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**What Cooperative Can Do
To Assist in Providing Houses
For The Lower Income Group**



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WHAT COOPERATIVES CAN DO TO ASSIST IN OVERCOMING THE PROBLEM OF HOUSING FOR THE LOWER INCOME GROUP

This paper basically examines the following issues :-

Sharing the Malaysian Experience

Briefly understanding the Malaysian Housing Industry and Housing For The Lower Income

- National Housing Policy
- Housing Market
- Housing Options
- Affordability
- Housing Producers
- Housing Development Process
- Housing Financial System
- Problems of Low Income Housing
- Special Low Cost Housing Programmes

Cooperative Housing System

Abandoned Housing Schemes (Lessons learned)

What can Cooperatives Do.



Abstracts

The New Development Policy of Malaysia sets out strategies and goals towards achieving national objectives such as national unity, restructuring society so as to correct the social and economic imbalance and the eradication of poverty. The provision of housing to the people has been recognised as fulfilling the basic social needs and also contributes towards the economic growth of the country. In the socio-economic development plans of Malaysia priority has always been given to the housing industry.

The objectives of the housing policy is to provide Malaysian of all income levels, especially the the lower income group and the poor accessibility to adequate and affordable shelter. Through the years, the supply of low cost houses has not been able to cope with demand. Public sector housing to cater for the low income groups has not been able to meet targets set out in the various five year development plans. The problem is compounded when delays by the private sectors are taken into account.

The implementation of housing projects by the public sector through the Ministry of Housing and Local Government, the State Governments and the Land and Regional Development Authorities failed to meet the targeted number of houses. Under a Special Low Cost Housing Programme implemented in 1986 and extended to 1992 to accelerate the building of low cost houses to a certain extent increases the output of such houses. The private sector were given further financial incentives by providing cheap loans, reduction of statutory charges and subsidy on basic building materials to motivate them to produce even more houses.

Cooperative housing through the self-help system helps to contribute to the provisions of affordable housing among its many members. The deviation from cooperative principles, by venturing into the open housing market has caused problems to the cooperatives due to the effect of poor demand, high holding cost and resulted in abandoned housing projects during the period of low growth.

*Within the above scenarios Cooperatives Can play an effective role in providing affordable houses for the lower income members. In order to provide such assistance, the housing cooperative mechanism should **re-cooperatised** itself and mobilise the resources of the cooperative movement. The most important item of all is to provide those houses within the framework of the Cooperative Principles.*



1. Housing Malaysia

Malaysia is a nation consisting of a multi-racial (Malays, Chinese, Indians, Ibans, Dayaks, Kadazans, Aborigines, Portugese, etc.) and a multi religious (Islam, Budhism, Taoism, Christianity, Hindus) society with a population of approximately 19.1 million people with a land mass covering 329,758 sq. km divided into two parts. West Malaysia, consisting of 11 states, while East Malaysia having 2 of the biggest state. The country practices a political system based on parliamentary democracy with a constitutional monarchy as the head of state.

Malaysia, being a developing country has a Gross Domestic Product per capital income of US 3,230 or US 8,050 based on Purchasing Power Parity and a consistent growth rate of about 8.3% over the past few years and is expected to sustain an average annual growth rate of 7% until the year 2020, which is also the year the country expects to attain a developed nation status (Vision 2020). The current rate of inflation is approximately 3.5%. The government is committed to bring this down to the level of zero inflation.

In 1991, the Government of Malaysia formulated the Second Outline Perspective Plan (OPP2) covering the period 1991-2000, based on a new policy call the New Development Policy (NDP) which sets out strategies and goals towards achieving national goals such as national unity and restructuring society so as to correct social and economic imbalance and the eradication of poverty.

One of the important social goals of nation's development is the provision of housing for the population. In the socio-economic development plans of Malaysia, the Government has always given priority in the development of the housing industry. It has been recognised that, apart from fulfilling the basic social needs of the population, housing industry also contributes towards the economic growth of the nation. The provision of adequate, decent and affordable shelter to the masses represents one of the more urgent socio-economic issues faced by most developing nations like Malaysia. The Government has identified that the housing needs have becoming more pressing for the low income group.

Housing, like most goods and services, can be provided by the private sector enterprise operating through the price system. In fact in Malaysia, the private sector plays the primary role in the housing industry. However, there are social and economic grounds for public intervention in the operation of market forces in the provision of housing.

First is the maldistribution of income where some people have sufficient means to secure adequate housing in the open market. Second, is the necessity to accelerate new building, the renovation of dwellings and the elimination of squatters. Third, the Government considers housing as a basic social necessity and merit direct provision through the public sector. On top of the above considerations, housing policies are also required to supplement important national policies and to attain socio-economic goals such as those set out under the Second Perspective Plan (OPP2).

Specifically, the objective of the housing policy under OPP2 is to ensure Malaysians, particularly the low income group and the poor, have access to adequate and affordable shelter and related facilities. The emphasis is on facilitating the development of houses based on the human settlement concept. Under this concept, communities will not only have access to suitable and affordable housing but also be provided with social services and amenities necessary for the attainment of better quality of life. Apart from being an important socio-economic activity, housing developmet will be reinforced as a means of attaining national intergration and unity.

2.0 National Housing Policy

In 1984, the Malaysian Government embarked upon a new population policy which calls for a population of 70 million to be achieved by the year 2100. The Government views the increase in population as necessary to provide a larger domestic market to support industrial growth and economies of scale in the provision of infrastructure and other amenities as well as reduce the

dependence of export oriented industries which are sensitive to the protectionist policies of the developed countries. The Government also recognizes the need for a comprehensive plan to ensure that the population is properly dispersed so that balanced development can take place.

Previous population projections indicated that the population of Malaysia would stabilise as around 30 to 40 million people. However it has generally been acknowledged that Malaysia's land area and ample natural resources can support a much larger population. In fact currently Malaysia is facing shortages in labour force in all sectors of the economy.

The rate of urbanisation is also increasing gradually, attributed mainly to natural increase and migration. The proportion of population residing in urban areas has increased from 34% in 1980 to 37% in 1985 and has grown to 50.6% by 1991. With rapid urbanisation, resources become overstretched which leads to uncontrolled urban sprawl and illegal establishment of squatter settlements which house at least 15% of the total urban population.

The influx of migrants from the rural areas and also the legal and illegal immigrants from neighbouring countries has aggravated the problem of providing adequate housing and infrastructure in the context of scarcity and high cost of urban land.

In response to increasing demand for housing due to rapid population growth in urban centres like the federal capital Kuala Lumpur and other larger towns, extensive suburban housing development has been stimulated in the form of housing estates in urban fringes or in agricultural, mining or swampy land that has been reclaimed or converted for residential use.

The Government of Malaysia views housing as a basic social necessity and sees the need for a housing policy to regulate its supply and demand, to minimise price fluctuation and reduce speculation. In addition there is maldistribution of income, so the lower income groups need help in obtaining decent shelter. The Government also views the housing policy as a supplement to other national policies in order to attain socio-economic goals.

The objective of the housing policy is to provide Malaysians of all income levels including low income group and the poor, accessibility to adequate and affordable shelter. Housing is seen as crucial for a good family development. It houses the family which is the basic unit of society. Current national development programmes stress on family development and welfare in order to harness it for national development and productivity. If population is housed in adequate shelter, it is hoped that the people will be more economically productive.

