

CHAPTER 7 - PRIVATIZATION

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Chapter 7

Privatization

7

PRIVATIZATION

I. INTRODUCTION

7.01 Privatization continued to be an essential part of the overall strategy in the country's economic development. During the Seventh Plan period, the privatization programme contributed towards the growth and development of the economy, in line with the private sector-led growth strategy and the Malaysia Incorporated Policy. At the same time, the programme contributed towards promoting Bumiputera participation in business and commerce. In undertaking the programme, emphasis was placed on expanding capacities to develop the infrastructure required to effectively foster the development of industries and supporting services as well as provide better comfort and access to consumers. Steps were also initiated to ascertain that the appropriate regulatory framework is in place.

7.02 In the Eighth Plan period, privatization will continue to be implemented to facilitate economic growth. Besides infrastructure projects, emphasis will also be given to projects that generate multiplier effects and upgrade the quality of services to the people. The programme will continue to enhance wider Bumiputera participation and to ensure the sustainability of privatized concerns. The Government will provide support to projects which have social implications and require large capital expenditure, in order to reduce tariffs and other charges to consumers. To ensure that the public will have equitable access in the participation of privatized entities, corporatized entities which are commercially successful will be listed on the Kuala Lumpur Stock Exchange (KLSE), while the process of identifying other potential government entities for corporatization will be continued. Further efforts will also be undertaken to strengthen the regulatory framework to safeguard consumer interests and monitor the performance of privatized entities.

II. PROGRESS, 1996-2000

7.03 The implementation of the privatization programme continued to be guided by the Privatization Master Plan and aimed at benefiting all Malaysians. Although the economic crisis affected the implementation of some projects, remedial measures were undertaken promptly to revitalize the affected projects such as rescheduling their implementation and reducing the project scope. To increase economic activities, the concept of deferred payment was introduced, whereby the company undertook the financing and construction of the facilities and received scheduled payments upon handing over of the completed facilities.

Projects Privatized

7.04 During the Plan period, 98 projects were privatized, of which 47 were existing projects and 51 new projects. Of the total new projects, 49 were in the construction, transportation and the electricity and gas sectors. Five of these projects were completed, while 25 were in various stages of implementation and the balance in the initial planning stage. The completed projects were the Damansara-Puchong Highway, upgrading of the Sungai Besi Road and the three Independent Power Producers in Sandakan, Karambunai and Batu Sapi in Sabah. Major projects which were at various stages of implementation included the Monorail System in Kuala Lumpur, the Express Rail Link (ERL) from Kuala Lumpur to the Kuala Lumpur International Airport (KLIA), the development of 10,000 units of quarters for teachers and Phase III of the water supply project in Selangor. Details of the privatized projects are as shown in *Table 7-1*.

Benefits of Privatization

7.05 *Efficiency and productivity.* The services and management of privatized entities improved significantly as evidenced by increases in the efficiency and productivity indicators of selected entities, as shown in *Table 7-2*. This was due to the upgrading of facilities by these companies which were also able to acquire new and modern technology, expanded capacity and service network, fostered changes in management and organization, as well as inculcated positive attitude among their employees. In addition, privatization also led to faster implementation of projects, particularly highways and ports. In this regard, the construction of the Port of Tanjung Pelepas in Johor was completed six months ahead of schedule, while the construction of the Damansara-Puchong Highway was completed in 28 months instead of 36 months.

TABLE 7-1

NUMBER OF PRIVATIZED PROJECTS BY SECTOR AND MODE, 1996-2000

Sector	Mode of Privatization										Total	%	Savings in Capital Expenditure (RM million)
	SOE	BOT	SOA/Land Swap	BOO	COR	MBO	LOA	MC					
Agriculture & Forestry	4	0	2	0	1	0	1	0	0	0	8	8.2	565.0
Manufacturing	0	0	0	0	0	2	0	0	0	0	2	2.0	0.0
Construction	0	0	25	0	1	1	0	0	0	0	27	27.6	7,896.1
Electricity & Gas	0	0	1	10	1	0	0	0	0	0	12	12.2	23,458.8
Transport	1	14	1	0	0	0	0	0	0	0	16	16.3	15,155.4
Water & Sewerage	1	1	0	0	2	0	0	0	0	0	4	4.1	2,100.0
Wholesale & Retail Trade, Hotels & Restaurants	2	0	0	0	0	2	0	0	2	0	6	6.1	1.5
Finance, Real Estate & Business Services	3	0	0	0	0	0	0	0	0	0	3	3.1	0.0
Government Services	0	0	3	0	4	2	2	2	9	0	20	20.4	75.4
Total	11	15	32	10	9	7	3	3	11	98	98	100.0	49,252.2

