses of the impact of housing regulations have mainly sought to quantify the effects of specific regulations. However, such analyses often fail to appreciate differences in the structures of housing provision in different regions and countries and do not address the implications of different legal structures on the actual practices of housing agents. Additionally, such analyses focus on the impact of regulations on the price and supply of housing whilst giving less attention to quality and access to housing, which may also be legally controlled. An institutional analysis, therefore, offers an insight into how the interactions between housing agents and regulatory structure actually shape local housing outcomes.

This paper is a component of a larger project which examines how institutional factors influence the implementation of housing regulations, and consequently housing outcomes. The main objective of this project is to open the so-called processual ‘black box’ in studying the impact of housing regulations. In other words, it is argued that the *actual economic behaviours of key actors within the legal framework*, instead of the housing regulations per se, are the main determinant of housing market outcomes. Using the institutional structure of provision thesis as research tool, this paper critically examines the roles of the Federal Government and the State Authority in the provision of low cost housing in an understudied region in Malaysia which has received little attention due to its perceived unimportance. The economy of the study area, Terengganu, is expected to experience a boost in the future due to a new regional economic master plan, resulting in significant push and pull factors from rural to urban areas. Picking up on this issue, a study on the provision of low cost housing in Terengganu is indeed timely.

This paper presents results from a preliminary investigation on how the institutional structure of governance affects the implementation of housing regulations, *ergo* the provision of low cost housing. Structurally, the paper first provides a discussion on the impact of housing regulations. It then discusses how an examination of the impact of regulations on housing provision may benefit from an institutional approach (see Ball, 1998; Ball, 2003a, 2003b, 2006). Next, the research context will be provided before outlining the research methodology. Findings from the research are then discussed before concluding.

## **Understanding the Impact of Housing Regulations**

Historically the regulation of housing arose over health of the population (Ascher, 1947). In the past, studies of the regulatory framework in housing include land use control (Mayer & Somerville, 2000), development control (Mayo & Sheppard, 2001) and planning (Bramley & Leishman, 2005). Of those three areas, development control has garnered a lot of research attention in developed economies particularly in promoting health, safety, or welfare (Adams, 2008; Cheshire & Sheppard, 1997, 2003; Dowall, 1992); preservation of the environment (Adams, 2008; Dowall, 1992); and energy conservation (Adams, 2008; Downs, 1991). In the US, literature has focused on the adverse impact of regulations on housing affordability (Clingermayer, 2004; Glaeser et al., 2006; Mills, 2005; Quigley & Raphael, 2005; Quigley & Rosenthal, 2005; Schill, 2005; Schuetz, 2009) and more recently on housing segregation according to race and income (Berry, 2001; Clingermayer, 2004; Ihlanfeldt, 2004; Nelson et al., 2004a; Nelson et al., 2004b; Pendall, 2000). The vast literature clearly indicates that there are wide-ranging issues associated with the control of housing beyond price and supply.

Despite the above mentioned evidence of non-market outcomes of housing control (i.e. racial and income segregation), recent housing studies have mainly focused on quantifying the effects of regulation by use of economic models. This quantitative approach has been extensively adopted by researchers in developed economies to estimate how zoning and other land use regulations influence housing supply and affordability in the US (Glaeser & Gyourko, 2002; Glaeser et al., 2005; Glaeser et al., 2006; Mayer & Somerville, 2000; Quigley & Raphael, 2004, 2005; Quigley & Rosenthal, 2005) and in measuring the impacts of, *inter alia*, policy, economy and demography on the UK's local housing market in terms of house prices, output, net migration and vacancies (Bramley & Leishman, 2005). World Bank housing studies have also tended to subscribe to this approach in developing economies (Keivani & Werna, 2001). A major criticism of this approach is how it disregards the non-market effects of housing regulations in a market characterised by the existence of a network of actors operating within conditions that are location and time specific. By taking a narrow perspective, most of the above analyses views housing regulations as costly and burdensome. Consequently, such approaches invariably call for deregulation. This assumes market efficiencies, a problematic assumption in the area of housing for the urban poor which in essence is a public good.