Housing development also aimed at rising the standard of living as well as promoting social intergration among the various communities in the country. Towards this goal, housing development programmes especially those built by formal sectors are implemented based on human settlement concept where the housing areas are facilitated with various social amenities such as schools, clinics, sports and recreational facilities, religious worship places, commercial centres and so on.

In the Sixth Malaysian Plan (1991-1995), a total of 539,000 houses have been targeted for construction. Of this total, 26% (146,900) is targeted under public sector through various programmes such as Public Low Cost Housing, Site and Services Scheme, Land and Regional Development Schemes and Economic Development Agencies. While the private sector is expected to deliver the remaining 74% (399,900) under the Licensed Private Developers, Cooperative Societies and Special Low Cost Housing Programmes. The plan also emphasised the construction of low cost units through the greater participation of the private sector.

3.0 Supply and Demand of Low Cost Housing

Throughout the years, the supply of houses has not been able to cope with demand. Public sector housing to cater for the low income groups has not been able to meet the targets set out in the various five year development plans. The problem is compounded when delays in the private sector are taken into account, because taken together, they result in substantial differences between targets and actual performance.

A problem within the housing delivery system is the length of time required and the multitude of agencies involved in the conversion of the use of land and the planning and building approvals.

Building materials and labour cost are constantly rising because of supply constraints brought about by the bouyant economy. Higher construction costs are passed to house buyers which result in high selling prices. The spiralling house prices creates an inflation psychology which serves to fuel the buying of houses as a speculative measure.

The primary reason for the present housing situation is the disequilibrium between the demand and supply of houses in the market. The solution to the problems lies in encouraging and supporting the building of more houses. Urgent and immediate measures needs to be taken to ensure the number of houses in the market be increased substantially. This will dampen the inflation psychology, make speculation less profitable and stabilise the prices of houses.

PUBLIC AND PRIVATE HOUSING PROGRAMMES, TARGETS AND PERFORMANCE

Programmes	Units Targetted (1991-1995)				Units Completed 1991 - 1992			
	Total	Low Cost	Medium Cost	High Cost	Total	Low Cost	Medium Cost	High Cost
Public Sector (% Targets Achieved)	140,900	93,700	44,600	2,600 17.2%	24,254 15.6%	14,603 20.3%	9,038 23.6%	613
Public Low-Cost Housing	24,430	24,430	-	-	4,400	4,400	-	-
Site And Service	15,570	15,570	-	-	0	0	-	-
Land & Regional Development Scheme	23,000	23,000	-	-	1,252	1,161	91	0
Government Servant Housing	32,000	17,600	14,700	300	4,891	2,539	2,276	76
Economic Dev. Agencies	45,300	131,100	29,900	2,300	13,361	6,153	6,671	537
Special Loan Scheme	-	-	-	-	350	350	-	-
Private Sector (% Targets Achieved)	399,000	217,000	155,900	26,100 53.3%	212,515 39.7%	86,225 61.7%	96,117 115.6%	30,173
Private Developers	170,700	-	145,800	24,900	123,032	-	92,963	30,069
Ordinary Low Cost	44,080	44,080	-	-	84,743	84,743	-	-
Special Low Cost Housing Programme (SLCHP)	171,620	171,620	-	-	-	-	-	-
Cooperative Societies	121,600	1,300	10,100	1,200	4,740	1,482	3,154	104
Total (% Targets Achieved)	539,900	310,700	200,500	28,700 43.9%	236,769 32.5%	100,838 52.4%	105,155 107.3%	30,786

The Government has to consider mechanisms and institutions that can provide and manage low-cost houses more efficiently and effectively. There is a need to fulfill the gap in the provision of low cost houses where this cannot be met by the private sector and to monitor the distribution of low-cost houses in terms of locality and selection of eligible buyers. In this way, low cost units will be available to the deserving population and ensure the build-up of a stock of low-cost units which otherwise have been lost in the open market

4.0 Housing Options In Malaysia

The subject of housing options deals with the different means which people satisfy their housing needs. The term "satisfy" is used to indicate the benefit of occupying a house whether by rent or through ownership. When discussing these options the following may be the main considerations:

- o Affordability.
- o Location.
- o Type of house.
- o Neighbourship facilities.

On the other hand, considerations of the producer are simply,

- o Producers motivation i.e. profit or welfare.
- o Other considerations mostly dependent upon the above consideration.

Housing options to the consumer is to answer the question " How does an individual go about deciding whether he takes a house or not, and if so does he build it, buys it, or rent it and if so, what type and where?". The average Malaysian would have more than one of the following options:-

Options Through The Public Sector

The public sector on Malaysia is involved in the production of houses under many programmes and the consumer may obtain a house under one of these programmes. Besides completed homes the government also provides for self build options by providing building plots and/or finance. Houses for rent are also available from the public sector.

Options Through The Private Sector

The private sector is also a major producer of houses. Private developers offer completed houses for sale in their housing schemes. Serviced plots of land are also sold for purchasers to build their own houses on them. Houses for rent are also available from the private sector.

Self Build Options

Though serviced plots provided by the developers of the public sector are for the purchaser to build his own house, he is still bound by certain constraints similar to that of a purchaser of a complete house. Briefly he is not in complete control of all the processes that is involve to build a house.

One separate category for self-help alone is necessary where the house seeker goes about out building a house without participation from any other party. He is at once the producer and the consumer. He could become a member of a cooperative, or he could build on his own plot of land. He could also build on some others's land and where no permission has been obtained, he becomes a squatter.

5.0 Affordability

Housing is a durable good and is relatively expensive to purchase through the private market. In practice private house purchase can only be afforded by those who has considerable savings and capital assets or have access to loan financing. Thus any differentiation of access to the finance market would greatly differentiate house purchase affordability among the buyers.

The main factors affecting house purchase affordability are assets, current income and public housing policy. The Malaysian Government's policy with regard to housing is to ensure that all Malaysians particularly the low income groups will have access to adequate housing. To meet this

objective, housing programmes in the national five year plans are formulated based on the nation's housing needs and the people's ability to pay for the housing. In its effort to meet the housing policy the Government encourages house ownership by actively promoting home-owning democracy.

The following illustration will broadly indicate a general income spectrum of the public, the types and prices of houses available and the expenditure pattern of the low income group.

A typical income spectrum of the consumers could be seen as follows:-

Profession	Monthly Salary(RM)
Top Executives/Top Civil Servants	10,000 - 30,000
Professionals (Doctors, Lawyers, Architect)	3,500 - 8,000
Academician/Professors	2,500 - 12,000
Middle Managers	3,000 - 6,000
Administrative Executive	1,500 - 4,000
Clerical	600 - 2,000
Hawkers, Petty Traders	500 - 1,500
Manual Workers (Semi/Skilled)	700 - 2,000
Manual Workers	600 - 800
The Poor	300 and below.

From the above income spectrum the low income and poor are those segment of the population that earns below US 250 a month.

Let us compare these figures with the average price of various types of houses available in the market.

