

**Chapter 7**

**Privatization**



# 7

## PRIVATIZATION

---

### I. INTRODUCTION

7.01 Privatization involves the transfer of activities and functions that traditionally rested with the Government to the private sector. During the Sixth Plan period, privatization continued to be a vital part of the overall strategy to strengthen the role of private sector in the country's economic development. It also contributed to the accelerated growth of the economy as well as assisted in the restructuring objective aimed at further enhancing Bumiputera participation in the corporate sector. The increased number of projects privatized during the Plan period significantly reduced the Government's financial and administrative burden, thus enabling the Government to allocate more resources to the critical sectors of the economy. Privatization has improved efficiency and productivity as well as created competition in some sectors of the economy such as the ports, power and telecommunications.

7.02 During the Seventh Plan period, the privatization programme will be accelerated, covering projects in the infrastructure, utilities and transport sectors as well as in the services sector, particularly, education and training, health services, and research and development (R&D). In order to facilitate the implementation of the programme, efforts will be taken to strengthen the implementation process. This involves strengthening project identification, further improving the legal and regulatory framework as well as reviewing the forms of Government support. Emphasis will be given towards undertaking greater socio-economic obligations by the privatized entities through accelerated programmes such as vendor development, marketing arrangements, training, technology transfer and R&D. Bumiputera participation through privatization will also be given emphasis. In addition, Malaysian entrepreneurs will be encouraged to participate in potential privatization projects abroad as part of the strategy to export local services, particularly project management and consultancy services.

## **II. PROGRESS, 1991-95**

7.03 During the Sixth Plan period, the implementation of the privatization programme successfully achieved its objectives and benefited all Malaysians. Under this programme, a total of 204 projects was privatized. Most of these projects were in the field of infrastructure, which contributed towards alleviating infrastructure capacity constraints. Measures were also taken to promote competition in certain industries which led to increased efficiency and productivity, thereby benefiting the end-users in terms of better services.

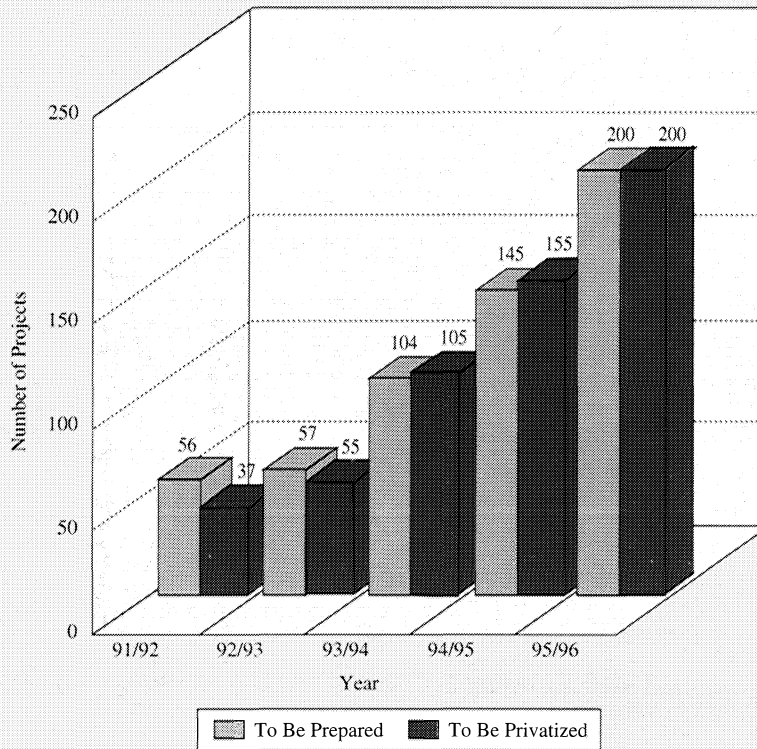
### **Privatization Master Plan**

7.04 The Privatization Master Plan (PMP) was introduced in 1991 to guide the implementation of the programme. The PMP contained, among others, a broad policy framework for privatization, procedures for implementation, and assignment of priorities between projects to be privatized. The privatization programme, as embodied in the PMP, had five main objectives, namely, to facilitate economic growth; relieve the financial and administrative burden of the Government; improve efficiency and productivity; reduce the size and presence of the public sector in the economy; and help meet the restructuring objective of the National Development Policy. The PMP identified various modes of privatization such as the sale of assets, sale of equity, lease of assets, management-buy-out (MBO), build-own-operate (BOO) and build-operate-transfer (BOT). In the implementation of the privatization programme, two approaches, namely, the Government-identified and the private sector-initiated approaches were adopted. The private sector-initiated approach was particularly aimed at recognizing and rewarding private sector initiatives and innovations in identifying projects for privatization. The PMP contained 246 projects identified according to priority, that were suitable for privatization.

7.05 An important element of the PMP was the two-year rolling Privatization Action Plan which was drawn up to assist in the annual implementation of the programme. The Action Plan contained a list of projects identified for privatization and those to be restructured or prepared for privatization. It enabled the Action Plan to be reviewed annually, whereby implementation bottlenecks were identified and appropriate measures adopted to expedite implementation of the programme. It also took into account the preparatory work prior to privatization, beginning with commercialization at the initial stage, followed by corporatization and eventually the privatization of the entity. During the period, five Action Plans were drawn up. In the 1995/96 Action Plan, a total of 200 projects were planned for privatization or corporatization, compared with 37 projects in the 1991/92 Action Plan, or an increase of 163 projects, as shown in *Chart 7-1*.