It is important to note that the above approach does not examine the roles and operations of institutions involved in the provision of housing. This neglect presents a major gap in understanding the "...complex social, political, cultural and economic interactions between various agents and structures of provision" (Keivani & Werna, 2001, p. 65) Housing provision involves aspects of production, exchange and consumption which in turn include a variety of actors; each actor with its own role and influence (Ball, 1998, 2003a, 2003b, 2006). These actors must work within a framework of formal rules in the form of policies and regulations that dictate how housing is produced, consumed and exchanged. This paper addresses this gap.

### **Institutional approach in examining impact of housing regulations**

Modelling under the neo-classical approach largely ignores institutional contexts that influence actual agent behaviour. Ball observed that "many economic models have only limited, stylised, institutional behaviour" (Ball, 1998, p. 1506) in a period when economists have increasingly realised that by "getting down into the trenches" i.e. "examining the particular sequence of events and institutions within particular industries, one can extract insights into the process" revealing "knowledge of a kind that cannot be deduced from some merely theoretical framework" (Rosenberg, 1994, p. 1). An approach that places emphasis on the role of institutions can offer a more meaningful explanation of a housing phenomenon compared to the an approach that relies on secondary data and assumptions (McMaster & Watkins, 2006). Given that models are constructed to represent behavioural parameters underpinning the housing phenomenon under study, the absence of institutional considerations may present a fundamental problem in the analysis.

Furthermore, the neo-classical economic approach assumes a unitary housing market, and price, in the construction of models. This assumption is problematic. Ball (2003b) underscores the unique nature of the housing industry in a given time and place due to different structures of national house building industries. This is further strengthened by the findings of McMaster & Watkins (2006) that demonstrated in 22 studies of price breaks in urban housing market, only 2 did not show evidence of segmentation. More recently, Adams (2008) reinforced the above line of reasoning by arguing that property submarkets are divided according to geography, sector and motive of acquisition and the activities of agents are largely confined within a geographical submarket. As McMaster & Watkins (2006) suggest, an approach that considers the role of institutions would give a more meaningful insight into housing provision processes compared to the neoclassical approach. This paper picks on this issue and proposes an alternative approach in studying how regulations shape the provision of housing.

Whilst Watkins (2008) observes that improved neo-classical economic models have increasingly given “behaviourally realistic quantitative analysis”, institutional analysis has gained momentum in recent years as shown by Table 1. These robust behavioural analyses underpinned by institutional perspectives have yielded deeper understandings of actors’ actual roles, interactions and activities. More importantly perhaps, the viability of the institutional approach is also acknowledged by the industry. RICS, for instance, has recently published a number of books using institutionalism in property research (see for instance Ball, 2006; Ball et al., 1998; Seabrooke & Hebe, 2004). This shows that institutionalism as a research methodology has a value in property studies.

**Table 1: Institutional approaches in property research**

Author	Institutional approach adopted/proposed
Ball (see Ball, 1986; Ball & Harloe, 1992).	Structures of Building Provision (SoP) approach.
Healey (see Healey, 1991; Healey, 1992; Healey & Barrett, 1990).	Structure and agency (SA) approach.
van der Krabben & Lambooy (1993)	Institutional organisation of real estate market.
Guy and Henneberry (2000),	Incorporation of social and economic factors in commercial property market.
Han & Wang (2003)	Institutional relations using partnership theories.
Doak & Karadimitriou (2007)	Network approach in property re-development.

*Source: Compiled by author*

A systematic assessment of the institutional structure of housing provision therefore will provide better understanding of how housing agents react to policy. This entails examining the actual operations and behaviours of the actors involved (Ball, 2006). In the context of housing for the urban poor in developing economics, ignoring housing agents and their dynamics may cause the pendulum to “...swing too far to the other side of the policy spectrum with the final result of yet another failure in low income housing policy” (Keivani & Werna, 2001, p. 113).