Types of Houses	Urban Areas (RM)	Rural Areas (RM)
Double Storey Detached	200,000-3,000,000	140,000-300,000
Single Storey Detached	150,000-400,000	100,000-200,000
Condominiums	150,000-500,000	-
Double Storey Semi Detached	150,000-400,000	120,000-150,000
Single Storey Semi Detached	100,000-300,000	80,000-100,000
Double Storey Terrace	70,000-250,000	70,000- 90,000
Single Storey Terrace	50,000-150,000	40,000-160,000
Flats	40,000-120,000	-
Low Cost Houses (Regulated)	25,000	-

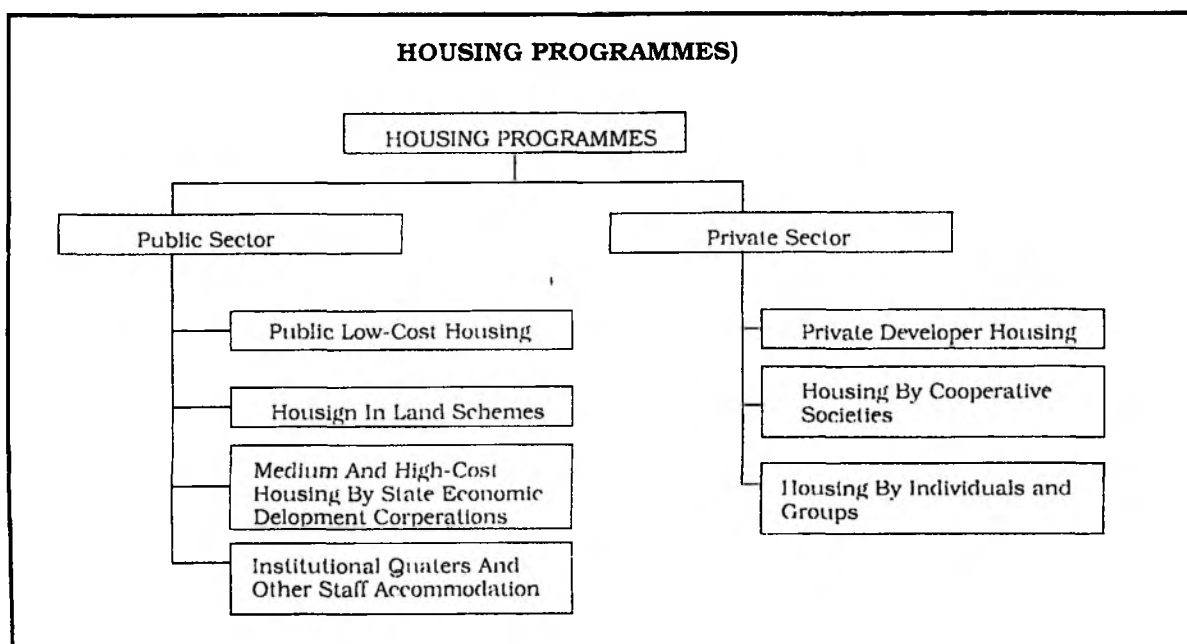
From the above ranges of housing prices, the type of houses affordable by the low income group are the flats and the low cost houses. Most likely the poor will not be able to purchase any houses in the open market. This is basically the problems faced by the country at the moment, the issue of providing affordable housing to the low income and the poor.

"THE CHARACTERISTICS OF DIFFERENT TYPES OF HOUSING"

Houses Types	Price (M\$)	Floor Area	Target Group (household incomes)	Types of dwelling units
Low Cost Houses	Less than M\$25,000	500-600 sq.ft. (45-56 sq.m)	Less than M\$750 (some state governments have extended to M\$ 1,000)	Walk-up flat, high rise flat, cluster link houses, single storey terrace houses.
Low Medium Cost Houses	M\$25,001-M\$50,000	651-800 sq.ft. (183-244 sq. m)	M\$751-M\$1,500 a month	Single storey terrace, double storey terrace (narrow frontage), flat and cluster link houses.
Medium Cost Houses	M\$50,001-M\$100,000	801-1,000 sq.ft (245-305 sq.m)	M\$1,501-M\$2,500 a month	Single storey terrace, double storey terrace, flat and cluster link houses.
High Cost Houses	M\$100,000 and above	1,000 sq.ft and above (306 sq.m)	M\$2,5001 and above	Double storey terrace, Semi-Detached, Detached and High Cost Condominium

6.0 Producers of Houses In Malaysia

The housing producers in Malaysia could basically be divided into 2 main sectors, the public and the private sector. The public sectors consist of the Federal Government, The State Government, Statutory Bodies and Government Agencies, while the private sector consist of private property developers.



Public Sector Housing

Federal Government (National Housing Department) The Low Cost Housing Programme

The Low Cost Housing Programme is the largest and most pervasive of all the programmes carried out by the government. Large allocations are made under each Malaysia Plan to be distributed as loans to the State Governments. The State Government are then required to implement low cost housing projects that have been identified for these loans. Those eligible for these houses are selected according to guidelines set by the Ministry of Housing and Local Government. The main aim of this programme is to provide an opportunity for low income earners to acquire a house of their own.

From the consumers point of view if he is eligible for a low cost house, it would be his best choice. A low cost house through these programmes is in fact a complete house built according to all laws and planning requirements, with materials of adequate quality and is usually around 65 square meters, thus being large enough to accommodate an average Malaysian family. The terms of payment are generous in that, a rate of interest not exceeding 5.5% is charged to be paid over a period of 25 years. There is no down payment and the house is fully serviced with all infrastructural and recreational facilities.

The unavailability of government land in strategic areas and the high cost of acquiring such land has often sited these projects out of urban concentrations, thus creating problems on transport and sources of employment for the successful owners of these houses.

Land Development Schemes by Federal and Regional Agencies.

This refers to a group of agencies that have been formed to address themselves to land development across the country. In their sphere of activities housing becomes an important component. The option for a consumer under these agencies is therefore a means of livelihood along with a house. The selection criteria of participants for these programmes depend on the agencies concerned. However, as agencies are all dealing with land development (mainly agricultural development) the applicant should have an agricultural background and be willing to resite himself into the scheme area especially so for schemes by the Federal Land Development Authority (FELDA) and the various Regional Development Authorities. Another similar authority, the Rubber Smallholders Development Authority (RISDA) implemented a modified scheme which are related to farmers whose land are restructured and it often involves a mere shifting on to restructured plot with the help given by the Authority.

In the final analysis, this option is not a general option for a house seeker. It is a choice of a new way of life rather than a choice of a house alone.

State Economic Development Corporation (SEDC)

SEDCs are involved in housing as it is a part of development. All SEDCs throughout the country have started housing programmes one way or another. Houses of all types are built and sold to the general public on less stringent qualifications than in the other public sector programmes. However, a house buyer under this programme would have to seek his own source of finance which is not very difficult given institutions such as the Malaysian Building Society Berhad (MBSB) managing social financing schemes for such purchasers.

The prices of the houses are generally lower than free market prices but are not subsidized like houses under the low cost housing schemes. The prices of the smaller houses such as terrace houses and flats may be cross-subsidized from the sale of the more luxurious units.

Urban Development Authority

Houses developed by the Urban Development Authority are in fact the results of UDA's comprehensive development of urban areas. This is being so, the houses tend to be in commercial areas and

are usually high-priced. The sale of these units is in line with UDA's purpose of introducing Bumiputra participation in urban activities.

Local Authority Houses (Rental)

A few local authorities have in the past constructed houses for rental. These houses are very much in demand as they are often within the town boundaries, providing easy accessibility to employment and transport. Many of the criteria used for a location in low cost housing schemes are applied to these houses as well. The rental is extremely low. Of late the local authorities are facing an uphill task of maintaining such houses. As a result the quality of their housing has suffered. This is further aggravated by the rising standards of living and expectations of the people. Many of the houses are sold and since eventual ownership is not assured, they are subject to abuse and vandalism.