CHART 7-1

**PRIVATIZATION ACTION PLANS, 1991-95**

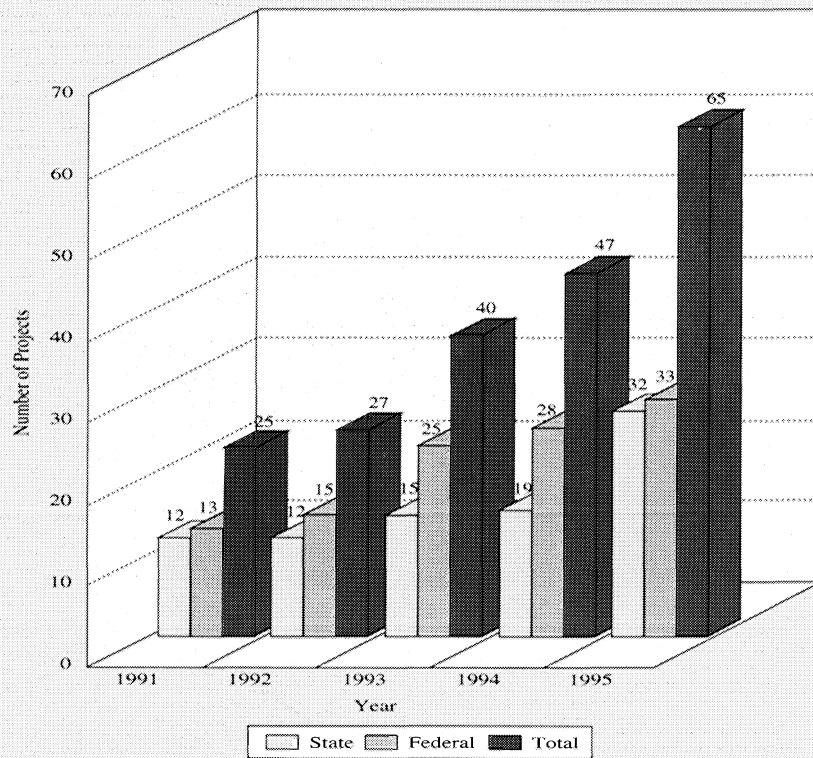


**Projects Privatized**

7.06 During the period, 204 projects were privatized, of which 56.4 per cent were Federal Government projects and 43.6 per cent State Governments projects. Of the total privatized projects, 138 represented existing projects and 66 new projects. There was a marked increase in the number of privatized projects, as shown in *Chart 7-2*, indicating the increased momentum in the implementation of the programme, particularly in the second half of the Plan period. The increase in the number of privatized projects was mainly attributed to the increased capacity and dynamism of the private sector to undertake projects as well as the various forms of support provided by the Government, such as soft loans, tax incentives and other concessionary terms, to selected projects. These forms of support were given especially for privatized projects with a high social component, such as sewerage, Light Rail Transit System (LRT) and roads with low traffic density, to ensure that these services were produced at affordable prices to the end-users after privatization.

CHART 7-2

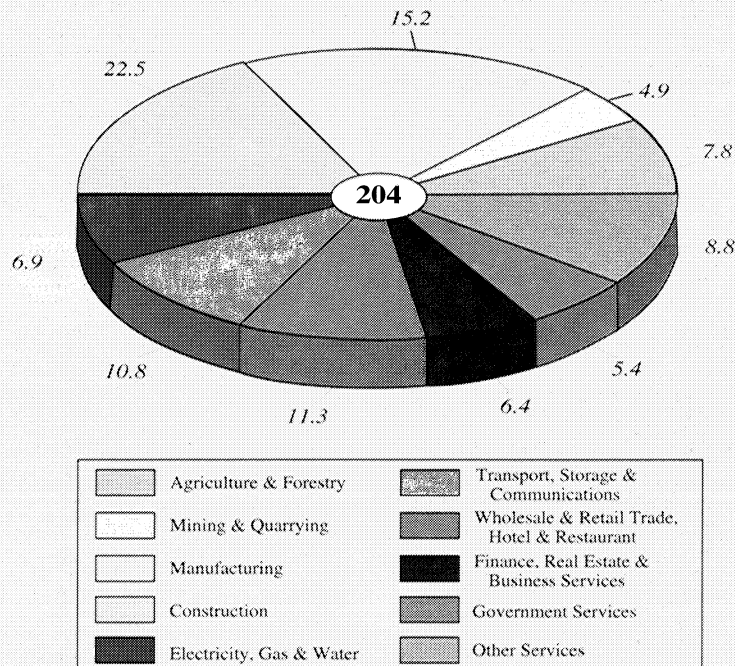
PRIVATIZED PROJECTS, 1991-95



7.07 The privatization programme implemented during the period encompassed all sectors of the economy. In terms of sectoral distribution, the privatized projects were mainly in the construction sector accounting for 22.5 per cent of total projects privatized, followed by the manufacturing sector 15.2 per cent and wholesale and retail trade, hotel and restaurant sector 11.3 per cent, as shown in *Chart 7-3*. The major projects privatized included the LRT projects in Kuala Lumpur, the National Sports Complex, the *Perusahaan Otomobil Nasional* (PROTON), the ports of Klang and Johor, the Second Link to Singapore, and *Tenaga Nasional Berhad* (TNB).

7.08 Most of the projects privatized during the period were through the sale of equity method, representing 46.1 per cent of the total projects privatized, 16.2 per cent through sale of asset method and 10.3 per cent through BOT method. The breakdown of projects by sector and modes of privatization is shown in *Table 7-1*.

CHART 7-3  
**SECTORAL DISTRIBUTION OF PRIVATIZED PROJECTS, 1991-95**  
 (%)



7.09 In addition to the methods identified in the PMP, new modes of privatization were introduced including the build-transfer (BT) and asset swap to facilitate the privatization of land development. The introduction of the new modes arose from the expanded scope of privatization as well as to accommodate the requirements of more innovative proposals submitted by the private sector.

7.10 The implementation of the privatization programme during the Sixth Plan period was enhanced by the adoption of new administrative procedures governing privatization. This involved streamlining of the implementation procedures through centralized planning and decentralized implementation, standardization of terms and conditions of privatization, the strengthening of the Privatization Committee to facilitate implementation, and the continued adoption of Government and private sector-initiated approaches for privatization. The private sector-initiated approach helped in expediting the implementation process as well as encouraged the private sector to submit proposals for Government's consideration. In this respect, a total of 234 proposals was initiated by the private sector for privatization, of which 109 projects were privatized.