According to Ball (2003b), there are variations in housebuilding practices across countries that are generally explicable economically and are mostly determined by regulatory practices. A country’s structure of governance in particular can have a significant bearing on how housing regulations are implemented, and ultimately shape housing outcomes. At a regional level, the separation of power between central and regional authorities may cause tensions in housing policy implementation. This is especially true when executive and legal powers over housing are mutually exclusive as in the case of Malaysia.

### **An overview of the Malaysian government structure and housing system**

Malaysia is a Federation of thirteen individual states and three federal territories with a three-tier system of government comprising Federal Government, State Authority and Local Authority. In this paper, the terms Federal Government and State Authority are adopted to denote the government of the federation and the government of an individual state respectively as found in the Malaysian land

and town planning statutes.<sup>1</sup> The division of power between Federal and State is clearly laid out in the Federal Constitution. Land, and by inference housing, is listed under the State List<sup>2</sup> whilst town planning is listed under Concurrent List.<sup>3</sup> This means that the State Authority has constitutional rights over housing in the state but has to work with the Federal Government in town planning issues. The State Authority has the prerogative whether to fully or partially adopt federal regulations, policy and guidelines concerning housing as far as permitted by the Federal Constitution. The Constitution also places Local Authorities under the State Authority.<sup>4</sup> It may be deduced that most of the authority over low cost housing provision lies with the State Authority. The supply of land for low cost housing development lies with the State Authority either directly through alienation of state land or indirectly via development approval. Private sector participation in low cost housing development is rarely voluntary; it is obtained by imposing a mandatory quota.

The housing policy of Malaysia is contained in the 5-yearly Malaysia Plan containing both abstract government aspirations and more practical construction targets. Inequity introduced by the housing market, especially in the context of low cost housing, is corrected through mandatory housing elements; 30 per cent requirement of low cost component for housing projects above a certain size and 30 per cent *Bumiputera*<sup>5</sup> quota to correct racial segregation in housing schemes (Yahaya, 1989). The affirmative action National Economic Policy (NEP) (1970-1990) was introduced alongside the Second Malaysia Plan in the aftermath of the 1969 racial riots to eradicate poverty and restructure the country's socio-economy (Malaysia, 1991). Housing for the urban poor programmes under the NEP as part of the state's poverty eradication move was continued under the National Development Policy (1991-2000) (Wan Abd Aziz *et al.*, 2008). At present, the country is guided by the Ninth Malaysia Plan covering the period of 2006-2010. In the current Malaysia plan, focus is on providing "adequate, quality and affordable homes" particularly for low-income groups (Malaysia, 2006).

In Malaysia, housing for the urban poor mainly takes the form of low cost housing. The low-cost units are defined according to its selling price of RM25,000 to RM42,000 per unit (RM1=USD3.20), with the higher prices reserved for more developed areas and large cities. The target group of low cost housing is households with monthly incomes not exceeding RM1,500 per month (RM2,500 in large cities). Historically, the public sector was directly involved as the main producer of low cost housing. However, the Malaysian government's inadequate investment in housing is well documented (Agus, 1989, 2002; RICS, 2008; Yahaya, 1989). To address the shortfall in low cost housing, the Malaysian government has been adopting an enabling strategy for private sector participation in low cost housing provision. Consequently, private sector participation in low cost housing production has increased significantly since the 1970s.

