



STREAMLINING PRIVATIZATION

10

I. INTRODUCTION

10.01 The Government continued to refine and improve the implementation of the privatization programme during the Eighth Plan period. Existing procedures were streamlined and new measures introduced to further enhance its effectiveness. In addition, some concession agreements were reviewed by mutual consent, to provide a more equitable distribution of costs and benefits to the various stakeholders. To sustain the effectiveness of the programme in promoting the participation of Bumiputera entrepreneurs, stricter but fair conditions were imposed on ownership and changes in the equity structure of privatized entities. At the same time, the build-lease-maintain-transfer approach was introduced in the implementation of some major projects.

10.02 In the Ninth Plan period, the implementation process will be further streamlined, including adopting new approaches and mechanisms to enhance the efficacy of the privatization programme. The programme will continue to support the private sector-led growth strategy as well as increase the participation of Bumiputera entrepreneurs in the economy. To inculcate greater professionalism on the part of concessionaires in the implementation of privatized projects, standards will be put in place, performance indicators instituted and the reward and penalty system for tariff review introduced. In this regard, the regulatory framework will be further strengthened. The use of private finance initiatives (PFI) will facilitate greater participation of the private sector in the areas of management, operations and maintenance to improve the delivery of infrastructure facilities and public services.

II. PROGRESS, 2001-2005

10.03 During the Plan period, 35 projects were approved for implementation, of which 10 were existing entities and services, and 25 new projects. Of the total, 15 were in the construction sector and eight in the electricity, gas and water sector, as shown in *Table 10-1*. The completed projects included the New Pantai Expressway (NPE), Kajang Outer Ring Road (SILK), Shah Alam-

Kuang Expressway (Guthrie Corridor) and Western Kuala Lumpur Traffic Dispersal Scheme (SPRINT) Package C. Among the projects that are in various stages of implementation included the Butterworth Outer Ring Road, Kuala Lumpur-Putrajaya Expressway, Duta-Ulu Klang Expressway (DUKE) and Senai-Desaru-Pasir Gudang Expressway.

TABLE 10-1
**NUMBER OF PRIVATIZED PROJECTS BY SECTOR
 AND MODE, 2001-2005**

Sector	Mode of Privatization (Number of Projects)										% of Total
	SOE	BOT	BLT	SOA	BOO	LD	LIST	LOA	MC	Total	
Agriculture & Forestry	1	1	0	0	0	0	0	0	0	2	5.7
Construction	0	3	2	0	0	10	0	0	0	15	42.9
Electricity, Gas & Water	0	1	0	0	5	0	2	0	0	8	22.9
Transport, Storage & Communications	0	0	0	0	0	0	1	1	0	2	5.7
Government Services	0	0	0	1	0	0	0	0	1	2	5.7
Other Services	0	1	0	0	0	0	0	0	5	6	17.1
Total	1	6	2	1	5	10	3	1	6	35	100.0

Source: Economic Planning Unit

Notes: SOE = Sale of Equity LD = Land Development
 BOT = Build-Operate-Transfer LIST = Listing
 BLT = Build-Lease-Transfer LOA = Lease of Assets
 SOA = Sale of Assets MC = Management Contract
 BOO = Build-Operate-Own

Benefits of Privatization

10.04 *Efficiency and Productivity.* The performance indicators of the privatized entities continued to record an improvement during the Plan period. This can be attributed to better utilisation of resources, closer attention to consumer demand, technological change and lower production costs. Privatization also led to speedy delivery of facilities, such as in the development of the Federal Government offices in Putrajaya through the build-lease-transfer mode.

10.05 *Benefits to the Public.* The construction of toll highways contributed to the comfort and safety of road users. During the Plan period, 16 privatized highway projects were undertaken to construct an additional 604.5 kilometres of the national road network. These projects involved capital expenditure of RM18.0 billion, as shown in *Table 10-2*. Four projects totalling 87.8 kilometres were completed while the remaining projects are under construction or negotiation.