TABLE 7-1

## NUMBER OF PRIVATIZED PROJECTS BY SECTOR AND MODE, 1991-95

Sector	Modes of Privatization											Total	Total (%)
	SOE	SOA	BOT	BOO	COR	MC	LOA	MBO	BT				
Agriculture & Forestry	13	0	0	0	3	0	0	0	0	0	0	16	7.8
Mining & Quarrying	6	3	0	0	0	1	0	0	0	0	0	10	4.9
Manufacturing	27	0	0	0	0	0	0	4	0	0	0	31	15.2
Construction	1	23	13	2	0	1	1	0	5	0	0	46	22.5
Electricity, Gas & Water	3	0	0	8	1	0	2	0	0	0	0	14	6.9
Transport, Storage & Communications	6	3	4	4	5	0	0	0	0	0	0	22	10.8
Wholesale & Retail Trade, Hotel & Restaurant	13	1	2	0	0	5	2	0	0	0	0	23	11.3
Finance, Real Estate & Business Services	13	0	0	0	0	0	0	0	0	0	0	13	6.4
Government Services	0	3	1	2	4	0	0	1	0	0	0	11	5.4
Other Services	12	0	1	2	0	2	1	0	0	0	0	18	8.8
<b>Total</b>	<b>94</b>	<b>33</b>	<b>21</b>	<b>18</b>	<b>13</b>	<b>9</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>204</b>	<b>100</b>

Notes:

SOE	=	Sale of Equity	MC	=	Management Contract
SOA	=	Sale of Asset	LOA	=	Lease of Asset
BOT	=	Build-Operate-Transfer	MBO	=	Management-Buy-Out
BOO	=	Build-Own-Operate	BT	=	Build-Transfer
COR	=	Corporatization			



7.11 During the Plan period, the implementation of the privatization programme was affected by a number of constraints arising mainly from land and legal issues. To accelerate the implementation of the programme, the Government reviewed various legislation which inhibited the privatization process, resulting in the enactment of a number of new legislation as well as amendments made to existing legislation. Apart from the amendments to the Federal Constitution, the Employment Act, 1955 (Revised 1981) and the Pensions Act, 1980, new legislations introduced included the Abattoirs (Privatization) Act, 1993 and the Sewerage Services Act, 1993. In addition, several legislations were amended, including the Street, Drainage and Building Act, 1974, the Town and Country Planning Act, 1976, the Local Government Act, 1976 and the Control of Padi and Rice Act, 1994.

### **Gains From Privatization**

7.12 *Privatization and Growth.* Privatization played an important role in accelerating economic growth through greater investments which led to corporate expansion. Growth was also generated through efficiency gains as more output was produced using lesser amount of resources. Privatization also resulted in the generation of multiplier effects to the economy. The construction of highways, for example, led to increased growth in manufacturing activities for construction-based industries and resulted in time-savings to motorists as well as reduced operating costs for vehicles. With privatization, more resources were also available for the Government to spend on other sectors of the economy, thus contributing to the growth of those sectors.

7.13 *Savings.* The total savings in capital expenditures from privatized projects during the Plan period amounted to RM51.6 billion or 70.9 per cent of the total savings from privatization since 1983 of RM72.8 billion, as shown in *Table 7-2*. The savings in annual operating expenditure as at the end of the Plan period was RM6.9 billion. Although the objective of privatization is not to generate revenue for the Government, the programme had contributed RM14.1 billion from the sale of assets and equity, over and above the revenue from corporate tax which otherwise would not have been collected by the Government. Based on an analysis of 17 companies, the collection of corporate tax alone during the Plan period amounted to RM2.3 billion. Recurrent income from privatization in the form of lease rentals further contributed to the Government's revenue. These savings and proceeds from the sale of assets and equity and corporate tax enabled the Government to reduce its borrowing as well as reallocate resources to other sectors such as education and health. It also contributed towards a balanced budget, thereby strengthening public sector finances.

TABLE 7-2		
PROCEEDS, SAVINGS AND REDUCTION OF PUBLIC SECTOR EMPLOYEES		
	1991-95	1983-95
<b>Proceeds (RM billion)</b>		
Sale of Equity	11.81	19.13
Sale of Assets	2.31	2.39
<b>Savings (RM billion)</b>		
Capital Expenditure	51.59	72.76
<b>Number of Public Sector Employees Transferred</b>	43,038	96,756

7.14 *Reduced Administrative Burden.* The implementation of the privatization programme reduced the administrative burden of the Government in terms of recruitment, promotion and training of personnel. Since 1983, 96,756 employees or 11.4 per cent of the total public sector workforce were transferred to the private sector, as shown in *Table 7-2*. This number excluded personnel of Government-owned companies which were privatized. During the Plan period, 43,038 employees were transferred to the private sector, representing 44.5 per cent of the total employees transferred since 1983. The number of employees according to categories absorbed by selected privatized entities is shown in *Table 7-3*.

7.15 *Efficiency and Productivity.* Privatization contributed towards increased efficiency and productivity of the privatized entities through improvement of quality of service and management systems. This is highlighted by the indicators used to measure the efficiency and productivity of privatized entities, as shown in *Table 7-4*. The overall performance of the privatized entities improved due to the expansion of capacity and service networks as well as acquisition of modern equipment and technology. In addition, the development of positive attitudes as well as changes in the mind-set of employees of privatized entities contributed to their increased efficiency and productivity.