The tight housing situation in most urban areas, combined with the low rental charged for such conveniently located houses makes them well sought after.

Sites and Services and Revolving Fund.

The government also encourages people to build their own homes to tap the building capacity of individuals. To this end, sites and services schemes as well as a revolving fund are created. Under the site and services scheme, a site with all infrastructure is sold to the successful applicant and he is then at liberty to build the type of house he wants. The idea is to allow the participant to build progressively according to his ability.

As individual plots have been given to the participants, high density housing may not be achieved and therefore, this programme is more suited to rural and semi-urban areas. The resultant houses are of various standards reflecting the owner's ability. The Revolving Fund however is more suited for individuals who already have a plot but lack financing. A maximum amount of RM 7,500 is loaned to the applicant to enable him to put up his house.

Private Sector

When a consumer is unable to obtain a house from any one of the public sector programmes he still has the option of purchasing one from the private sector. However the price would generally be very much higher than those offered by the public sector.

Some state governments have required developers to produce a certain proportion of the units in their project for below RM 25,000., the sum being the ceiling for low cost houses. This is usually achieved by cross-subsidization. However the purchasers would have to seek their own financing like any other purchaser of houses from private developers and pay around 10% interest rates as compared to the 5.5% charged on low cost houses built by the state governments.

Self- Build Cooperatives

Several housing projects have been launched by cooperatives in the country. The members having taken the management and the risks on themselves can be considered as self-builders. Many cooperatives have managed to produce houses at considerably lower costs to their members than the private developers. However the members are normally gainfully employed in other jobs and are therefore unable to expend the same amount of expertise and time as private developers. This often results on cost increase that could be avoided.

Individuals

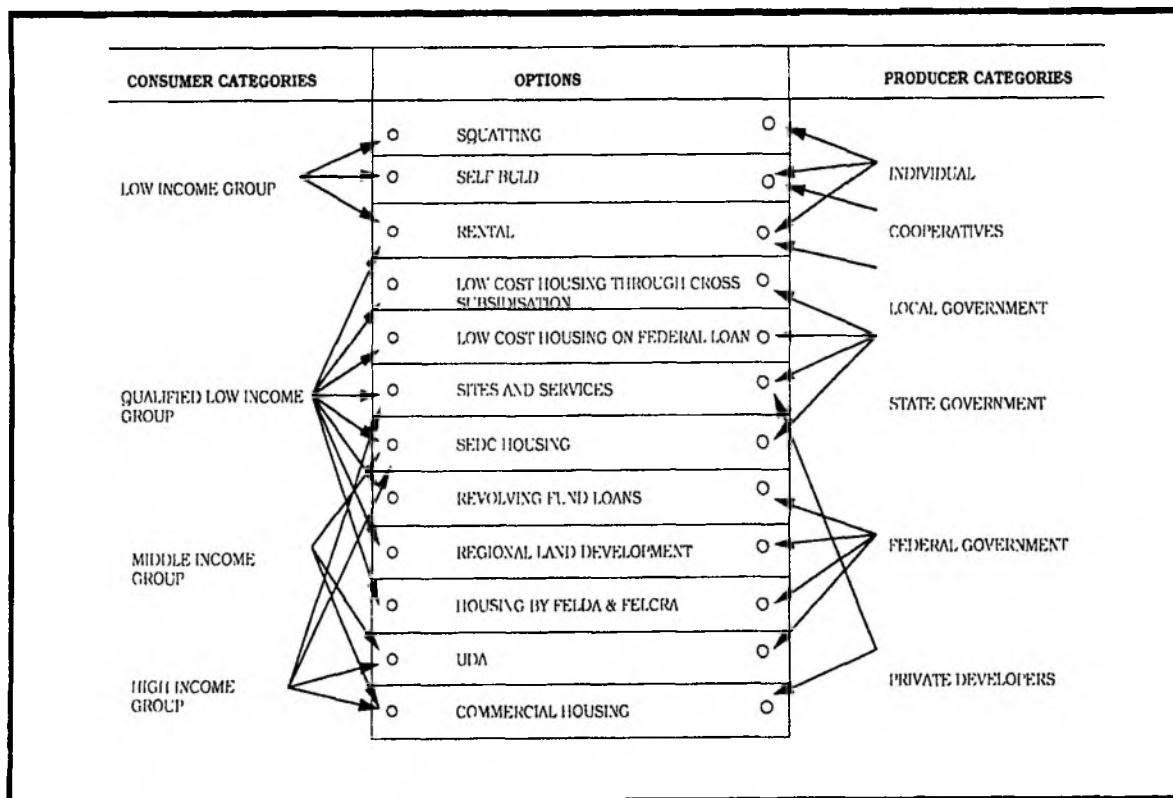
There is also a substantial number of self-builders who go it alone all the way from acquisition/ conversion of land to the complete house. They could even be illegal settlers on other's land.

Self- build gives the maximum flexibility and choice to the intending house owner. In rural areas it is the main choice since producers of mass housing do not venture into these areas for lack of a large demand. Since many of them are low-income earners, the houses are generally of poorer quality. The average wage earner in the urban areas is invariably unable to avail himself of this option, having neither the time of the rural resident nor the finance of the urban middle class.

Squatters

Squatting as an option, is a very real one to many in the country. Though no direct national statistics are available, studies in towns are indicators of the extent of squatting. Squatting can take the form of houses in both public and private urban vacant land, as well as illegal clearings elsewhere. The squatters resort to this option for various reasons such as proximity to employment, low outlay, temporary abode and, in the case of land clearings, to seek gainful agricultural employment as well.

The majority of squatters are in urban areas having moved there to seek employment. The quality of the houses is very disparate. Where there is hope of permanency the houses have been developed to high standards while the average squatter house is much more modest affair having made up of wood and zinc sheets.



7.0 The Housing Development Process

The housing industry of Malaysia is governed by a number of Acts of Parliament which regulates the development of houses for sale to the people. Housing developers, whether public or private are governed by the following legislations which stipulates the necessary requirements :-

1. National Land Code
2. Strata Titles Act 1985
3. Housing Developers Act 1985
4. Housing Developer's (Control and Licensing) Rules 1970
5. Town and Country Planning Act 1970
6. City of Kuala Lumpur Planning Act 1973
7. Town Boards Enactment Cap 137
8. Uniform Building By-law 1974
9. Building By-Law 1950
10. Earthwork By-Law 1975
11. Street Drainage and Building Act 1974
12. Street Drainage and Building By-Law 1974
13. Sewerage, Drainage and Building By-Law 1957
14. Private Sewerage Plant Construction By-Laws 1960
15. Certificate of Fitness for Occupation By-Laws
16. Municipal Ordinance
17. Local Government Act
18. Electricity Act 116, 1949 (Electricity Amendment Act A217, 1973)
19. Water Enactment E.M.S. Chapter 146, 1935
20. Telecommunications Act 1950
21. Environment Quality Act 127, 1974
22. Civil Aviation Act 3, 1969
23. Real Property Gains Tax Act 169, 1976
24. Shares Transfer (Land) Tax Act 310, 1964
25. Land Acquisition Act Cap. 138
26. Contract Act 136, 1950 and Contract (Amendment) Act A329, 1976
27. Banking Act