Notes:

SOE = Sale of Equity
 BOT = Build-Operate-Transfer
 SOA = Sale of Asset
 BOO = Build-Operate-Own

COR = Corporatization
 MBO = Management-Buy-Out
 LOA = Lease of Asset
 MC = Management Contract

TABLE 7-2

**EFFICIENCY AND PRODUCTIVITY INDICATORS
OF SELECTED PRIVATIZED ENTITIES**

<i>Indicator</i>	<i>Before Corporatization/ Privatization</i>	<i>After Corporatization/ Privatization (2000)</i>
Telekom Malaysia Berhad ¹		
Return on Assets (per cent)	4.0	4.7
Revenue Per Subscriber (RM)	1,227	1,755
Production Per Employee (RM)	34,372	51,672
Direct Exchange Lines Per Employee	36	183
Response to Complaints/Faults (per cent)	80	100
Tenaga Nasional Berhad ²		
Revenue Generated (RM billion)	3.3	14.3
Cost Per Unit Per Output (cent/kWh)	16.6	19.4
Access to The Public (number of service centres)	100	166
Cost to Public Per Unit Per Output (cent/kWh)	18.0	23.5
Johor Port Berhad ³		
Return on Assets (per cent)	6.6	7.9
Operation Cost Per Tonne - Freight Weight (RM)	8.3	6.7
Annual Gross Profit (RM million)	29.1	83.4
Operating Revenue Per Employee (RM)	110,000	339,374
Average Container Throughput (TEUs)	128,556	659,181
Average Number of TEUs Per Vessel	110	280
Average Handling Rate Per Ship Per Hour	28	56
Crane Handling Rate Per Hour (TEUs)	28	28
Penang Port Sdn. Bhd. ⁴		
Return on Assets (per cent)	11.0	9.0
Operation Cost Per Tonne - Freight Weight (RM)	6.9	7.1
Annual Gross Profit (RM million)	30.7	44.7
Operating Revenue Per Employee (RM)	58,253	116,998
Average Container Throughput (TEUs)	330,922	586,788
Average Number of TEUs Per Vessel	271	419
Average Handling Rate Per Ship Per Hour	23.4	29.0
Crane Handling Rate Per Hour (TEUs)	21.5	26.0

*Notes:*¹ Privatized in 1990² Privatized in 1991³ Privatized in 1995⁴ Corporatized in 1994

7.06 *Benefits to the public.* The privatization programme benefited the public as the facilities provided through privatization were made available earlier than they would have been if they were to be undertaken by the Government. This was due to the limited resources on the part of the Government. The public also benefited through the provision of more efficient and wider coverage of services. The introduction of rail services such as *Keretapi Tanah Melayu Berhad* (KTMB) Commuter Services, Light Rail Transit System I (LRT-STAR) and LRT-System II (LRT-PUTRA) provided a fast and efficient alternative transportation system in the Klang Valley. These rail services reduced travelling time and contributed to the alleviation of the urban traffic congestion. To increase ridership, park-and-ride facilities and covered walkways were also provided. The ridership of the KTMB Commuter services showed a positive trend since the start of commercial run in August 1995. Its ridership increased from 18,780 passengers per day in 1995 to 53,820 passengers per day by the end of 2000. The ridership of LRT-STAR increased from 20,000 passengers per day in 1997 to an average of 85,000 passengers per day by the end of 2000, while the ridership of LRT-PUTRA increased from an average 15,000 passengers per day in 1998 to nearly 120,000 passengers per day by the end of 2000. The significant rise in the ridership signalled an increase in public acceptance of the use of rail services, particularly in urban transportation.