TABLE 7-3

**NUMBER OF EMPLOYEES ABSORBED BY MAJOR  
ENTITIES CORPORATIZED/PRIVATIZED, 1991-95**

<i>Company<sup>1</sup></i>	<i>Year</i>	<i>Number of Personnel Absorbed</i>		
		<i>Professional</i>	<i>Non-Professional</i>	<i>Total</i>
Naval Dockyard Sdn. Bhd.	1991	45	478	523
Pos Malaysia Bhd.	1992	125	10,454	10,579
KTM Bhd.	1992	309	7,987	8,296
Malaysia Airports Bhd.	1992	202	4,587	4,789
Klang Port Management Bhd.	1992	31	4,240	4,271
Percetakan Nasional Bhd.	1992	13	1,052	1,065
Indah Water Konsortium Sdn. Bhd.	1993	197	902	1,099
Johor Port Sdn. Bhd.	1993	64	900	964
Bintulu Port Sdn. Bhd.	1993	32	609	641
Syarikat Padiberas Nasional Bhd.	1994	93	3,692	3,785
Penang Port Sdn. Bhd.	1994	74	2,171	2,245
Johor Water Sdn. Bhd.	1994	36	1,569	1,605
Others	—	100	3,076	3,176
<b>Total</b>	—	<b>1,321</b>	<b>41,717</b>	<b>43,038</b>

*Note:* <sup>1</sup> Companies with more than 500 employees

7.16 *Gains to Employees.* Privatization benefited employees who opted to join the entities concerned as most of these entities adopted the performance-oriented remuneration scheme. The improved performance of the privatized entities benefited the employees in terms of year-end bonuses and salary increases. Other benefits to the employees included the offerings of company shares to employees under the Employee Share Option Scheme and Employee Loyalty Share Option Scheme. Privatization through MBO method provided opportunities for management to participate and hold significant equity in the privatized entities. Participation in the privatization programme through minority holdings by management and staff was also promoted. In addition, privatized entities were able to venture into other activities enabling them to redeploy excess employees into these activities through retraining programmes.

TABLE 7-4

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

<i>Indicator</i>	<i>Before Corporatization/ Privatization</i>	<i>After Corporatization/ Privatization</i>
<b>Telekom Malaysia Berhad (TMB)<sup>1</sup></b>		
Return on Assets (per cent)	4.0	9.3
Revenue Per Subscriber (RM)	1,227	1,519
Production Per Employee (RM)	34,372	71,594
Direct Exchange Lines Per Employee	36	56
Speed of Access to Basic Services (per cent)	35	60
Response to Complaints/Faults (per cent)	80	95
<b>Projek Lebuhraya Utara Selatan<sup>2</sup></b>		
Revenue Per Employee (RM)	77.69	217.57
Duration of Travelling Time (hours) <sup>2a</sup>	15.4	7.5
Daily Average Traffic Volume (number of vehicles)	112,119	586,125
<b>Kelang Container Terminal Berhad<sup>3</sup></b>		
Average Container Throughput (TEUs)	244,120	804,455
Average Handling Rate Per Ship Hour (TEUs)	19.94	35.78
Crane Handling Rate Per Hour (TEUs)	19.40	31.56
Average Number of TEUs Per Vessel	219	415
<b>Penang Port Sdn. Bhd.<sup>4</sup></b>		
Return on Assets (per cent)	5.9	7.24
Operation Cost Per Tonne - Fwt <sup>4a</sup> (RM)	8.89	8.12
Gross Profit Yearly (RM million)	24.14	41.48
Operating Revenue Per Employee (RM)	55,504	63,699
Average Container Throughput (TEUs)	330,922	386,182
Average Number of TEUs Per Vessel	271	322

*Notes:*

- <sup>1</sup> Privatized in 1990
- <sup>2</sup> Comparison between initial period of privatization in 1989 and 1994
- <sup>2a</sup> From Bukit Kayu Hitam to Johor Bahru
- <sup>3</sup> Privatized in 1986
- <sup>4</sup> Corporatized in 1994
- <sup>4a</sup> Fwt - Freight Weight

## **Bumiputera Participation**

7.17 Privatization was used as one of the major vehicles to enhance Bumiputera participation in the economy. In order to ensure active Bumiputera participation, the privatization policy stipulated that Bumiputera should hold a minimum of 30 per cent equity in all privatized entities. However, in some privatized entities Bumiputera participation exceeded 51 per cent, and in some cases, Bumiputera interests were 100 per cent. Bumiputera equity in the corporate sector also increased through the flotation of 24 Government companies listed on the Kuala Lumpur Stock Exchange (KLSE). Total Bumiputera equity in these companies as at December 1994 was valued at RM2.2 billion which represented 19.6 per cent of the total equity, while RM1.6 billion or 14.7 per cent were owned by non-Bumiputera and RM5.5 billion or 50.2 per cent by Government.

7.18 Privatization also benefited all Malaysians, including those in the lower-income group. This broad-based participation was achieved through offerings of shares to members of the public as well as institutional investors such as the *Amanah Saham Negeri*, *Koperasi Polis DiRaja Malaysia*, *Lembaga Tabung Angkatan Tentera* (LTAT), *Lembaga Tabung Haji* (LTH) and *Permodalan Nasional Berhad* (PNB).

7.19 Bumiputera ownership was also increased through the MBO method undertaken in the privatization of Government entities. Total Bumiputera equity in MBO privatized projects was valued at RM119 million as at the end of the Plan period. Through this method, the number of Bumiputera entrepreneurs involved in privatized projects also increased, as envisaged under the Bumiputera Commercial and Industrial Community programme.

7.20 Efforts to increase direct and active participation of Bumiputera contractors through privatization was implemented through the imposition of a condition in the concession agreement requiring at least 30 per cent of contract work to be reserved for Bumiputera. During the Plan period, Bumiputera contractors were given contract works in privatized projects involving the construction, sewerage, telecommunications and utilities sectors. In addition, to help Bumiputera companies own and manage privatized entities, they were encouraged to collaborate with institutional investors, such as *Koperasi Polis DiRaja Malaysia*, LTAT, LTH and state trust agencies. Although privatization was used as a vehicle to enhance Bumiputera participation, it also benefited

other Malaysians through joint-venture projects between Bumiputera and non-Bumiputera as well as contracting and sub-contracting of privatized projects to non-Bumiputera. In addition, non-Bumiputera benefited from the listing of privatized entities on the KLSE.