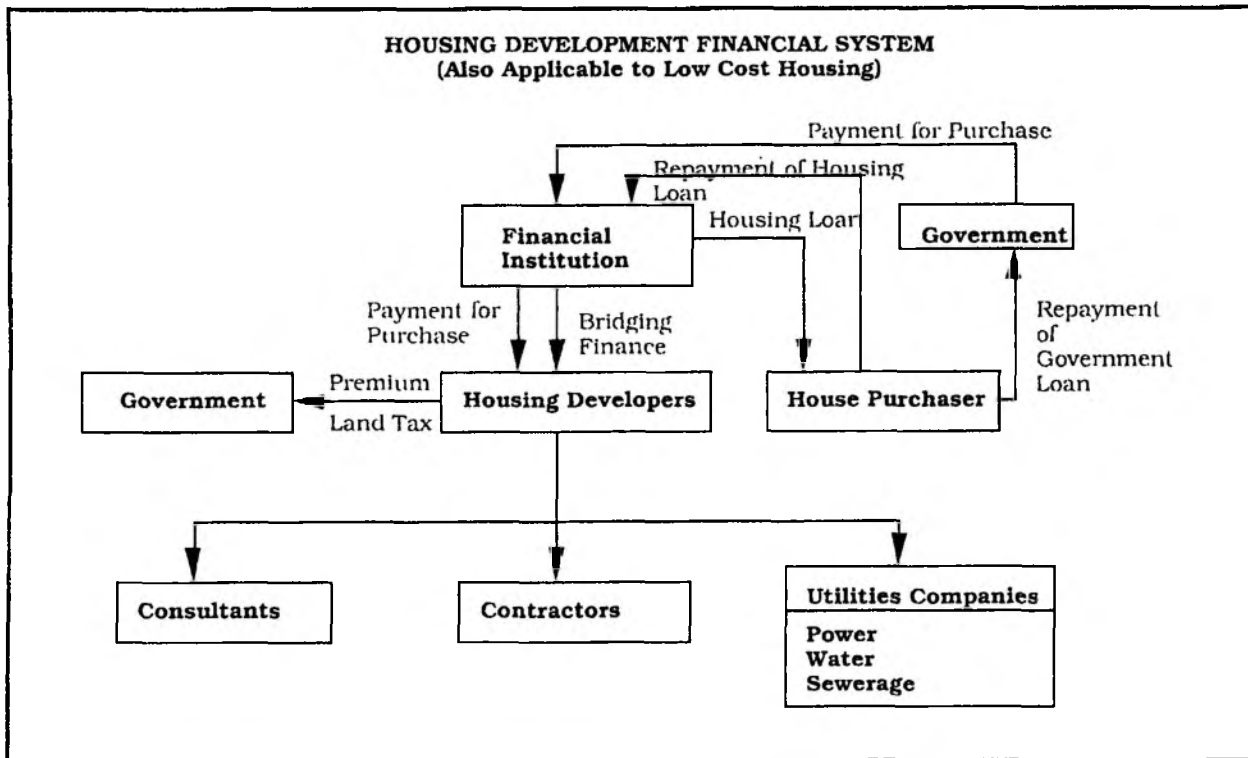
A statutory body which implements housing programmes are regulated by the very statute of which it is formed. While a private developer has to obtain a developer's licence and an advertising permit before it could embark on the sale of houses and collect any form of revenue. Such permission is only granted by the ministry of housing, if it satisfy a minimum amount of capital.

For Cooperatives undertaking housing projects for its members the legislation that it has to subject to is only the Cooperatives Act which also regulates other form of cooperative businesses. It is not subjected to the Housing Developers Act.

The duration of development varies according to the size and location of the project. On average from the inception, i.e. procurement of land until the houses are handed over to the purchaser, it could be anything between 3-5 years.

8.0 Housing Financial System

Basically most house buyers, if not all, do require some financing in the form of housing loan to enable them to purchase a home. The public sector housing developers utilised the annual budgetary allocations to undertake their housing programmes, while the private sector rely on internal funds and bank financing to implement their projects. Cooperatives also rely on bank financing due to limited capital and high amount of development expenditure.



The sources of fund that normally provide financing are as follows :

State Government Low Cost Housing Loan

The Federal Government provides loans to all states for developing low cost housing projects both for sale and rental. Interest rate is fixed at 4% per annum for a period of 25 years. For relending the states add up to 1.5% to the interest rate so that loans to individuals are made at a maximum of 5.5% p.a. The target population for whom this subsidised loan system is intended are those with a household income of \$750 per month.

Revolving Fund For Self- Build Houses

The Ministry of Housing and Local Government has a separate loan programme to help individuals with income not exceeding \$300 per month, to build their own house on lands they already own. The target groups are residents of rural and new villages, estates and mine workers and squatters and those directly affected by development projects. A Revolving Fund of \$10 million has been allocated for this purpose and loans up to a maximum of \$7,500 can be borrowed to be repayable between 5 to 25 years at an interest rate of 5.5% p.a. These loans are usually for housing in the rural and semi urban sector.

Malaysia Building Society (MBSB)

The MBSB was launched by the Government to provide end-financing for low income groups. The society has two separate programme namely its normal operations and the low cost housing finance programme. Loans provided under the normal operations fetch an interest of 9% p.a. repayable over 15 years. MBSB was appointed by the Government in December, 1976 to administer a \$400 million scheme for financing low cost houses for persons earning less than \$750 per month. Two thirds of the fund are supplied by the Central Bank and the remaining one third from the Employees Provident Fund at 7%. Mortgage loans are in turn made at 5.5% repayable over 20 years for building houses costing not more than \$25,000 per unit undertaken by the private developers. The successful applicant usually qualifies for a loan of 90% of the purchasing price of the house. The ceiling price of houses to be financed was raised to \$25,000.

SOURCES OF HOUSING FINANCE

1. Commercial Banks
2. Finance Companies
3. Employee's Provident Fund
4. Malaysia Building Society Bhd. (MBSB)
5. Borneo Housing Mortgage Finance Bhd.
6. Treasury Housing Loan Division For Government Employees.
7. Housing Loan Programme : Ministry of Housing And Local Government.
8. Public Low Cost Housing Programme.

Government Employees Housing Loan Division

The Housing Loans Division of the Treasury provides loans to all public sector employees who have served the Government for more than five years. Loans are advanced up to 100% of the value of the house at 4% interest rate repayable within 25 years. The loans eligible which an employee is placed.

Employees Provident Fund (EPF)

The EPF is an important source of end-financing. This is a social security scheme for all contributors both public and private in the country. The EPF has made a \$400 million commitment to the country's two building societies, the MBSB and the Borneo Housing Mortgage Finance Ltd. as end-financing for middle and low income housing.

The Fund also has two schemes providing finance directly to members as down payment for the purchase of a dwelling house :-

- (a) The first is the withdrawal for the purchase of a low cost house effective from May 1977, whereby members can withdraw up to 10% of the purchase price of the house or of total amount of savings which ever is less subject to a maximum of \$2,000. The maximum price of the house should not exceed \$25,000 and it should be purchased from SEDCS, Government Housing Agencies or from developers approved by MBSB.