7.07 The construction of the privatized toll highways changed the travelling pattern of road users, as they benefited from reduced travelling time and lower vehicle operating costs. These highways provided wider medians, strategically located and well-illuminated signages as well as rest areas that contributed substantially to the comfort and safety of road users. The completion of the Shah Alam Expressway in November 1996 and the Damansara-Puchong Highway (LDP) in January 1999, completed the loop for the Middle Ring Road Two (MRR2). This enabled road users to have alternative routes to commute within the Klang Valley and to reduce their travelling time. For example, travelling time from Petaling Jaya to Ampang via LDP and MRR2 only took 37 minutes compared with 55 minutes previously, even though the distance travelled increased from 21 kilometres to 35 kilometres. Furthermore, the highway users were less prone to traffic accidents, including fatal crashes, as reflected by the *Ops Statik V* figures, as shown in *Table 7-3*. During the 2000 year-end celebrations, 665 accidents occurred along the tolled highways involving 10 deaths compared with 3,067 accidents along the Federal roads with 70 deaths.

7.08 The quality of services of privatized utilities showed an overall improvement. About 98 per cent of calls made by subscriber trunk dialling (STD) were successful on the first attempt, while 96 per cent of calls made to *Telekom Malaysia Berhad* (TMB) operators were answered within 10 seconds. Consumers also gained from

TABLE 7-3

**TRAFFIC ACCIDENTS BY ROAD CLASSIFICATION
(OPs STATIK V, 18 - 31 DECEMBER 2000)**

	<i>No. of Accidents</i>	<i>%</i>	<i>No. of Deaths</i>	<i>%</i>
Expressway ¹	665	6.5	10	5.0
Federal Road	3,067	29.9	70	34.7
State Road	2,124	20.7	72	35.6
Municipal Road	3,800	37.1	36	17.8
Others	600	5.8	14	6.9
Total	10,256	100.0	202	100.0

Note: ¹ Privatized/Tolled Highways

the improved performance of *Tenaga Nasional Berhad* (TNB). Incidences of breakdown were substantially reduced from 311,190 upon privatization, to 42,850 in 2000. This translated to a System Average Interruption Duration Index (SAIDI) from 770 minutes per customer per year in 1996, to 319 minutes per customer per year in 2000.

7.09 The privatization of the solid waste disposal services was divided into four regions covering the central and eastern regions; the northern region; the southern region; and Sabah, Sarawak, and the Federal Territory of Labuan. Although the privatization of solid waste disposal was not fully implemented, the concessionaires for the central and eastern regions as well as the southern region took over the services, on an interim basis, from several local authorities in the respective states. As a result of the takeover, there was a general improvement in the level of services of the solid waste collection. To ensure optimum efficiency in the waste collection system, the concessionaires reorganized and optimized their collection routes, resulting in an increase in the number of collections per trip. For the central region, the number of collections per trip increased to an average of 1,100 during the interim period, from about 700 before the interim period. In terms of improving the storage system, the concessionaires also introduced and provided standardized waste bins with wheels in certain areas. To further

improve service level to the public, the concessionaires also purchased additional equipment and vehicles as well as invested in improvement works to the existing landfills.

7.10 To ensure only healthy foreign workers were allowed to work in the country, Fomema Sdn. Bhd. was appointed to monitor their medical examinations. Standardized procedures in health examination were introduced which resulted in a more accurate and reliable screening of foreign workers. As a result of this screening exercise, there was a reduction in the number of unfit foreign workers detected, as employment agencies took greater care to ensure that their foreign workers were fit, as shown in *Table 7-4*.

7.11 *Gains to Government.* The Government also benefited from the privatization programme in terms of proceeds from concession payments, corporate taxes and savings from the reduction in public expenditure. A total of 17,442 employees was transferred to the private sector, reducing the government administrative burden. During the Plan period, savings in capital expenditure to the Government amounted to RM49.3 billion, of which 47.6 per cent of the total savings was from the electricity and gas sector. This was followed by the transportation sector at RM15,155.4 million or 30.7 per cent. Although the construction sector had the largest number of privatized projects, it only accounted for RM7,896.1 million or 16 per cent of total savings. Details of the total savings to the Government are as shown in *Table 7-5*.