7.21 An analysis of 101 companies that were privatized prior to December 1994 showed that there had been a dilution in Bumiputera interests in a number of privatized projects despite the various measures taken to enhance and sustain Bumiputera participation through privatization. The reduction of Bumiputera shareholding in privatized entities had taken place through the sale of shares as well as takeovers. The analysis indicated that during the 1991 to 1994 period, total paid-up capital owned by Bumiputera excluding Government's holdings, declined from 49.7 per cent upon privatization to 42.2 per cent as at 30 September 1995. However, the dilution in Bumiputera holdings was more significant in the long term as the analysis of the privatized entities during the 1983 to 1990 period indicated an overall reduction of Bumiputera interests excluding Government's holdings from 65.3 per cent upon privatization to 38 per cent as at 30 September 1995. This clearly indicated the lack of sustaining power of Bumiputera to hold the equity in the long-term, besides a number of other factors including the pursuit of short-term capital gains as well as corporate restructuring.

7.22 During the Plan period, various measures were introduced to protect and sustain Bumiputera interests after privatization. Among the measures introduced were the imposition of stringent conditions in the selection of appropriate and qualified Bumiputera entrepreneurs and institutions, and a three-year moratorium on all concession companies with respect to divestment of equity by Bumiputera and non-Bumiputera after privatization.

7.23 *Vendor Development Programme.* In line with efforts to develop small and medium-scale industries (SMIs), a number of major privatized entities were required to establish vendor development programmes through specific provisions in the concession agreement. In this regard, PROTON implemented the Component Scheme Programme to source automobile parts from 64 SMI vendors. Similarly, five SMIs were established by *Indah Water Konsortium Sdn. Bhd.* to provide inputs for the construction of the sewerage system. Various types of vendor programmes undertaken by selected privatized companies are listed in *Table 7-5.*

TABLE 7-5

**TYPES OF VENDOR PROGRAMME UNDERTAKEN BY  
SELECTED PRIVATIZED COMPANIES, 1991-95**

<i>Company</i>	<i>Contract Value (RM million)</i>	<i>Programme</i>
Perusahaan Otomobil Nasional Berhad	569.06	Component Scheme Programme
Telekom Malaysia Berhad	452.62	Entrepreneurs Development Programme Credible Supplier
Tenaga Nasional Berhad	337.11	Entrepreneurs Development Programme Umbrella Scheme Credible Contractor Strategic Joint-venture
Indah Water Konsortium Sdn. Bhd.	6.27	Construction of Treatment Plant & Pumping Station Sewerage System & Pumping Station Network

## Funding

7.24 The large number and size of privatized projects called for a massive mobilization of private sector financial resources from banking and financial institutions as well as loans and equity financing by institutional investors including the Employees Provident Fund, LTH and LTAT. Since the implementation of the privatization programme, privatized entities were able to source funds through the mobilization of funds from the local debt and equity markets as well as through the use of innovative methods in obtaining funds. In this regard, *Petronas Dagangan Berhad* and *Petronas Gas Berhad* secured funds through Islamic Debt Securities. The Government also provided soft loans amounting to RM4.8 billion during the Plan period for projects with a high social component.

7.25 In order to obtain funds at competitive terms, privatized entities also ventured into the international capital market. Funding from the international capital market was obtained, among others, through the issue of the Yankee Bond and the Euro Bond. Large projects with foreign participation were able to tap overseas funds through their foreign partners.

## Capital Market

7.26 Privatized entities were able to tap funds from the equity market by floating their shares on the KLSE. A total of 24 privatized companies was listed on KLSE, of which 12 were listed during the Sixth Plan period, as shown in *Table 7-6*. Of the listings during the Plan period, 901 million shares were allocated to approved Bumiputera investors or institutions, 207 million shares to the employees of the privatized companies and 834 million shares to the Malaysian public. At least 30 per cent of the allocation to the Malaysian public were taken up by Bumiputera. The listing of privatized companies improved the performance of KLSE in terms of total market capitalization and number of counters traded, thereby deepening and broadening the capital market. With the listing of these companies, a wider choice of investment alternatives was made available to both domestic and international investors. The broadening of the KLSE was significant with the introduction of several new counters in utilities, telecommunications, broadcasting, shipping and airlines. The listing of TNB in 1992, *HICOM Holdings Berhad* in 1993, *Petronas Dagangan Berhad* in 1994 and *Petronas Gas Berhad* in 1995 contributed to the deepening of the capital market due to the large number of shares offered. The market capitalization of the privatized companies as at 31 December 1995 amounted to RM124.7 billion or 22.1 per cent of the total market capitalization of the KLSE.

7.27 Most of the shares of the privatized companies have performed well as compared with their initial price offer. The price per unit traded for TMB rose from its initial public offer price of RM5.00 to RM19.80 as at the end of 1995, representing an increase of 296 per cent. Similarly, the price per unit traded for TNB increased from its initial public offer price of RM4.50 to RM10.00 as at the end of 1995 representing an increase of 122 per cent. The increase in share price has benefited many investors and at the same time these shares, in view of their high value, have served as collateral for additional source of funds for further investment.

7.28 During the Plan period, the Securities Commission introduced new guidelines for the listing of Infrastructure Project Companies (IPCs) to enable them to raise financing in the capital market in the form of equity to undertake projects which would contribute to overall economic growth. Under the new guidelines, the IPCs are eligible to be listed on the KLSE without having to meet the track record requirements, provided that these companies are awarded a concession or licence by the Government or State agency, in or outside of Malaysia, with the remaining concession period of not less than 18 years at