Although economic growth and household income increased in all regions during the Eighth Malaysia Plan which covered 2001 to 2005, little progress was achieved in reducing development gaps between regions, states and rural/urban areas. Traditionally, Malaysian housing studies have always been focused on the more affluent west coast states such as the Federal Territory of Kuala Lumpur, Selangor and Johore (Abu Zarin & Bujang, 1999; Hashim *et al.*, 2006; Tan, 2008; Wan Abd Aziz *et al.*, 2008; Wan Abd Aziz *et al.*, 2007a; Wan Abd Aziz *et al.*, 2007b). These studies are not representative of the less developed housing markets in other regions in Malaysia. A lacuna therefore exists in understanding the less-researched Malaysian housing markets.

The present study takes place in the State of Terengganu, which is underresearched in terms of housing studies. Located in the east coast of Peninsular Malaysia, Terengganu forms part of the

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<sup>1</sup> National Land Code 1965 and Town and Country Planning Act 1976.

<sup>2</sup> Item 2, State List, Ninth Schedule, Federal Constitution.

<sup>3</sup> Item 5, Concurrent List, Ninth Schedule, Federal Constitution.

<sup>4</sup> Item 4, State List, Ninth Schedule, Federal Constitution.

<sup>5</sup> *Bumiputera* which literally translates into 'son of the soil' indicates indigenous people of Malaysia including the Malay and *Orang Asli* and ethnic groups from Sabah & Sarawak.

Malay hinterland and is well-known for the parochial outlook including over land issues of their predominantly ethnic Malay populations. It is one of the less developed states in Malaysia with a population of 1 million but an urbanisation rate of 50% (Salleh, 2008). Despite the existence of the country's largest petro-chemical industry along its southern corridor, the state's income per capita is one of the lowest in the country. Table 2 compares the socio-economic indicators of Terengganu and Malaysia.

**Table 2: Socio-economic indicators of Terengganu and Malaysia**

Economic Indicators	Terengganu	Malaysia
Mean monthly household income	RM1,984	RM3,249
GDP Growth	3.4 %	4.5 %
Average annual urban population growth	2.6 %	2.3 %

*Source: (Malaysia, 2006)*

Terengganu's economy, which depends on mining (petroleum), agriculture and tourism, is expected to significantly grow with the establishment of the East Coast Economic Region ('ECER') in 2007 (ECER Development Council, 2009). The ECER Master Plan aims to create 560,000 jobs in the next 12 years in the four ECER states. The total low cost housing requirement in Terengganu is significant, standing at 32,800 units during the current Malaysia Plan (Malaysia, 2006).

## Methodology

This study adopts the structure of provision approach (Ball, 1986, 1998, 2006) as its methodology. Semi-structured interviews with the key actors involved in low cost housing provision in Terengganu were undertaken to examine their roles, interactions and, in the context of housing regulations, their perceptions and past experiences. Interview themes were based on literature with two major objectives. The first objective was to determine the structure of low cost provision in Terengganu. The second objective of the interviews was to examine the agents' (on the ground) practices with regard to the current low cost housing regulatory environment. Results from this part will illuminate the *actual* impact of regulations on low cost housing provision. This paper will only report on the second objective.

Interviewees are key actors representing both public and private sectors in the capacity of producer, policy maker, implementing agent, advisor and secretariat in low cost housing provision in Terengganu. As main informants, they provide insights into the practice and actual behaviours of low cost housing agents in the study area. Fourteen interviews were undertaken; four state officials, seven federal officials, one local authority official and two developers directly involved in the provision of low cost housing in Terengganu. These interviewees represent different interests in the structure of provision across the spectrum. Interviews averaged 70 minutes and ranged from 30 minutes to 2 hours depending on the role(s) played by interviewees in the provision of low cost housing in Terengganu. Details of interviewees are displayed by Table 3.