The completion of the NPE provided an alternative route to the Old Klang Road while the SILK offered better linkages between the southern and western part of Wilayah Persekutuan Kuala Lumpur. In addition, the construction of the road tunnel as part of the Stormwater Management and Road Tunnel project as well as the Kuala Lumpur-Putrajaya Expressway were undertaken to improve the south-bound traffic from Jalan Tun Razak to the Kuala Lumpur-Seremban Highway.

TABLE 10-2
**IMPLEMENTATION OF PRIVATIZED ROAD
PROJECTS, 2001-2005**

<i>Project</i>	<i>Length (km)</i>	<i>Cost (RM million)</i>
Completed		
New Pantai Expressway	19.7	1,099.3
Kajang Outer Ring Road (SILK)	37.1	1,189.0
Shah Alam-Kuang Expressway (Guthrie Corridor)	25.0	785.0
Western Kuala Lumpur Traffic Dispersal Scheme (SPRINT) Package C	6.0	420.6
Sub-total	87.8	3,493.9
Under Construction		
Stormwater Management and Road Tunnel (SMART)	6.0	588.0
Butterworth Outer Ring Road	19.0	327.0
Kuala Lumpur-Putrajaya Expressway	26.0	1,697.3
Duta-Ulu Klang Expressway (DUKE)	18.0	1,166.3
Senai-Desaru-Pasir Gudang Expressway	77.2	1,675.2
Sub-total	146.2	5,453.8
Under Negotiation		
Penang Outer Ring Road	17.0	1,057.0
Kajang-Seremban Highway	40.0	1,280.0
West Coast Highway	215.2	3,015.0
Kuala Lumpur-Kuala Selangor Expressway	33.1	750.7
Kemuning-Shah Alam Expressway	14.7	553.1
South Klang Valley Expressway	42.0	1,470.7
Eastern Dispersal Link (EDL)	8.5	888.0
Sub-total	370.5	9,014.5
Total	604.5	17,962.2

Source: Economic Planning Unit

10.06 Most of the road projects were implemented through the build-operate-transfer method, which requires the private sector to construct, operate and maintain the facility using its own funds and in return, collect toll from road

users during the concession period. At the end of the concession period, the facilities will be transferred at no cost to the Government. During the Plan period, the Jalan Kuching, Jalan Pahang and Jalan Cheras toll roads were handed over to the Government and the toll charges removed.

10.07 The privatization of water supply services in Selangor was undertaken to meet the high capital expenditure required in building new dams, reservoirs and water treatment plants as well as replacing old pipes to cater to the increase in demand for treated water. In this regard, a total of RM3.4 billion of capital expenditure was committed for capital works. In addition, as part of the efforts to improve the efficiency of water distribution to consumers and reduce the loss of treated water, the Government provided a sum of RM500 million to replace old pipes and install new meters in Selangor, Kuala Lumpur and Putrajaya.

10.08 The management and operation of the KL Sentral station was privatized to improve passenger interchange service and facilities. The station was designated as a city terminal and an international gateway serving several rail operators such as *Keretapi Tanah Melayu Berhad*, *Projek Usahasama Transit Ringan Automatik Sdn. Bhd.* (PUTRA) and the Express Rail Link (ERL) and finally linking it with the Kuala Lumpur International Airport (KLIA).

10.09 *Gains to Government.* During the Plan period, the Government continued to benefit from the privatization programme in terms of savings in capital expenditure amounting to RM28.6 billion, of which 81.5 per cent was from the electricity, gas and water sector, followed by the construction sector at RM3.7 billion or 12.8 per cent. Apart from having the facilities provided earlier, the savings of public funds enabled the Government to reallocate its limited resources to other sectors of the economy.

10.10 The Government also benefited in terms of proceeds from the concessionaires through the sale of assets and equity, generating RM21.7 million and RM40.5 million, respectively, as shown in *Table 10-3*. A total of 6,249 employees was transferred to the private sector, reducing the government administrative burden as well as generating savings in operating expenditure. During the Plan period, some concession agreements for support services were extended based on their performance and benefits generated.