- (b) The second scheme is the partial withdrawal for a dwelling house effective from January, 1982. Members are allowed to withdraw 10% of the purchase price of the house or 45% of total amount of \$20,000. Eligibility conditions are membership for 5 years, one withdrawal by each member only for purchase of a residential house.

Commercial Banks and Finance Companies

As a group the commercial banks constitute the largest provider of housing finance. The loans are generally given to private sector housing for bridging and end-finance as well as financing for individually built houses. In line with the Government policy of giving priority for housing, the Central Bank has introduced guidelines requiring commercial banks and finance companies to channel at least 10% and 20% of their net increase in loans were kept constant at 9% for a repayment period of 10 to 15 years. The amount of loans approved by banks and finance companies increased from \$107 million to \$2,797.9 million over the decade from 1970 - 80.

These financial institutions provide 2 forms of financing, i.e. bridging finance to the developer as an initial funding for the development until the revenue is able to sustain the development cost and end financing for the purchasers to owned a house. The normal period of bridging financing is between 1-3 years and housing loan for purchasers between 10-25 years repayment period. The table below indicates graphically the financial flow of the project.

During the launching of the project the house purchasers will signed a sale and purchase agreement which requires the purchasers to undertake a series of payments the developer based on the progress of the works. The table shows such schedule which is determined by the Ministry of Housing and Local Government. Upon completion of the project and taking possession, the purchaser then has to make monthly installment to the financial institution based on a predetermined interest rate and repayment period.

9.0 The Problems of Low Cost Housing

The overall Government policy for housing is to ensure that the people has a right to own a roof over the head. The prices of houses is determined entirely by market forces. Unfortunately over the years the cost of owning a house increases at a high rate and this leaves a section of the population which comprise the low income group and the poor unable to purchase a house which they could afford from the industry. Although main objective of the national housing policy is to ensure that Malaysians, particularly the lower income group, have access to adequate shelter and related facilities, affordability has for long remained the main stumbling block to such access.

The great majority of the target group (those with a ceiling household income of RM 750 per month) cannot afford even the cheapest available house in the market, i.e. those with an official price tag of RM 25,000. Up to 80% of the low-income group cannot afford to buy such houses. To achieve the objective of providing low cost housing, housing programmes in urban areas are being accelerated with a target of 80,000 units build per year. In the rural areas, emphasis is being given to improving the quality of houses in existing villages by providing them with adequate basic amenities and facilities.

To overcome these problems the government introduced the following regulations for low cost housing:-

- a. A ceiling selling price of RM 25,000
- b. Minimum specifications for such houses in terms of area and quality
- c. An allocation of 30% of the development composition to be of low cost houses for all housing projects undertaken by developers.

When such regulations failed to meet the targets of low cost housing needs and demand further measures are introduced to encourage the construction of more units. Among further assistance

provided by the government are as follows:-

- d. Subsidised price of basic construction materials such as cement and steel reinforcements (below control price)
- e. Lowering of land premiums
- f. Reduction of legal fees
- e. Reduction of interest rate for low cost housing loans
- f. A quota for financial institutions to provide housing loan for low cost housing purchasers.

Even those measures failed to provide enough houses for the low income group and the poor. The developers claimed that at a ceiling price of RM 25,000/unit and increasing land cost and cost of construction, the other types of houses has to subsidised the development cost of low cost houses. The Government then embarked on a Special Low Cost Housing Programme to overcome such problems.

10.0 Special Low Cost Housing Programme (1986-1992)

During the mid eighties, the nation suffered a severe recession with only 2% growth rate. In order to overcome the recession and encourage growth, the housing industry was identified as one sector that could generate such intended growth. The main focus of the programme is to provide low cost housing for the poor through accelerated production of housing and partly to cushion the impact of recession on the low income group.

The "Special Low Cost Housing Programme" is actually an extra ordinary measure on a short term basis as a strategy to overcome the impact of recession by stimulating the economy as well as increasing the supply of low cost houses to meet increasing demand. It is an additional programme supplementary to the existing low cost housing programme. This programme will concurrently increased the number of houses for the lower income group. The target is to build an additional 80,000 units of low cost house during the 1986-1988 period.

The characteristics of the programme are as follows :-

- a. The special low cost housing projects will be implemented either on the private developer's land or land alienated to the private developers on a privatisation basis.
- b. Every state government was requested to identify potential land for such development
- c. The Central Bank provide RM 0.5 billion and the financial institution under the Central Bank directives will provide another RM 1.5 billion for the financing of such programmes implemented by the private developers at a low interest rate.
- d. The ceiling price of the houses is set at RM 25,000 per unit.
- e. All state government will register a list of interested house buyers and the priority will be given based on eligibility and the queue on the register.
- f. The government will set up a "one stop agency" to speed up all the necessary process of obtaining approval.

- g. The National Housing Department will formulate a set of standard house design taking into account the cost and comfort factor.
- h. The government will reduced the statutory charges such as land premium, land conversion fees and other contributions.
- i. With the cooperation of the bar council legal fees are reduced and standardised and certain fees to the land office with regards to documentation on ownership either being reduced to a nominal sum or waived entirely.
- h. The government reduced the controlled price of certain basic building materials such as cement and steel to about half the retail price.
- i. The interest charged for low cost housing loan is set at a maximum of 10%.

The overall performance of the Special Low-Cost Housing Programme which began in 1986, however, has been dismal. As at the end of 1989 only 19.9 per cent of the approved 348,039 units of low-cost houses was completed. The slow progress of the SLCHP is largely the result of the inappropriate choice of locations as well as administrative problems. This programme which was originally scheduled to end in 1989 has been extended to June 1992.

11.0 The Cooperative Housing System

The only community based housing system in Malaysia take the form of cooperative housing. Members of the community get together and pooled their financial resources to undertake housing projects for providing homes to their members. Approximately 3.2 million people or about 15% of the population are members of various kind of cooperatives. The number of cooperatives registered until 1994 is approximately 3,885 cooperatives. The cooperative movement of Malaysia has attained considerable success in the economic fields of agriculture, credit and banking, consumers, transportation, insurance, housing and fisheries.

Cooperative housing are normally formed by a section of the community that has common interest which is to provide affordable and quality houses for their members. It is autonomous, wholly owned by the members and managed by an elected board of directors during their annual general meeting. The cooperatives are regulated under the Cooperative Act of 1993 and operates within the defined scope of their bye-laws. The main function of a housing cooperative is to provide maximum housing benefits to its members with profit being a secondary objective. The cooperative principles of mutual cooperation and mutual benefits are the underlying factors which governs the business of the cooperatives.

Some of the types of community that form housing cooperatives are as follows:

- a. Teachers housing Cooperatives
- b. Government Employees Housing Cooperatives
- c. Farmers Housing Cooperatives
- d. Indegenous (Malays) Housing Cooperatives based on a particular district or state.