TABLE 7-6

**MARKET CAPITALIZATION OF PRIVATIZED COMPANIES  
LISTED ON KLSE, 1991-95**  
(RM million)

<i>Company</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>
Telekom Malaysia Bhd.	19,212.4	28,701.3	43,884.9	34,415.5	39,440.2
Tenaga Nasional Bhd.	—	29,850.0	58,194.7	30,700.7	30,749.9
Petronas Gas Bhd.	—	—	—	—	15,570.0
Malaysian International Shipping Corp. Bhd.	5,366.3	5,043.8	5,595.2	6,705.0	6,580.0
Malaysian Airline System Bhd.	2,450.0	3,710.0	5,460.0	5,355.0	5,775.0
Perusahaan Otomobil Nasional Bhd.	—	3,850.0	6,152.9	4,737.0	4,564.7
Edaran Otomobil Nasional Bhd.	1,233.0	1,849.6	3,743.2	4,301.7	4,299.1
HICOM Holdings Bhd.	—	—	548.4	6,036.5	4,251.3
Petronas Dagangan Bhd.	—	—	—	1,809.6	2,236.6
Kedah Cement Holdings Bhd.	—	917.2	1,482.4	967.9	1,807.3
Cement Manufacturers Sarawak Bhd.	97.3	91.2	576.0	1,138.3	1,472.2
Berjaya Leisure Bhd.	773.2	876.8	1,822.0	1,110.4	1,128.5
Cement Industries of Malaysia Bhd.	583.1	551.4	1,319.2	1,048.8	1,101.5
Tradewinds (M) Bhd.	359.6	366.8	854.0	1,134.0	1,008.0
Kelang Container Terminal Bhd.	—	900.0	975.0	806.3	806.3
Sistem Televisyen Malaysia Bhd.	255.9	331.0	653.4	471.0	776.5
PERNAS International Hotels & Properties Bhd.	490.9	594.0	1,019.0	964.3	734.4
Worldwide Holdings Bhd.	57.2	200.3	923.0	530.3	536.0
Gopeng Bhd.	71.1	98.9	1,167.3	645.1	516.4
Sindora Bhd.	—	—	—	—	432.0
Shah Alam Properties Bhd.	—	—	—	222.6	405.0
KPJ Healthcare Bhd.	—	—	—	240.0	235.2
Far East Holdings Bhd.	90.2	84.0	375.2	262.1	191.5
Carpets International Malaysia Bhd.	—	35.4	85.6	60.1	77.6
<b>Total Market Value</b>	<b>31,040.2</b>	<b>78,051.7</b>	<b>134,831.4</b>	<b>103,662.2</b>	<b>124,695.2</b>

*Source:* Kuala Lumpur Stock Exchange

the time the proposal is submitted to the Securities Commission. The existing IPCs which were awarded a concession or licence prior to the introduction of these guidelines, can also be considered for listing provided that the concession or licence period is not less than 15 years from the time the proposal is submitted to the Securities Commission. Other requirements include, the project cost being not less than RM500 million and the project must be able to generate income sufficient to give a suitable rate of return to its shareholders. The types of IPCs that will be considered for listing include Malaysian incorporated companies and those holding companies with a subsidiary or associate operating infrastructure projects both in and outside Malaysia. Foreign incorporated companies operating infrastructure projects outside Malaysia, whose equity and key personnel are controlled by Malaysians will also be considered for listing.

### **Technology Transfer**

7.29 Privatization enabled Malaysians to acquire new technologies and expertise through collaboration with foreign equity holders, management contract or consultancy services. The privatization of the North-South Highway exposed Malaysians to new technologies, skills and expertise in the construction and maintenance of highways. Local engineers acquired the latest technologies in concrete pavement design and construction, and made use of recycled materials in the construction of road pavements. Similarly, the construction of the Kuala Lumpur Tower enabled Malaysians to adopt and adapt state-of-the-art design and construction techniques of Climbing Slip Form. In addition, Malaysians learnt to operate and manage new technologies in specific areas of telecommunications technology as well as in the construction of LRT.

### **Training Programme**

7.30 Some of the privatized entities were required to conduct training programmes tailored to the needs of the company as well as provide practical training to new labour market entrants. In response to this requirement, TNB upgraded its training facilities to provide specialized training in the electronic and electrical fields. *Linkedua Sdn. Bhd.*, which undertook the privatization of the Second Link to Singapore, provided on the job training to 102 trainee engineers in collaboration with *Universiti Teknologi Malaysia*. During the Plan period, the major privatized entities allocated RM397.7 million for training purposes, as shown in *Table 7-7*.

TABLE 7-7

**ALLOCATION FOR TRAINING PROGRAMMES UNDERTAKEN  
BY SELECTED PRIVATIZED COMPANIES, 1991-95**

(RM million)

<i>Company</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>Total</i>
Tenaga Nasional Berhad	29.50	30.80	44.00	51.20	61.00	216.50
Telekom Malaysia Berhad	18.20	20.80	27.30	30.20	41.40	137.90
Perusahaan Otomobil Nasional Bhd.	1.00	4.80	3.00	3.90	7.40	20.10
Pos Malaysia Berhad	1.73	1.65	2.73	2.45	2.56	11.12
Malaysia Airports Berhad	—	0.40	1.31	1.30	2.00	5.01
Linkedua Sdn. Bhd.	—	—	—	—	4.33	4.33
Johor Port Sdn. Bhd.	—	—	0.77	0.77	0.70	2.24
Indah Water Konsortium Sdn. Bhd.	—	—	—	0.09	0.44	0.53
<b>Total</b>	<b>50.43</b>	<b>58.45</b>	<b>79.11</b>	<b>89.91</b>	<b>119.83</b>	<b>397.73</b>

### Regulatory Authorities

7.31 Regulatory authorities were established to maintain standards and protect consumer interests in terms of pricing, availability and quality of services, as well as to ensure the healthy development of the industry. A total of 11 regulatory authorities was established during the Sixth Plan period covering areas such as electricity and gas supply, ports, airports, highways, posts, telecommunications, railway and sewerage.