TABLE 7-4			
RESULTS OF MEDICAL EXAMINATION ON FOREIGN WORKERS, 1998-2000			
<i>Examination of Foreign Workers</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Number of Foreign Workers	644,382	524,622	486,598
Number of Unfit Foreign Workers Detected	24,880	13,455	9,292
Percentage of Unfit Foreign Workers Detected	3.9	2.6	1.9

TABLE 7-5	
PROCEEDS, SAVINGS AND REDUCTION IN PUBLIC SECTOR EMPLOYEES, 1996-2000	
<i>Item</i>	<i>1996 – 2000</i>
Savings (RM million)	
Capital Expenditure	49,252.2
Proceeds (RM million)	
Sale of Equity	2,083.5
Sale of Assets	2,428.5
Number of the Public Sector Employees Transferred	17,442

Bumiputera Participation

7.12 In line with the NDP, Bumiputera participation was given further emphasis through the privatization programme. It enabled a wider participation of Bumiputera in commercial and industrial activities through the management-buy-out (MBO) exercise, contracting works and vendor development programmes. In addition, various collaborations and joint ventures were encouraged among Bumiputera and non-Bumiputera companies as well as institutional investors including State agencies and cooperatives. The programme also allowed for broad-based participation through the offering of shares to the public, thus providing opportunities for all Malaysians to own shares of listed privatized entities.

7.13 *Equity ownership and control.* The privatization guidelines stipulated that Bumiputera should hold a minimum of 30 per cent equity in all privatized projects. Out of the 98 entities privatized during the Plan period, Bumiputera controlled 67 companies. However, out of the total paid-up capital of RM5.4 billion, Bumiputera shareholding only accounted for 15.6 per cent. Although the Government had controlling interest in 20 entities, its shareholding represented 71 per cent of the total paid-up capital, as shown in *Table 7-6*. Its shareholding was through investment agencies such as *Khazanah Nasional Bhd.*, Minister of Finance Incorporated, *Menteri Besar Incorporated* and *State Secretary Incorporated*.

TABLE 7-6		
EQUITY OWNERSHIP OF PRIVATIZED ENTITIES UPON PRIVATIZATION, 1996 –2000		
<i>Equity Ownership</i>	<i>Par Value (RM million)</i>	<i>%</i>
Bumiputera	845.4	15.6
Non-Bumiputera	653.3	12.0
Government	3,851.3	71.0
Foreign	74.2	1.4
Total	5,424.2	100.0

Various measures were introduced in order to retain Bumiputera interests after privatization, including the imposition of a three-year moratorium on divestment of shares.

7.14 Based on the 203 companies privatized since 1983, Bumiputera equity increased from 21.7 per cent upon privatization to 25.6 per cent in 2000, as shown in *Table 7-7*. In terms of value, Bumiputera equity increased by RM4.4 billion. Although the Government's share in privatized entities reduced from 62.7 per cent to 49.5 per cent, its value increased from RM12 billion to RM16.5 billion.

TABLE 7-7				
EQUITY OWNERSHIP OF PRIVATIZED ENTITIES				
	<i>Upon Privatization</i>		<i>December 2000</i>	
	<i>Par Value (RM million)</i>	<i>%</i>	<i>Par Value (RM million)</i>	<i>%</i>
Bumiputera	4,146.6	21.7	8,573.7	25.6
Non-Bumiputera	1,856.4	9.7	4,684.1	14.0
Government	11,989.0	62.7	16,555.5	49.5
Foreign	1,130.9	5.9	3,630.4	10.9
Total	19,122.9	100.0	33,443.7	100.0

7.15 *Wider distribution of benefits.* Privatization of government entities through the MBO method as well as other schemes such as the Employees Share Option Scheme (ESOS), benefited employees and management who were mostly Bumiputera. In addition, the listing of privatized entities on the KLSE provided greater opportunities for the public to own shares and benefit from privatization. The privatization of entities through the MBO method or through a combination of MBO and sale of equity (SOE) method included *Lembaga Kemajuan Wilayah Jengka* (LKWJ), MARA Shipyard & Engineering (Terengganu) Sdn. Bhd., UDA Holdings Bhd., MARA Holdings Sdn. Bhd., Development Authority of Pahang Tenggara (DARA) and the subsidiaries of *Perbadanan Nasional Berhad* (PNS).