**Table 3: Details of Interviewees**

No.	Code	Role of Organisation
1	State Official 1 (S1)	Producer and policy maker of low cost housing (State)
2	State Official 2 (S2)	Producer and implementing agency (State)
3	State Official 3 (S3)	Producer and implementing agency (State)
4	State Official 4 (S4)	Town planning (State)
5	Federal Official 1 (F1)	Economic planning of study area (Federal)
6	Federal Official 2 (F2)	Property information centre (Federal)
7	Federal Official 3 (F3)	Property information centre (Federal)
8	Federal Official 4 (F4)	Technical supervision of low cost housing projects (Federal)
9	Federal Official 5 (F5)	Policy maker of low cost housing (Federal)
10	Federal Official 6 (F6)	Town planning (Federal)
11	Federal Official 7 (F7)	Town planning (Federal)
12	Local Authority Official 1 (L1)	Secretariat for development approval (Local)
13	Developer 1 (D1)	Government-linked Private Developer
14	Developer 2 (D2)	Private Developer

The interviews were conducted in the local Malay dialect, standard Malay and English. The interviews were translated into English and transcribed. The transcripts were then analysed. Arising from those interviews, significant issues with regard to how the constitutional structure of governance bears upon the implementation of housing regulations in practice were discovered and these are presented in the next section.

## Findings & Discussion

Whilst both the private and public sectors are involved in the provision of low cost housing in Terengganu, the public sector is the main producer due to lack of large private land parcels and the small-scale nature of Terengganu private developers. The position of Terengganu private developers in the low cost housing hierarchy contrasts with their counterparts in more developed states. On the other hand, the Federal Government’s role in the provision of low cost housing in the study area was mainly to provide general policy guidance and funding. Interestingly, the interviews revealed that the State Authority assumes the dual role of producer and policy maker of low cost housing. Development, distribution, finance and management and enforcement of majority of low cost housing in Terengganu fall under the State Authority.

The structure of government does play an important role in how urban housing policy is implemented in Terengganu. Although the Federal Government maps out general housing objectives, the State Authority has the full power in refining and implementing these objectives. In the process of achieving the State Authority’s housing objectives, several observations are made as to how housing regulations are perceived and implemented by the actors. Table 4 shows the perception of interviewees with regard to how the governance structure affects the implementation of housing regulations.

**Table 4: Interviewees' perception of key issues in the implementation of housing regulations**

Interviewee	Selective Implementation	Local Capture	Political input	Local culture input	Clientelism	Power play
S1	√	√	√		√	
S2	√	√	√	√		
S3	√	√	√	√		√
S4	√	√	√			
F1			√			
F2			√			
F3	√	√		√		√
F4			√	√	√	√
F5	√	√	√	√	√	
F6	√	√		√		√
F7	√	√			√	√
L1	√	√	√	√	√	
D1	√	√	√		√	
D2	√	√	√			√

*Selective implementation* Generally, the present housing regulations themselves are seen as broad and lacking clarity. For instance, one interviewee remarked:

“(T)he guidelines also contain non-numerical items, descriptive... such as requirement to be near to a community hall. So the word ‘near’ is itself subjective. Is 1 kilometre near? Is 100 metres near?” (State Official 4).

Due to the generalised provisions and standards, there is a very strong tendency towards selective implementation of housing regulations. Additionally, there exists no comprehensive top-down implementation system. Reference to legal documents is on an *ad hoc* basis. This lack of clear guidelines is perceived by some interviewees to increase uncertainty and the possibility for manipulation. Worse, flexibility in enforcement creates both opportunity and perception of bribery.

However, there is also a powerful argument for flexibility in implementation. Government officials have a favourable view of the flexibility of regulations as the discretion enables them to carry out their duties more efficiently.

“The guideline just gives the direction, it’s up to you to make a layout that is more creative or contains something new. We have to think far, take into consideration various factors” (State Official 4).

More importantly, additional low cost housing units can be produced by adopting a non-rigid policy. The low cost housing ratio normally used by the State Authority to approve housing development applications (i.e. 30 percent of development over 10 acres) is not fixed. An interviewee revealed that one development approval was imposed with a 50 percent low cost housing requirement instead of the usual 30 percent, resulting in 161 extra units in an area with low cost housing shortage.