10.11 The implementation of the privatization programme was further strengthened through the introduction of a standard format for privatization agreements and the renegotiation of several concession agreements, with mutual consent, to improve their terms and conditions. Among the new elements introduced was the sharing of revenue with the Government by the concessionaire upon achieving an agreed threshold, replacing automatic with performance-based tariff adjustments, abolishing exclusivity in the provision of service as well as the tightening of quality and service standards.

TABLE 10-3

**PROCEEDS, SAVINGS AND REDUCTION IN
PUBLIC SECTOR EMPLOYEES, 1983-2005**

<i>Item</i>	<i>2001-2005</i>	<i>1983-2005</i>
Proceeds (RM million)		
Sale of Assets	21.7	1,536.5
Sale of Equity	40.5	4,940.2
Savings (RM million)		
Capital Expenditure ¹	28,603.9	153,960.8
Operating Expenditure	126.9	7,747.1
Number of Public Sector Employees Transferred	6,249	113,220

Source: Economic Planning Unit

Note: ¹ Based on estimated project cost.

10.12 During the Plan period, the Government took over certain privatized projects that are strategic in nature which were adversely affected by the economic slowdown. This included the operations and management of light rail services operated by *Sistem Transit Aliran Ringan Sdn. Bhd.* (STAR) and PUTRA. This is to enable the public to continue to enjoy uninterrupted transportation services.

10.13 To safeguard and protect the Government's interest as well as other stakeholders, the provision of Government guarantee and the level of indebtedness was discontinued and step-in rights as well as expropriation, which allowed for Government intervention under stipulated conditions, was introduced. As a measure to maintain a sustainable Government land bank for future use, land development projects using the land swap mode in the Klang Valley and the cities of Ipoh and Johor Bahru as well as Pulau Pinang, was discouraged and only undertaken on a very selective basis.

Bumiputera Participation

10.14 Privatization continued to be used as a vehicle to enhance Bumiputera participation in the corporate sector, particularly through equity participation. Measures were undertaken to ensure that only capable entrepreneurs were selected to undertake construction works and participate in vendor development programmes. In this regard, provisions to enhance wider participation of Bumiputera entrepreneurs were included in privatization agreements and steps were undertaken to ensure that these provisions were met by the concessionaires.

10.15 *Contract Works.* Opportunities continued to be given to Bumiputera entrepreneurs to participate in commercial and industrial activities through contract

works. To ensure wider distribution of economic benefits, the requirement to award contract works to Bumiputera entrepreneurs was increased to at least 60 per cent. In nine road projects implemented during the Plan period, 27 Bumiputera contractors were awarded contracts valued at RM4,398.4 million, representing 66.7 per cent of the total contracts value.

10.16 *Vendor Development.* The vendor development programme, which is an integral component of privatization, was instrumental in promoting wider linkages between the small and medium enterprises (SMEs), in particular Bumiputera entrepreneurs, and the larger companies. It provided better access and opportunities to SMEs for the supply of products, parts and components as well as operations and maintenance.

10.17 *Equity Ownership and Control.* The policy that requires at least 30 per cent equity participation of Bumiputera entrepreneurs in privatized projects continued to be rigorously implemented. Based on the overall equity ownership of 35 companies approved to implement privatized projects during the Plan period, Bumiputera had a controlling interest in 24 companies. However, in terms of par value of the shares, Bumiputera owned only 17.2 per cent of the equity, as shown in *Table 10-4*. This was largely due to the higher level of the paid-up capital held by the Government in some of these companies.

TABLE 10-4

**EQUITY OWNERSHIP OF PRIVATIZED ENTITIES
UPON PRIVATIZATION, 2001-2005¹**

<i>Equity Ownership</i>	<i>Par Value</i>	
	<i>RM million</i>	<i>% of Total</i>
Government	309.3	74.7
Bumiputera	71.3	17.2
Non-Bumiputera	21.4	5.2
Foreign	12.1	2.9
Total	414.1	100.0

Source: Economic Planning Unit

Note: ¹ Based on 35 projects approved.

10.18 Bumiputera equity ownership reflected an increase from 32.7 per cent upon privatization to 51.7 per cent at the end of 2005, as shown in *Table 10-5*. In absolute terms, Bumiputera ownership of the share capital at par value increased from RM5.5 billion upon privatization to RM14.9 billion in 2005.