7.16 *Vendor Development Programme.* The vendor development programme continued to be an effective tool for the promotion of Bumiputera participation in privatization. Bumiputera entrepreneurs were encouraged to form small-and-medium-scale enterprises (SMEs) to become vendors for the supply of inputs to privatized companies. During the Plan period, a total of RM10.1 billion worth of vendor schemes was offered to 501 companies, of which 347 or 69.3 per cent were Bumiputera-owned. These vendor programmes were mostly for the supply of product and components, repair and remedial works as well as operations and maintenance works, including those in the utility and services sectors.

7.17 During the Plan period, the vendor development programme undertaken included the component scheme programme by *Perusahaan Otomobil Nasional Berhad* (PROTON) and entrepreneur development programme undertaken by TNB. However, the programme was affected by the economic downturn in mid-1998, which resulted in a number of vendors ceasing operations. Nevertheless, the economic recovery during the latter half of the Plan period enabled the reactivation of some vendors, particularly those under the PROTON vendor scheme. The vendor programme undertaken by selected privatized companies are as shown in *Table 7-8*.

7.18 *Contract works.* As part of the ongoing efforts to increase active Bumiputera participation, the requirement to award at least 30 per cent of contract works to Bumiputera contractors continued to be imposed. Privatized companies were not allowed to award contracts to contracting companies which were directly or indirectly owned by them or their shareholders. During the Plan period, major privatized companies such as TMB, TNB, *Syarikat Pengeluar Air Selangor Sdn. Bhd.*, *Sistem Penyuraian Trafik KL Barat Sdn. Bhd.*, and *Puncak Niaga Sdn. Bhd.* contracted out RM4.1 billion worth of works, of which RM1.9 billion or 46 per cent were to Bumiputera companies.

TABLE 7-8

**VENDOR PROGRAMMES UNDERTAKEN BY SELECTED
PRIVATIZED COMPANIES, 1996-2000**

<i>Company</i>	<i>Value (RM million)</i>	<i>No. of Vendors</i>
Malaysia Airlines System Berhad	25.7	23
Perusahaan Otomobil Nasional Berhad	8,195.9	167
Tenaga Nasional Berhad	712.3	23
Petronas Dagangan Berhad	22.7	9

Training Programme

7.19 To increase productivity and efficiency, privatized entities undertook in-house and on-the-job training to improve the key functional skills in finance, marketing, personnel management and public relations. Special training programmes were also undertaken by these entities to enable employees to make a smooth transition from the public to the private sector. A total of 256,760 employees was trained, of whom 212,666 were Bumiputera and 44,094 were non-Bumiputera, as shown in *Table 7-9*. The total amount expended for this purpose during the period was RM323.7 million.

Market Capitalization

7.20 The listing of privatized companies on the KLSE enabled a wider distribution of equity ownership to the public. A total of 40 privatized companies was listed on the KLSE, of which 16 were listed during the Plan period, as shown in *Table 7-10*. Of the new listing, the Malaysian public was allocated 939.4 million shares (81 per cent), approved Bumiputera investors or institutions 159.1 million shares (13.7 per cent) and employees of the privatized companies 61.6 million shares (5.3 per cent). The listing of the privatized companies on the KLSE contributed RM131.1 billion or 30.3 per cent of the total market capitalization as at 26 December 2000. These privatized companies constituted only 5.0 per cent of the total listed companies, as shown in *Table 7-11*.

TABLE 7-9

EXPENDITURE ON TRAINING OF SELECTED PRIVATIZED COMPANIES, 1996-2000

Year	Bumiputera		Non-Bumiputera		Total	
	No. of Workers	Expenditure (RM million)	No. of Workers	Expenditure (RM million)	No. of Workers	Expenditure (RM million)
1996	46,224	59.2	9,690	13.9	55,914	73.1
1997	43,732	61.2	7,564	13.8	51,296	75.0
1998	38,462	42.1	7,455	9.0	45,917	51.1
1999	44,405	59.8	9,611	12.9	54,016	72.7
2000	39,843	42.4	9,774	9.4	49,617	51.8
Total	212,666	264.7	44,094	59.0	256,760	323.7

TABLE 7-10

MARKET CAPITALIZATION OF PRIVATIZED COMPANIES LISTED ON KLSE, 1996-2000
(RM million)