A major factor that enables selective implementation of the many Federal-based laws, regulations and guidelines on low cost housing provision is the lack of mandatory power on Federal inputs. It is observed that the flexibility in interpreting Federal housing regulations has allowed for a decentralised system with a high potential for efficiency. Decisions can be made quickly by the State Authority with the interest of the local population in mind. Such flexibility in implementation may have contributed local capture, which will be discussed below.

*Local capture* The Federal/State dichotomy forms a double edged sword in the implementation of housing policy in the study area. Although the Federal Government forms the highest hierarchy in the Malaysian legal system, the absolute power over land and low cost housing lies with the State Authority. Therefore, regardless of the central housing policy in the Malaysia Plan, the State Authority has the prerogative over implementation of the federal policies and guidelines. On the surface this would seem like a barrier to effective implementation of federal policies as there are discernable tensions in the Federal/State relation. Additionally, developers also have an unfavourable view on how State Authority’s power over land and development impinges on the roles of the Federal agency in charge of housing development as one interviewee lamented.

“When I asked you (the Ministry of Housing and Local Government) to solve a problem you said it it’s a State matter... It’s a very difficult. The Ministry is sometimes a toothless tiger” (Developer 2).

Nonetheless, the local capture of low cost housing provision by the State Authority has positively affected the beneficiaries of low cost housing in Terengganu. Despite the availability of federal low cost housing standards,<sup>6</sup> the Terengganu State Authority applies a higher low cost housing standard.<sup>7</sup> Previously, Malpezzi & Mayo observed that “(s)ince housing matters and land-use standards are the responsibility of state and local authorities in Malaysia, the federal government found it difficult to introduce lower, but still acceptable, standards.” (1997, p. 377).

This signals the other side of the argument, that is, the regional government and not the federal government knows better the needs of the local people. The ultimate beneficiary of the State Authority’s capture of the low cost housing is its intended recipients i.e. the urban poor of Terengganu. Terengganu’s low cost housing occupants enjoy better housing quality in terms of larger house size and better interior layout compared to other places in Malaysia. Whether this

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<sup>6</sup> Construction Industry Standard (CIS) 1 & Construction Industry Standard (CIS) 2.

<sup>7</sup> Planning and Development Guideline for Low Cost/Affordable Housing (Privatisation) MMKN 4/2005 (23/2/2005), 32/2006 (11/10/2006) & 11/2009 (1/4/2009).

comes at the long term detriment of higher housing costs or lower output in Terengganu is something that must be considered in future studies.

*Political input* Low cost housing is generally seen as being highly politicised. In recent years, Terengganu has been governed by the ruling National Front's United Malays National Organisation (UMNO) party. However, for a term after the 1998 election it was ruled by the opposition's Malaysian Islamic Party (PAS). The majority of the interviewees perceive that there is an element of political interference in low cost housing provision under both UMNO and PAS.

The most noticeable political interference is during the housing distribution process, as remarked by one interviewee.

"To say there is no political interference would be lying. Especially at distribution level (State Official 4).

The Federal Government established the computerised Open Registration System (ORS) in 2007 to improve transparency in the distribution of low cost housing. However, even the initial application process is a politicised affair as ORS application forms must be obtained from Village Development Committee members who are normally affiliated with the state's ruling party. The applications also need to be endorsed by the Elected Representative of the area. There is a strong bias for low cost units to be allocated to supporters of the ruling party at the expense of other groups.

Political input therefore directly influences the outcome of housing policy in the context of the study area. This is slightly different from the 'rumah politik' (political house) quota reported in Agus (2002) in Johore and Wan Abd Aziz & Hanif (2005) in Kuala Lumpur (2005), nonetheless it presents a barrier to access by some low income communities. In this case, there is a strong tendency for political party affiliation to determine the recipient of low cost housing. The on the ground political input at the selection process may run contrary to Article 8 of the Federal Constitution which guarantees fairness in acquisition of property.<sup>8</sup> Therefore, although the system is in place to promote equity in housing for the low income groups, its effectiveness may be weakened by the existing governance structure.