TABLE 10-5

EQUITY OWNERSHIP OF PRIVATIZED ENTITIES¹

Equity Ownership	Upon Privatization		December 2005	
	Par Value		Par Value	
	RM million	% of Total	RM million	% of Total
Government	8,584.4	50.7	9,013.8	31.2
Bumiputera	5,535.6	32.7	14,901.5	51.7
Non-Bumiputera	1,510.5	8.9	2,573.0	8.9
Foreign	1,303.4	7.7	2,368.5	8.2
Total	16,933.9	100.0	28,856.8	100.0

Source: Economic Planning Unit

Note: ¹ Privatized projects processed by the Economic Planning Unit.

III. PROSPECTS, 2006-2010

10.19 During the Ninth Plan period, the implementation of the privatization programme will be further streamlined. The maintenance of facilities will be included in the concession agreements of privatized infrastructure projects approved during the period. The PFI will be introduced in the implementation of privatized projects, with output specifications and key performance indicators (KPIs) clearly stipulated. The performance of the privatized entities will be regularly evaluated and audited to ensure that the projects meet the standards set and adhere to the KPIs. The strategies for privatization during the Plan period will be as follows:

- strengthening approval procedures;*
- emphasising performance standards;*
- streamlining the implementation process;*
- enhancing viability through risk distribution;*
- strengthening the institutional and regulatory framework; and*
- increasing Bumiputera participation.*

Strengthening the Approval Procedures

10.20 Efforts will continue to be undertaken to strengthen approval procedures, including the review of current practices and requirements, strengthening the legal framework and administrative procedures as well as improving the standard

format for terms and conditions of privatization agreements to protect the public and national interest. The selection of concessionaires will be through a bidding process and the projects to be implemented will be Government-initiated, based on national priorities and strategies to ensure greater multiplier effects and upgrade the quality of services. In addition, potential concessionaires will be assessed on their ability to undertake the project and the delivery of services in terms of efficiency, quality as well as sustainability.

Emphasising Performance Standards

10.21 Measures to enhance the privatization programme to increase efficiency as well as financial and operational benefits will include clearly defined output specifications of the services to be provided. A performance-based delivery system will be developed to ensure that services delivered are in accordance with the performance standards set by the Government. KPIs will be made compulsory in all privatized projects to ensure that concessionaires perform their responsibilities effectively. In this regard, tariff charges and revisions will be subjected to a reward and penalty system, where payment for services will be linked to performance with deductions imposed when service levels are not met. This system will thus serve as an incentive to the concessionaires to deliver services to the requisite standard over the life term of the project to ensure full recovery of the capital expenditure.

Streamlining the Implementation Process

10.22 The PFI will be introduced in implementing privatization projects during the Plan period. The PFI involves the transfer to the private sector the responsibility to finance and manage a package of capital investment and services including the construction, management, maintenance, refurbishment and replacement of public sector asset such as buildings, infrastructure, equipment and other facilities, which creates a stand alone business. The private sector will create the asset and deliver a service to the public sector client. In return, the private sector will receive payment in the form of lease rental charges, which commensurate with the levels, quality and timeliness of the service provision throughout the concession period. The structure of the lease rental payment for PFI projects will guarantee a total return to the concessionaire's capital investment expenditures including financing cost repayment and profit to investment. The asset and facilities will be transferred to the public sector at the expiry of the concession period.

10.23 As the evaluation and procurement process involved in implementing PFI will be more elaborate, particularly the need to be clear about output specifications, maintenance, performance indicators and distribution of risks, an effective enabling framework for implementation will be developed. In this regard, steps will be undertaken to establish the public sector comparator in evaluating the proposals and determining the value-for-money as compared to the conventional approach.

10.24 An effective mechanism will be developed to expedite the procurement process and respond to the demands of the contract details as required in the PFI approach. Measures will also be undertaken to establish long-term financing schemes through local financial institutions, including the Employees Provident Fund, to facilitate the financing of PFI projects, which normally have long gestation periods. As PFI projects are complex in nature and require new skills and support services, intensive training will be provided to enhance the capacity and expertise of the public sector personnel involved in the negotiation and monitoring of projects.