Company	1996 ¹	1997 ¹	1998 ¹	1999 ¹	2000 ²
Sarawak Enterprise Corp Berhad	4,870.4	1,906.7	1,497.9	2,726.7	1,416.0
Perak Corp Berhad	204.0	77.0	133.0	224.0	98.0
Bina Darul Aman Berhad	222.0	39.2	88.4	94.2	65.2
Johor Tenggara Oil Palm Berhad	379.2	152.0	211.2	219.2	152.0
Powertek Berhad	1,145.4	920.0	956.8	1,140.8	966.0
Johor Port Berhad	1,372.8	412.5	448.8	551.1	435.6
Kumpulan FIMA Berhad	889.5	157.9	155.3	315.8	134.2
Lingkar Transkota Holdings Berhad	1,560.0	744.0	954.2	1,438.7	1,071.5
Johore Land Berhad	442.0	500.0	162.0	168.0	105.0
YTL Power International Berhad	-	5,702.6	5,702.6	7,232.2	6,431.2
Puncak Niaga Holdings Berhad	-	725.0	700.0	955.0	910.0
Padiberas Nasional Berhad	-	405.0	344.0	735.1	388.1
Pasdec Holdings Berhad	-	327.6	316.8	230.4	88.2
Digi.com Berhad	-	1,970.0	1,425.0	3,075.0	3,645.0
Uda Holdings Berhad	-	-	-	621.2	448.2
Malaysia Airports Holdings Berhad	-	-	-	3,410.0	1,870.0
Total Market Value	11,085.3	14,039.5	13,096.0	23,137.4	18,224.2

Source: Kuala Lumpur Stock Exchange

Notes:

¹ Market capitalization as at 31 December each year

² Market capitalization as at 26 December 2000.

TABLE 7-11

PAID-UP CAPITAL AND MARKET CAPITALIZATION OF LISTED PRIVATIZED COMPANIES

	<i>Number of Companies</i>		<i>Paid-Up Capital (RM million)</i>		<i>Market Capitalization (RM million)</i>	
	<i>1995</i>	<i>2000¹</i>	<i>1995</i>	<i>2000¹</i>	<i>1995</i>	<i>2000¹</i>
Listed Privatized Companies	24	40	13,157	18,174	124,695	131,141
Total Companies Listed	529	795	82,219	146,414	547,394	433,414
Per Cent of Listed Privatized companies	4.5	5.0	16.0	12.4	22.8	30.3

Note: ¹ As at 26 December 2000

7.21 The shares of listed privatized companies were relatively less affected by the financial crisis, as reflected by their market capitalization which increased from about 20 per cent before the crisis to 29.4 per cent as at 31 December 1997. This was attributed mainly to secured investment of these companies which provided reasonable returns to their investors. The public also benefited from the newly listed privatized companies in terms of capital appreciation as the share prices were higher than their initial offer price.

7.22 During the Plan period, of the 16 listed privatized companies, a total of five was listed as Infrastructure Project Companies (IPCs), namely Powertek Berhad, *Lingkaran Transkota Holdings Berhad*, YTL Power International Berhad, *Puncak Niaga Holdings Berhad* and Digi.com Berhad. The listing of IPCs further deepened and broadened the capital market and enabled the public to invest in new counters. In addition, the IPCs were able to raise financing in the capital market to undertake infrastructure projects which cost more than RM500 million. The IPCs raised a total of RM3.5 billion through the issuance of new shares.

Regulatory Authorities

7.23 To protect consumer interests and to regulate the privatized sectors which included transport and utilities, a total of 18 regulatory authorities was established. However, these regulatory authorities were unable to function effectively mainly

due to the lack of expertise and legislative support. To address this issue, the Government undertook steps to restructure and streamline these authorities into sector-based regulators, as shown in *Table 7-12*. The newly-created regulatory authorities were entrusted to establish economic and safety regulations to safeguard consumer interests and to promote a healthy development of the respective sectors. The Communications and Multimedia Commission was established in 1999, while the formation of the other four regulatory authorities were at various stages of establishment.