The interviews also revealed that other forms of political interference in low income housing provision may be found in the location decision of low cost housing developments, enforcement of housing tenancy conditions and the development rate of low cost housing development. It may be concluded that political input is evident in many aspects related to low cost housing provision, not just in the allocation process.

*Local culture input* There is evidence that low cost housing provision is shaped by the local culture. Norm, habits and practice differ from region to region in Malaysia depending on ethnic mix and development level. Cultural characteristics as a determinant of housing provision conform to a proposed cultural approach in property studies (see Guy & Henneberry, 2000; Guy & Henneberry, 2002). These characteristics were unique to the study area which has a high population percentage comprising the indigenous Malay, compared to the more ethnically mixed west coast of Malaysia. The relationship between Federal and State agencies are somewhat strained by State agencies' non-cooperation and hostility.

"Sometimes the Local Authority does not want to give the information or entertain us... the assistance from Local Authorities is lacking. There is lack of cooperation" (Federal Official 3).

"As a Terengganuan, I'm really defending this (that the project belongs to the State Authority and not the Federal Government)... The loan is between the State Authority and the Federal Government. To us the *rakyat* and to me personally, I don't care (about the financial arrangement) because that is between the State Authority and the Federal Government. It doesn't matter" (State Official 2).

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<sup>8</sup> "Except as expressly authorized by this Constitution, there shall be no discrimination against citizens on the ground only of religion, race, descent or place of birth in any law relating to the acquisition, holding or disposition of property or the establishing or carrying on of any trade, business, profession, vocation or employment".

Under the Malaysian land law, Islamic and Malay cultural laws are additional sources of law that have precedents in case laws.<sup>9</sup> This presents another hurdle in implementing 'secular' housing regulations in the Malay dominated Terengganu.

"You can't surrender *wakaf* land to the government. Say in planning you have to allow for a road on the *wakaf* land. You can't surrender the land to the land for road purposes but it can be used for public purposes" (Federal Official 7).

In a culturally rich country such as Malaysia, attention has to be given to such details as planning requirements may be defeated by cultural and religious principles that are acceptable in the court of law. In the context of the study area, the implementation of Federal housing regulations that are in place to promote low cost housing may be affected by local cultural factors.

*Clientelism*. Clientelism is a subset of political interference in low cost housing that merits a separate and extended discussion. In this context, clientelism is defined as the act of politicians providing tangible or intangible benefits to his supporters in exchange of votes that would enable him to gain or stay in power. In contrast to corruption, clientelism is an accepted political practice as long as there is transparency in the exchange. A case in point is the October 2009 announcement of the outright sale of rental public housing in an area in Kuala Lumpur which was 'captured' by the opposition party in the 2008 general election as an interviewee opined.

"Where the money comes from is secondary, but *rakyat diutamakan* ("the people come first" – a popular political slogan)... They want to pull back the voters." (Federal Official 5).

The interviewee saw the move as a political manoeuvre to win back votes of the predominantly low income area, possibly to the detriment of public housing funds and long term housing policy:

"To me, I am worried there will be maintenance problems later... (T)hey (the recipients) should remember to pay the monthly maintenance charges. If they don't pay, there will be problems... (However, if) they call on the government (for assistance later), it has to be done whether the government likes it or not" (Federal Official 5).

In the context of the study area, an interviewee observed the notion of low cost housing as a political tool to ensure continuous support from the low income population:

"A house for a vote, yes. In order to keep the (political) interest, whoever's interest" (Local Authority Official 1).