10.25 To further streamline the implementation process, new conditions will be imposed to ensure prospective companies have access to capital, including having a minimum paid-up capital of RM250,000 when proposing a project and providing documentary proof of financial support within twelve months upon signing of an agreement. In addition, companies must also furnish evidence of technical and management expertise.

Enhancing Viability Through Risk Distribution

10.26 To enhance the viability and sustainability of projects, emphasis will be placed on optimal distribution of risks between the public and private sectors. The Government will continue to facilitate project implementation, particularly through legislation and land cost support while the private sector's capability will be utilised in managing risks associated with design, construction, operations and maintenance.

Strengthening Institutional and Regulatory Framework

10.27 The institutional and regulatory framework will be further strengthened to protect consumer interests and ensure efficiency in the delivery of services by the privatized entities. The *Suruhanjaya Perkhidmatan Air Negara* (SPAN) will be the regulator responsible for water and sewerage services. Among others, it will ensure the productivity of the water supply services and sewerage services industry as well as the monitoring of operator compliance with stipulated service standards and contractual obligations towards delivery of effective and efficient service to consumers. In this regard, all water supply entities will be corporatised and licensed by SPAN. Under the new licensing regime, the level of rates to be charged for the water supply services will be determined by the Government, on the recommendation of SPAN. To ensure that the newly created regulatory authorities function effectively, efforts will be undertaken to provide the necessary legislation and resources as well as adequate personnel with appropriate skills and expertise.

10.28 The monitoring and evaluation mechanism of implementing agencies will be strengthened to ensure compliance of privatized companies to the provisions of the privatization agreements. Training programmes will be provided to enhance technical knowledge in project evaluation and performance auditing.

Increasing Bumiputera Participation

10.29 Privatization will continue to be used as a vehicle to meet the objective of increasing Bumiputera equity ownership in the corporate sector. Towards this end, the requirement to allocate a minimum of 30 per cent of the equity of privatized entities to Bumiputera entrepreneurs will continue to be enforced. In addition to the three-year moratorium on the change in shareholding structure and shareholders, stringent procedures will continue to be adopted in the selection of Bumiputera entrepreneurs to prevent the dilution of Bumiputera interests in the privatized companies.

10.30 Opportunities will continue to be extended to Bumiputera entrepreneurs to participate in the commercial and industrial activities of privatized entities through the requirement to award at least 60 per cent of the contract works to Bumiputera entrepreneurs. The award of contract works will be tightened to exclude subsidiaries of the main concessionaire. The concessionaires will continue to be required to offer employment opportunities to Bumiputera individuals, especially at the professional and managerial levels. Vendor and entrepreneur development programmes will continue to remain as an integrated feature of privatization. To ensure that the requirement of Bumiputera participation is effectively implemented and monitored, an integrated approach will be adopted to streamline the efforts of the existing monitoring mechanism, including the sector-based regulatory authorities.

IV. INSTITUTIONAL SUPPORT

10.31 The Economic Planning Unit will be the lead agency in negotiating privatization agreements. It will be supported by other central agencies such as the Ministry of Finance, the Attorney General's Department, the Ministry of Public Works, the Valuation Department, the Federal Department of Lands and Mines and the relevant client agencies.

V. CONCLUSION

10.32 During the Eighth Plan period, new measures were introduced and stricter conditions imposed in the implementation of the privatization programme to safeguard consumer interests and increase efficiency and productivity. In the Ninth Plan, the programme will be further streamlined, with project selection identified by the Government and selection of concessionaires through a bidding process. The PFI will be introduced in implementing privatization projects. In this regard, the adoption of KPIs, risk distribution and maintenance will enhance the delivery of infrastructure facilities and public services. A performance-based

delivery system will be implemented where tariff charges and revision will be subjected to a reward and penalty system. Long-term financing schemes through local financial institutions, including the Employees Provident Fund, will be established. The privatization programme will continue to be used to support and increase further the participation of Bumiputera entrepreneurs in the economy.