Technology Development

7.24 Privatized projects, particularly those implemented under the build-operate-transfer (BOT) and build-operate-own (BOO) methods, adopted state-of-the-art technologies and enabled the transfer of technology such as the construction and management of a modern integrated hazardous waste treatment facility. The energy sector provided opportunity to more Malaysian companies in the transmission and distribution activities such as cable-laying, construction of transmission towers and construction of sub-stations, previously dominated by foreign companies. New techniques were adopted including micro-piling and recoiling for road surfacing, tunnel boring for underground tunnels and stations, and fully automated and driverless system in light rail transit. The transfer of technology was also facilitated through management and technical training.

TABLE 7-12

ESTABLISHMENT OF SECTOR-BASED REGULATORS

<i>Commission/Regulator</i>	<i>Areas</i>
Communications and Multimedia	Broadcasting, communications and multimedia
Energy	Electricity and gas industries
Transport	Rail and toll highways
Water and Sanitation	Water, sewerage and solid waste management
National Port Authority	All ports

Monitoring of Privatized Projects

7.25 With a view to ensuring that privatized projects provide the service level required by consumers and is sustainable on a long-term basis, the Government undertook on a continuous basis the evaluation of performance of major privatized entities. As a result of this review, the Government adopted several measures including the takeover of shares and assets of companies in strategic sectors such as sewerage, air and urban rail transportation. This represents an interim measure and will be followed by divestment or restructuring in the privatization arrangement to enable the Government to own the capital assets, while the private sector remain as operators of the services. Such an arrangement will enable the optimal mix of build-up of modern assets by the Government and efficient service delivery by the private sector.

III. PROSPECTS, 2001-2005

7.26 In line with private sector-led growth, privatization will continue to be an important vehicle to facilitate economic growth and ensure an equitable distribution of income among ethnic groups during the Eighth Plan period. Efforts will be intensified to safeguard the social and economic well-being of the public through the establishment and strengthening of the regulatory mechanism. The strategies for privatization will be as follows:

- ❑ *Emphasizing projects which stimulate economic growth;*
- ❑ *Further strengthening and streamlining the implementation process to ensure the effectiveness of the privatization programme;*
- ❑ *Ensuring that privatized projects are commercially viable and contribute to social well-being;*
- ❑ *Strengthening the regulatory authorities to protect consumer interests and foster the healthy development of privatized sectors;*
- ❑ *Enhancing Bumiputera participation through vendor schemes and provision of better access to capital; and*
- ❑ *Promoting wider public participation in privatized entities through public listing.*

Strengthening and Streamlining the Privatization Process

7.27 *Project identification and implementation.* During the Plan period, the Government will continue to identify projects that will generate multiplier effects and upgrade the quality of services in areas such as transportation, construction and utilities. Towards this end, the Privatization Action Plan which is a two-year rolling plan as stipulated in the Privatization Master Plan, will be reviewed and reformulated. Projects to be privatized will take into consideration national priorities as set out in the National Vision Policy (NVP). Selection will continue to be based on certain prescribed criteria such as consistency with sector strategies, relative advantage of the private sector over the public sector in the delivery of services in terms of efficiency and quality as well as the long-term viability and sustainability of the projects. To ensure that privatization continues to provide the impetus in accelerating further economic growth, major projects approved during the Seventh Plan period will be implemented, as shown in *Table 7-13*.

TABLE 7-13	
MAJOR ENTITIES/PROJECTS APPROVED IN PRINCIPLE FOR PRIVATIZATION	
<i>Entities/Projects</i>	
South Klang Valley Expressway (SKVE)	
Kajang Traffic Dispersal Ring Road (SILK)	
Jelutong Expressway (JEWay)	
Senai-Johor Perdana-Desaru Expressway	
Construction of the Logistic Complex and Quarters for the Royal Malaysian Police in Shah Alam	
Southern International Gateway (SIG)	
Management of Kuala Lumpur Sentral Station	
Statutory Inspection Services of The Department of Occupational Safety and Health	
National Solid Waste Management	

7.28 *Strengthening the implementation process.* Efforts will continue to be undertaken to streamline procedures at various stages of the implementation process. In this regard, at the pre-privatization stage, a more stringent project evaluation will be adopted to ensure that the prospective companies possess management expertise and have access to capital to undertake the proposed projects. In addition, the evaluation process will also include the appointment of independent consultants and project auditors as well as ascertaining public opinion through surveys. This is to ensure the acceptability and viability of the project. Adherence to all the terms and conditions in the privatization agreement will be further emphasized at the implementation stage and during the concession period. In this regard, the implementation agencies and regulatory authorities are expected to monitor and enforce the provisions of the agreements as well as undertake post-privatization evaluation. For inter-state projects which require the sharing of resources or projects under the legal jurisdiction of the State Governments, closer cooperation between the Federal and the State Governments will be further enhanced. This is to facilitate and expedite the smooth implementation of projects and the harmonization of charges.