Clientelism is an accepted political practice in low cost housing provision in Malaysia. Home ownership is indeed a valuable political pawn at both Federal and State levels. As a policy component in housing, tenure is now seen as expendable. However, a tenure 'upgrade' could potentially become a liability in the long run for the state. Under the National Land Code, the current public housing tenants fall under the "non-registerable tenant" category for tenancies below 3 years. Outright sale would confer indefeasible registered owner's right to the buyers which may hamper future redevelopment of an area as happening in Kuala Lumpur's Kerinchi area. Although redevelopment pressure is not yet imminent in Terengganu, the State Authority should seriously take into consideration the possible legal implications in granting outright ownership to the low income group. Alternative tenure forms could be considered including temporary occupation licence and registrable tenancy under the National Land Code.

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<sup>9</sup> Kiah v Som [1953] 19 MLJ 82.

*Power play* The interviews revealed perceptions of power play in the provision of low cost housing due to the current structure of governance. Some established Federal organisations still have the long-held view of superiority over other departments, especially newer State agencies. Although lacking legal backing, Federal agencies have the upper hand in terms of manpower and funding which State agencies lack. These are sometimes used by Federal agencies as bargaining chips in achieving their goals, adding to the tensions already brought upon by cultural inputs.

“(T)hey should have worked collectively. Unfortunately, maybe because out of habit certain department feel that their word or say are much more prominent than others... Power play...” (Federal Official 4).

The power play exists not only between Federal and State agencies but also within State agencies. One interviewee succinctly summarised the relationship between different State agencies that caused Terengganu to lose its position as the main East Coast petrochemical port to a neighbour state despite having one of the most prominent petro-chemical industry.

“There is infighting” (State Official 4).

Evidence of a power play that caused the failure in securing such an important economic undertaking raises the question of whether housing is free of such internal wrangling. This power play, whether between Federal and State agencies or within State agencies, may hinder effective implementation of housing policy as the perceived superior agency may pull rank on a ‘lesser’ agency. The perception of power play provides an avenue for a more extensive study.

## **Conclusion**

This paper presents the preliminary findings of research into the inter-agency dynamics on the provision of housing for the urban poor in a developing region in Malaysia. In particular, the study focused on how the institutional structure of governance shapes the provision of low cost housing in the study area. It found that factors including selective implementation, local capture, political input, local culture input, power play and clientelism in the implementation of housing regulations arise due to the split of power between the Federal Government and State Authority. These significant characteristics of how the housing actors react to the regulatory environment may be overlooked in the neo-classical economic models. An institutional approach therefore provides the best platform in understanding the impact of regulations on the provision of housing.

There are practical and legal implications associated with the interaction of the governance structure and the provision of housing for the urban poor as the interview analysis has revealed. The most significant result of the Federal/State divide is how housing regulations seem to be presented in a pick n’ mix platter; free to be adopted by those in authority whether at organisational or individual level and free to be negotiated between agents from different ends of the housing provision spectrum. In return, how both Federal and State government implement their housing policy may have far-reaching implications beyond price and supply.

Contrary to the general call for deregulation of the neo-classical approach in studies of the impact of regulations on housing provision, we found that regulations *per se* have no negative effects on housing markets. Rather, *how* regulations are implemented on the ground have a considerable leverage on housing outcomes. We have shown that selective implementation of regulations has in fact contributed to more low cost units being built and local capture has enhanced the quality of housing. We have also revealed how regulations could have promoted low income people’s access to housing if not for political input, local cultural input and clientelism. Lastly, we have shown that ‘power play’ between housing agents could have a stronger effect on housing market outcome rather than the existence of the regulatory structure. It may be argued that housing regulations may in fact play a positive role in achieving equity and efficiency goals of low cost housing provision.

These preliminary findings give rise to further research needs in the area. In the next stage of this project, case study analysis will be used to further examine how the implementation of housing regulations weighted by the above key issues have influenced the provision of housing in

Terengganu. By digging deeper, a clearer insight may be gained into the actual operations of key actors in the structure of provision of low cost housing in the context of a developing region.

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