7.32 During the Plan period, various measures were formulated to strengthen the regulatory authorities to enable them to play a meaningful role. With the liberalization of the electricity supply industry through the introduction of Independent Power Producers (IPPs), the role of the Department of Electricity and Gas Supply became increasingly important. In 1994, the Department introduced the Malaysian Grid Code stipulating provisions for short and long term planning to ensure adequacy of electricity supply, for technological specifications on interconnection between generation plants and the transmission system, and for operating rules to ensure the supply system operates in the most economic manner. In addition, the Department established various standards

relating to quality of service which power companies are expected to meet. The Department also reviewed proposals by TNB on various charges, including tariffs, to ensure that the interest of consumers and suppliers were protected. Regulations on safety standards and technical specifications for gas reticulation were formulated in 1995 by the Department, with the objective of safeguarding consumer interests.

7.33 The regulatory authorities were not able to function effectively particularly due to the difficulty in operating within a rapidly changing technological environment. In addition, the shortage of manpower and lack of expertise further undermined their effectiveness. Various efforts were made to increase the performance and effectiveness of the regulatory authorities, which included the use of private sector services. In this regard, the Department of Telecommunications, for example, engaged the services of the private sector to conduct tests on apparatus and equipment to ensure conformity to standards. With the adoption of this approach, the time taken to approve the type of apparatus and equipment was reduced from six to two months.

### **III. PROSPECTS, 1996-2000**

7.34 During the Seventh Plan period, privatization is expected to further contribute towards the growth of the Malaysian economy through greater efficiency and productivity gains. The implementation of the privatization programme will be further accelerated through the following strategies:

- o expediting the identification and evaluation of projects and entities for privatization as well as streamlining its implementation;*
- o enhancing the role of privatized entities in meeting socio-economic goals;*
- o facilitating technology transfer by promoting R&D in major privatized companies;*
- o ensuring greater participation of local companies especially in the privatization of infrastructure projects;*
- o promoting greater local content in privatized projects to ensure expansion of local industries and services;*
- o expanding Bumiputera participation in the management of privatized companies as well as implementing marketing arrangements and vendor development programmes;*

- o identifying and promoting new instruments and sources of funding for privatized entities;*
- o improving the regulatory framework in order to ensure its effectiveness;*
- o strengthening the mechanism for monitoring and evaluating the performance of privatized entities; and*
- o encouraging more Malaysian privatized companies to participate in privatization projects overseas.*

### **Strengthening the Implementation Process**

7.35 *Project Identification, Monitoring and Evaluation.* While the emphasis will continue to be given towards the privatization of projects in the infrastructure, utilities and transport sectors, efforts will be made to privatize projects in other fields, including education and training, health and other services, and R&D, during the Seventh Plan period. In fields such as education and health, which traditionally have been the responsibility of the Government, the privatization programme will be planned in a more comprehensive manner to ensure the majority of the population have access to these services at affordable prices. Guidelines will be formulated to facilitate the privatization of projects in education, health and R&D to ensure that various social obligations associated with such projects be undertaken effectively by the privatized companies. In addition, privatized companies will also be required to provide services which are not economically viable through the element of cross-subsidization. The Government's involvement in strategic, high-risk and high-technology industries as well as in projects which require huge investment and long gestation periods will be continued. This is because such projects may not be attractive enough for the private sector to invest in. Similarly, the Government will continue to hold equity in certain companies in order to protect public interest and to monitor the performance of the privatized entities.

7.36 During the Plan period, the Government will continue to review the Action Plan to facilitate the acceleration of the privatization programme. This, coupled with the increasing interest shown by the private sector, is expected to increase substantially the number of projects to be privatized during the period. In the privatization of major projects, due consideration will be given to various factors including the absorptive capacity of the capital market as well as the overall economic situation. The major entities and projects earmarked for privatization is shown in *Table 7-8*. In addition, a number of corporatized entities including the ports, *Pos Malaysia Berhad* and *Percetakan Nasional Malaysia Berhad* will also be considered for privatization.

TABLE 7-8

**MAJOR ENTITIES/PROJECTS EARMARKED FOR  
CORPORATIZATION/PRIVATIZATION, 1996-2000**

*Entities/Projects*

Bakun Hydroelectric  
 Bank Bumiputra Malaysia Berhad  
 Bank Simpanan Nasional\*  
 Bintulu Port  
 East Coast Highway  
 Elevated Highway  
 Hospitals\*  
 Housing Loan Division of Ministry of Finance  
 Johor LRT  
 Kuala Lumpur-KLIA Sepang Dedicated Highway  
 Kuantan Port  
 Linear City  
 Malaysian Institute of Microelectronic Systems (MIMOS)\*  
 Malaysia Tourism Promotion Board\*  
 National Solid Waste Management  
 Penang LRT  
 Perbadanan Kemajuan Kraftangan Malaysia\*  
 Percetakan Nasional Malaysia Berhad  
 PERWAJA Steel Berhad  
 Pos Malaysia Berhad  
 Public Works Department\*  
 Sabah Electricity Board\*  
 Southern Coastal Highway  
 Standards and Industrial Research Institute of Malaysia (SIRIM)\*  
 Taiping-Sabak Bernam-Banting Highway (*Northern Coastal Highway*)

*Note:* \* Corporatization

7.37 *Regulatory Authority.* The role of the regulatory authority, particularly with respect to pricing, standards and quality of service, is crucial to ensure that the interests of the public is adequately protected after privatization. The other role of the regulatory authority is to ensure that privatized entities undertake activities which are not profitable, such as provision of electricity, water supply and telephone services to rural areas, through the element of cross-subsidization. In view of its importance, the role of the regulatory authority will be strengthened through the acquisition of the relevant expertise. In this regard, a study will be undertaken during the Seventh Plan period to formulate new approaches and strategies to increase the effectiveness of regulatory bodies. In line with the developmental role of regulatory authorities, the study will examine and recommend, among others, the mechanisms and pricing indicators for tariff setting and review, as well as strengthening their enforcement role to ensure that conditions in the privatization agreement are adhered to by privatized entities. The study will also examine the feasibility of integrating the various regulatory bodies either on sectoral basis or as a single regulatory authority as well as recommend measures towards making them self-financing. In addition, regulatory bodies will be required to develop a mechanism for monitoring and evaluating the performance of privatized entities under their purview.