No	Types of Cooperatives	No. of Cooperatives	Members	Share Capital (RM)	Assets (RM)
1.	Credit/Bank	361	875,980	629,329,998	3,926,302,486
2.	Housing	64	52,327	34,236,143	205,300,223
3.	Consumers	245	106,322	43,793,407	150,530,215
4.	Transport	174	69,563	12,470,730	45,781,465
5.	Land Development	45	21,795	8,084,321	114,305,046
6.	Industrial	27	2,343	2,228,946	3,558,686
7.	School	560	346,969	1,828,949	10,636,239
8.	Insurance	1	122,421	1,794,579	347,114,979
9.	Multipurpose	452	1,027,165	602,046,082	2,780,616,774
10.	Social	27	16,593	385,401	796,287
11.	Association	4	(1100)*	4,496,614	10,570,043
12.	Investment	20	179,512	50,804,830	88,787,552
	Total	1,980	2,821,000	1,391,500,000	7,684,300,000

The operation of a typical Malaysian housing cooperative is characterised as follows:-

- a. A group of people with common interest either by geographical location or nature of profession formed a cooperative for the sole purpose of providing housing to its members.
- b. Each member of the cooperative will purchase a certain amount of share capital for the initial operation of the cooperative.
- c. The Cooperative will then decide to purchase a suitable piece of land, mainly land belonging to the state.
- d. The members will then determine the types and price of the houses they could afford and willing to pay.
- e. Each member that decided to buy a house from the cooperative will contribute a further sum of money for the purpose of financing the implementation of the project. If such sum is found to be inadequate, housing development being a capital intensive business, the cooperative will obtain additional financing from the financial institution such as the cooperative bank or the commercial bank. The land being used as a collateral for such funding.
- e. The board of directors and management of the cooperative will then appoint the relevant consultants to obtain all the necessary approval from the authorities and subsequently appoint a building contractor to construct the houses.
- f. Meanwhile each member who purchases the houses will obtain a housing loan either arranged by the cooperative or from some other sources mentioned earlier.
- g. Upon completion of the housing project the houses will be handed over to the respective purchasers (members).

- h. Any profits made from the initial development will then be used to implement another phase of the project of to acquire more land for the same purpose.
- i. During the implementation of the project, non members who are attracted by the cooperative ability to fulfill the housing needs of its members will join the cooperative for the same reason.
- j. Such development will continuously increase the size of the members, the capital formation and the expansion of the housing projects.

	1949	1947	1977	1985
Cooperatives	2	30	60	76
Members	330	4,593	22,422	54,480
Share Capital	RM 21,700	RM 1.4 Mil	RM 11.8 Mil	RM 28.7 Mil
Assets	RM 43,100	RM 7.4 Mil	RM 103.2 Mil	RM 122.2 Mil

Subsequently due to demand and good returns other non-housing cooperatives such as credit cooperatives, consumer cooperatives, multi purpose cooperatives undertake housing projects not only for their members but also as a business venture selling to the general public. The venturing of such businesses create an issue as whether cooperatives are into housing for the social responsibility of providing affordable and quality housing to their members or to gain maximum profits and distribute such profits to members in the form of high dividends.

However, due to different sizes and management capacity of the cooperatives, some housing cooperatives do encounter difficulties which resulted in delays and additional cost that what has been anticipated.

This is basically due to the following factors:-

- a. Insufficient capital due to low income levels of its members. This is more prominent for housing cooperatives that operates in smaller towns and rural areas.
- b. The members, board of directors, management staff has inadequate knowlege on the technicality of implementing a housing scheme.
- c. Difficulty in obtaining suitable land in terms of proximity to Infrastructure facilities such as water and power supply and economical physical terrain.
- d. Lack of confidence by financial institution on the ability of the cooperative to manage the project.
- e. The members could not afford to purchase the houses due to increasing land cost and construction cost.

On the whole the cooperative movement had been fairly succesful in providing houses for its members as indicated by the table below where the number of houses increases gradually over the period.

Basically the benefits derived through the cooperative housing systems are summarised as follows:-

- a. Much cheaper houses compared to other house producers
- b. Low financing cost due to capital formation among its members and low borrowings.
- c. Houses are designed according to the needs of its members
- d. Lower overheads and construction cost
- e. Development of a community spirit and cooperation.

COOPERATIVES HOUSING UNITS COMPLETED (1966 - 1985)

Duration of Malaysian Plan	Housing Units Completed by Cooperatives	Total Cost (RM Million)	Total Units Completed Under Malaysian Plan	Percentage of Total Housing (%)
1st Plan (1966 - 1970)	3,100	RM 76.5	22,522	13.7
2nd Plan (1971 - 1975)	3,500	RM 79.5	259,810	1.4
3rd Plan (1976 - 1980)	4,342	RM 119.1	484,190	0.89
4th Plan (1981 - 1985)	5,884	RM 222.4	391,924	1.5

12.0 The Abandoned Projects Experience

During the late 70's and early 80's, the Malaysian housing industry enjoyed a property boom with strong demand, high prices of houses and high profitability. Suddenly more private housing developers entered the housing market and implemented housing projects to obtain high returns. Many other non-housing based cooperatives, which have the financial resources and management capability entered the market for the same reason.

With a sudden decline in the growth of the economy in 1986, most of the developers are unable to find enough demand for their houses. This unique experience during the recessionary period (1985-1988) which effected the house buyers and house producers and the economy as a whole has provided valuable lessons and experience for the local housing industry. Even though the recession experienced a very low growth rate of 2% during a two year duration but the effect is still being felt into the early 90's and to a certain degree to the present.

During the recession, the demand for housing dropped dramatically due to lower purchasing power and developers were caught having to carry the burden of heavy financial commitment and high cost of borrowings. Approximately 450 housing projects, including cooperative housing were facing difficulties at all stages of implementation with approximately 51,000 houses were left uncompleted or totally abandoned. The cost of the projects was estimated at about RM 4.5 billion. The impact on the public sector developers was not serious simply because they have the financial resources to

sustain low demand and could carry on implementing the project eventhough at a much slower rate. The private housing developers and housing cooperatives faced a much more difficult situation. Most effected of all are the low cost houses which is not available, except a few since these types of houses are not profitable to be build. As a results, low cost house buyers is in a much more difficult situation compared to other house buyers of other types of housing.

Due to the profound impact on the economy the Federal Government through the Central Bank allocated RM 500 million as a rehabilitation fund where private developers and cooperatives could borrow at very low interest rate to revive their project. Any developer that was considered unable to manage and complete the project, will put directly under the management of the central bank. Through this rehabilitation programme, a considerable amount of abandoned projects were revived and completed. In situation where it is not economically possible to revive the project, the property is disposed with a fair price to other developers.

The Cooperative Act of 1949 was replaced by a new cooperative Act of 1993 which provide better management and accountability of cooperatives to ensure that members truly benefits from the economic activities of the cooperatives in line with the cooperative principles.

Such experience has created a much more cautious approached by developers towards housing development and would be buyers are more careful and selective from which producers that are going to purchase their houses. The financial institution are also more conservative in providing loan to housing developers to ensure that projects are vaible and the funds are properly disbursed.