7.29 *Meeting the social objectives.* Through privatization, consumers will enjoy better quality of services, as privatized entities are expected to use new and more modern facilities. However, the ‘user-pay principle’, though reflecting the economic costs of providing such services, will not be the guiding principle in the determination of tariff rates and charges. The Government will continue to control tariff setting and reviews so as to ensure that the public will enjoy these services at affordable rates. Towards this end, the Government will continue to support privatized projects that require large capital expenditure and have wide social impact to ensure the viability of these projects. *Bank Pembangunan dan Infrastruktur Malaysia Berhad* will also assist privatized infrastructure companies in securing loans at better terms to finance projects which require huge capital investment.

Strengthening the Regulatory Framework

7.30 The establishment of regulatory authorities for the relevant sectors will be expedited and strengthened through legislative support and capacity-building, to enable them to undertake continuous monitoring and evaluation of privatized entities in order to safeguard public interest and ensure a healthy development of the sectors. A review of the existing regulatory authorities in sectors such as education and health will be undertaken to restructure them into effective sector-based regulatory authorities. This is to ensure that public interest are adequately protected and social obligations are fulfilled. These regulatory authorities are expected to be financially independent in the long run to enable them to be autonomous.

Enhancing Bumiputera Participation

7.31 The Government will continue to promote and sustain Bumiputera participation in the privatization programme with further emphasis on the MBO method. In addition, collaboration with institutional investors and major corporations will be encouraged, to enable the MBO proponents to meet the financing requirement as well as to undertake capital expansion.

7.32 Various measures will continue to be undertaken to protect and sustain Bumiputera interests after privatization. The three-year moratorium imposed on the shareholding structure of the privatized entities will be reinforced by imposing that the shareholding structure of the shareholders of the privatized entities be maintained and that any proposed divestment will require the prior approval of the Government. For projects which do not have a specific concession period such as land development projects, a moratorium will be imposed throughout the construction period until the completion of the project. In order to prevent further dilution of Bumiputera interests in privatized entities, priority will be accorded to other Bumiputera or trust agencies to purchase shares approved for divestment.

7.33 Vendor programmes will continue to be implemented during the Plan period. Efforts will be further intensified to promote collaboration between large privatized entities and small-and-medium-scale Bumiputera entrepreneurs to provide opportunities for them to participate in the privatized entities. To meet this objective, project proponents will be encouraged to identify and incorporate in their proposals programmes which support entrepreneur development by providing training, market opportunities and technology transfer.

Promoting Wider Public Participation in the Capital Market

7.34 The Government entities which can operate on a commercial basis will be corporatized before being considered for privatization, through listing on the KLSE. Corporatized entities which are commercially viable will be encouraged to be listed on the KLSE. Such listing will enable a wider participation by the general public and provide a source of fund for the privatized entities. In addition, to enable employees to own shares in the privatized companies, the policy of reserving 5.0 to 10 per cent of the shares upon flotation and ESOS will be continued.

7.35 The policy to allow the Infrastructure Project Companies (IPCs) to be listed on the KLSE will be continued to enable them to tap funds from the capital market. For strategic industries, the Government will retain control of certain listed entities to safeguard national and public interest. In addition, private companies will be encouraged to source funds through private debt securities such as long-term bonds including Islamic bonds, warrants and securitization.

IV. CONCLUSION

7.36 The privatization programme will continue to be implemented during the Eighth Plan period as it has contributed to increased efficiency and productivity of the privatized entities and consequently, benefited the public and spur economic development. Emphasis will be given to viable projects that have high multiplier effects and at the same time, meet social objectives. Steps will be undertaken to further strengthen and streamline the implementation process as well as the regulatory framework, to ensure the effectiveness of the privatization programme.