7.38 *Legislation.* In the past, new legislations were formulated and existing ones amended in order to facilitate the privatization of statutory bodies and Government departments. In order to accelerate privatization during the Seventh Plan period, existing legislation will be reviewed and appropriate amendments will be made to facilitate the privatization process. In this regard, a review will be undertaken to formulate a single legislation which will be a general legislation governing the privatization of all statutory bodies and Government departments including those entities under the purview of State Governments.

7.39 *Land Use.* Privatization also involves the provision of development rights over river reserves, air and subterranean space to the concession company. Existing legislation, which do not provide adequate provisions for such rights to be granted to the private sector, have constrained the construction of projects at such locations as well as the use of land around these projects. Efforts will, therefore, be made to formulate appropriate legislation governing the provision of development rights over river reserves, air and subterranean space.

7.40 *Federal-State Relationship.* Privatization involves close relationships between the Federal, State and Local Governments. This is to ensure uniformity and coordination at various levels of government. Where State Governments

may not have the necessary resources to undertake certain services such as the management of solid waste in a more effective manner, it will be beneficial if it is privatized at the national level. During the Plan period, efforts will be taken to identify projects for privatization at the national or regional level in order to benefit from economies of scale and allow for greater flexibility and cross-subsidization. There is a need to promote coordination among the various states, particularly with respect to the privatization of inter-state projects, such as highways and water supply projects, which require the sharing of resources.

### **Manpower Development**

7.41 During the Seventh Plan period, privatization will continue to be used as a vehicle to encourage the private sector to undertake training. Specific provisions will be provided in the privatization agreements requiring concession companies undertaking projects of certain magnitude to provide skill training. In addition, wherever possible, concession companies will be encouraged to establish joint-training programmes with institutions of higher learning. While the emphasis of the training programme will be skill upgrading, it would also include the training of young Bumiputera corporate managers in the field of business management.

### **Technology Transfer and Research and Development**

7.42 Privatization will continue to be utilized as an instrument for technology acquisition and development. In this respect, guidelines will be formulated whereby concession companies, particularly those involved in the development of major projects, will be required to provide comprehensive programmes for technology transfer to Malaysians. In addition, Malaysians will continue to acquire advanced technologies and foreign expertise through privatization projects. Compliance to specific provisions requiring concession companies to undertake programmes will be emphasized in future privatization agreements.

7.43 Malaysia needs to expand further the present R&D programme and acquire new technologies necessary to compete globally and to participate in privatization projects overseas. In this context, concession companies which undertake projects that require continuous R&D will have to upgrade their performance to keep pace with new technology. These companies would be required to undertake systematic R&D programmes. To ensure greater impact of the R&D programme, concession companies will be encouraged to collaborate with various R&D institutions on specific R&D activities.



## **Bumiputera Participation**

7.44 During the period, privatization will continue to be used as a vehicle to increase Bumiputera participation in the corporate sector by providing greater opportunities for Bumiputera to participate in all privatized projects. In addition, privatized companies will be required to offer sub-contracts to Bumiputera professionals and entrepreneurs who do not have adequate resources to participate in the privatization exercise.

7.45 Measures will be taken to ensure that Bumiputera interests will be sustained and further enhanced. In this regard, a mechanism for effective Bumiputera participation will be established and coordinated by the appropriate Ministry. To safeguard Bumiputera interests after privatization, Bumiputera equity which is not taken up by other Bumiputera will be offered to trust agencies at prices to be determined by the Government. In addition, guidelines and mechanism will be formulated requiring trust agencies to divest their interests in a planned and coordinated manner. Conditions will also be imposed to ensure that Bumiputera interests will be protected in the privatization of trust agencies and their subsidiaries.

7.46 *Vendor Development Programme.* In line with the objective to enhance the development of SMIs, the Government will place greater emphasis on the vendor development programme and the creation of Bumiputera entrepreneurs through agencies such as *Perbadanan Usahawan Nasional Berhad*. This will provide greater opportunities for Bumiputera entrepreneurs to participate in major privatization projects. Efforts will also be made to promote collaboration between large privatized companies and individual entrepreneurs as well as small companies. In order to ensure the effectiveness of the programme, companies bidding for privatization projects will be required to provide detailed vendor development programmes, where appropriate, in their respective proposals. Privatization agreements for major privatized entities will continue to incorporate provisions to ensure that these programmes will be effectively implemented.

## **Development of The Capital Market**

7.47 During the period, privatization will continue to play a major role in further strengthening and deepening the capital market, through the listing of privatized entities on the KLSE. This will enable those entities to obtain funds at lower cost. This listing will also introduce new sectors into the capital market contributing to its overall growth. In addition, the introduction of new guidelines

pertaining to the requirements for the listing of IPCs on the KLSE is expected to increase the number of privatized companies listed on KLSE and contribute to overall economic growth during the period. The Securities Commission will also introduce new financial instruments, such as securitized bonds that are tied to the cashflows of fixed income projects, in order to provide additional sources of funds for privatized companies.

7.48 In order to overcome any crowding out effects in the capital market, the listing of privatized projects will continue to be undertaken in a planned and coordinated manner. In this regard, the Government will continue to list one or two major privatized companies in a particular year. During the Plan period, among the major companies that are ready for listing at the KLSE are those undertaking major infrastructure projects such as privatized highways, ports, IPPs, LRTs as well as some corporatized entities such as the *Pos Malaysia Berhad*.

#### **IV. CONCLUSION**

7.49 Since its inception, the privatization programme has been able to strengthen the role of the private sector in the country's economic development, reduce the financial burden of the Government and assist in the restructuring objective aimed at enhancing Bumiputera participation in the corporate sector. During the Seventh Plan period, the implementation of the privatization programme will be further accelerated in order to enhance efficiency and productivity. Efforts will also be made towards ensuring that major concession companies play a more active role in socio-economic development in meeting some of the needs of the society. In addition, efforts will be made to strengthen existing legislations to facilitate the privatization process and improve the role of the regulatory authority.