NUMBER OF ABANDONED HOUSING PROJECTS IN PENINSULAR MALAYSIA: 1983 - 1993 (till June)

State	Number of projects	Houses involved	Number of buyers	Cost of project (RMmil)	ABANDONED PROJECTS ATTENDED TO				COMPLETED REVIVED PROJECTS		Not revivable cases closed	Projects still abandoned
					New	Under feasibility study	To be revived	Being built	Without CF	CF obtained		
Perlis	11	1,220	583	81	0	1	1	1	0	4	4	3
Kedah	18	3,097	2,283	85.4	0	1	1	5	2	6	3	7
Penang	37	6,729	2,890	501	0	4	1	3	1	15	13	8
Perak	72	12,120	7,258	596.9	0	5	6	4	9	26	22	15
Selangor	67	14,284	9,059	821.35	1	4	6	6	10	23	16	18
Kuala Lumpur	15	6,557	3,122	487	1	0	0	1	2	6	5	2
Negeri Sembilan	43	8,877	5,477	430.3	0	1	8	3	3	16	12	12
Malacca	22	4,234	2,873	221.5	0	0	0	1	1	11	9	1
Johor	60	18,487	13,637	873.8	0	3	6	2	8	25	16	11
Kelantan	29	3,213	1,508	175.5	1	1	2	3	3	10	9	7
Terengganu	31	1,356	573	72.37	0	1	2	4	1	13	10	7
Pahang	23	3,368	2,127	154	0	0	4	3	2	9	5	7
Total	428	83,542	51,390	4,500.12	4	21	37	36	42	164	124	98

Source: Housing and Local Government Ministry

13.0 What Housing Cooperatives Can Do

In the light of what has been previously discussed, the contribution of cooperatives towards providing Low Cost Housing at present relatively insignificant particularly in the late 80s and 90s.

The role of providing Low income houses were fulfilled by the private sector and the government agencies. Even that the quality of such houses is far below the targeted amount and the delivery of such houses were made under legislative pressures.

However, housing cooperatives have the potential to provide assistance and contribute in providing houses to the low income group since they are various opportunities currently made available by the Government.

The Government is giving top priority in the provisions of low cost houses to the people. The Deputy Prime Minister and the Chief Ministers of all the State Governments have made this requirement a top agenda and policy matter.

What the Housing Cooperatives can do is basically to address the following issues:-

- Turning the cooperative into an efficient and cost effective producers of houses.
- Addressing the housing needs of the members, particularly the low income group.
- Cooperation among various types of cooperatives involve directly or indirectly in the housing industry.
- The most important of all, adherence the cooperative principles.

The production of houses basically involves 3 major and vital components i.e land, capital and management.

13.1 Land

The development of housing projects require the vital ingredient of land resources. The administration of land in Malaysia is governed by the National Land Code which classified land ownership as private or public.

Property development is undertaken by private ownership through the process of land conversion or alienation of State land to housing developers.

Obtaining land from the open property market is relatively expensive whilst obtaining land from the State involves only the payment of land premiums to the State.

Hence, the only realistic source of land for the cooperative is from the State. Obtaining land from the State for cooperatives use to be easier then, but not so now due to competition from other developers and also the from other landusers.

However if the cooperatives are able to convince the government that by making land available will benefit the low income group then that should be much to obtain state land.

13.2 Capital

Housing development is a capital intensive activity due to the high cost of production as compared to other forms of land use such as agriculture. The capital formation of housing cooperatives are relatively low due to the limited financial resources of the majority of cooperative members. The cost of borrowing from financial institutions are relatively high. Even Cooperative Banks are charging commercial rates. However the government of Malaysia has allocated RM 1.2 billion as a special revolving fund at 2.0% interest rate per annum for low cost housing programmes. Cooperatives could gain access to such funds, otherwise bigger cooperatives with the financial resources are the only category that could undertake housing development.

13.3 Effective Management

The failure or ineffectiveness of housing cooperatives are basically due to poor management. This arise due to the limited time accredited to management by the Board of Directors, insufficient knowledge and experience of the board members and also the cooperative management. In order to be more effective housing cooperatives should ensure that, members of the board and the staff of the cooperatives have sufficient management capability and knowledge to manage a housing project. Consultants that are appointed by the Cooperatives address only the technical requirements but not to manage the cooperatives and the whole process of housing production.

13.4. Addressing the Housing Needs of the Members.

The needs of the members who require houses are basically simple, i.e :

- A decent dwelling
- Purchase at an affordable price
- Suitable location in relation to place of work and educational facilities.

The cost and design of the houses should fulfill the above requirement. Where possible "cost/value engineering" concepts should be adopted to keep the cost of houses as low as possible, thus providing value for money.

The primary objective should be providing affordable houses for members while profit should only be marginal providing sufficient fund for future developments. Providing high returns/dividend should not be made a priority.

13.5 Greater Cooperation Among Cooperatives

- Cooperative Banks and Credit Cooperatives should provide low cost of fund to housing cooperatives or even becoming a partner to the housing cooperatives. This will keep the cost of fund as low as possible. They should also provide housing loans at a lower rate of interest to the house purchasers who are members of the cooperative movement.
- The Insurance Cooperatives could also provide insurance coverage at minimum rate.
- Wherever possible building materials or household goods should be supplied by Cooperatives such as those involve in trading or small/medium scale industries.
- Cooperatives that has a land bank but insufficient fund should be encouraged to under take housing projects with other cooperatives that has the financial resources and management capability.

13.6. Greater Interaction with the Government

Housing development as previously described is a time consuming process. For a small housing scheme covering 10 acres that could accommodate about 100 terrace houses, it may take 3 years to design, obtain the necessary approvals and to build the houses. This includes the local Authorities and various Government Department in obtaining the necessary approvals. If the cooperative is dependent on a housing loan, the interest factor generated along the process could be of a substantial amount.

Since the Government and the local authorities and also the Utilities companies are involved, frequent interactions and follow ups should be done to facilitate the housing development process. It is quite normal Government and the Authorities giving a priority status, if a housing Cooperative is undertaking a project to address the demand for low income houses.

Hence a close relationships should be fostered between Cooperatives and the Authorities. Since the majority of Cooperative Board members are usually prominent members of the community, this would be easier to facilitate such relationships.

13.7 Adherence to Cooperative Principles.

Cooperative Principles are fundamental to the very existence of all cooperatives. These principles should be transformed into the activities of the cooperatives. The weaknesses and failures of the housing cooperatives were attributed to the divergence from these principles. There is a very fundamental difference between housing cooperatives and other housing developers whether private or public.

Observation on the performance of the Malaysian housing cooperatives disclosed the following

- Maximisation or at least optimisation of profits.
- Issuance of high dividends.
- Housing prices set at almost market price.
- High cost of borrowings
- Joint Venture between Cooperatives and Private Developers.
- Low Cost houses are only provided to fulfill legislative requirements.

Of course upon successful implementation of the projects the Cooperatives may make a substantial profit, issue relatively high dividends to members. Some members are able to purchase houses and every party is quite satisfied.

For those projects that are otherwise, the cooperatives have to pay very high interest cost, no profits are made and even worst the project is abandoned.

In order to avoid the above 2 situations housing cooperatives must review their position and revert back to the fundamentals, i.e. adherence to the cooperative principles

Conclusion

Probably Housing Cooperatives should ponder the following statement :

- The very existence of housing cooperatives is to provide MAXIMUM BENEFITS to the members as against MAXIMUM PROFIT.
- Maximum benefits means providing members, particularly the lower income group decent and affordable houses giving value for money. The assets might worth more than the purchase price. This can also be interpreted as a form of dividend.
- Housing Cooperatives should provide houses to members only not the open housing market.
- The resources of the cooperatives movement should be put together to provide the necessary requirements. (cooperation among cooperatives/Cooperatives resources mobilisation).

Housing Cooperatives should address the above issues which are most important in providing houses for the low income groups.

It is very important that adherence to the above objectives are THE BEST ACTIONS HOUSING COOPERATIVE CAN DO FOR THE LOWER INCOME MEMBERS, the rest are basically operational and logistical.

Terima kasih, Thank you very much.