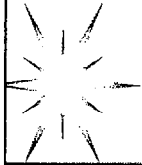


PRIVATIZATION IN MALAYSIA

Approaches, Issues and Challenges

BRIEFING OUTLINE

1. Introduction
2. Approaches in Implementation
3. Issues
4. Challenges



INTRODUCTION

RATIONALE FOR PRIVATIZATION

- * Government workforce expanded to approximately 800,000 employees or 15% of total working population by 1980's
- * More than 900 public enterprises established
- * Due to recession, growth declined from 6.3% in 1983 to a negative growth of -1.1% in 1985
- * Fiscal deficit : external debts increased from RM7.3 billion (14.2% of GNP-1980) to RM16.9 billion (28% of GNP-1982) and RM50.5 billion (76% of GNP1986)
- * Poor performance of public enterprises and ineffective public sector

Malaysia Incorporated Policy

- Stresses the importance of cooperation between public and private sectors
- Private sector-led economy will result in its expansion and increased profits and in turn provide more revenue to the nation
- Establishment of several consultative panels comprising members from the public and private sector

DEFINITION OF PRIVATIZATION

- The transfer to the private sector of activities and functions which traditionally rested with the public sector
- Applies to enterprises already owned by the Government as well as new projects
- Involves the transfer of all or any three components below:
 - management responsibility
 - assets
 - personnel

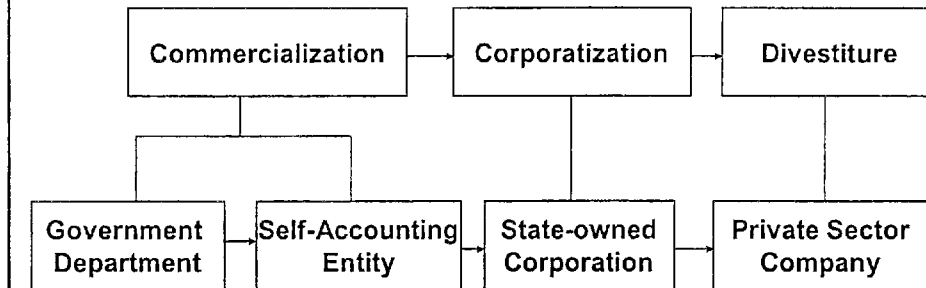
OBJECTIVES OF PRIVATIZATION

- * Reduce financial and administrative burden of the Government
- * Reduce public sector size and direct participation in the market place
- * Promote competition, efficiency and productivity
- * Accelerate economic growth
- * Meet the targets of NEP and NDP

METHODS OF PRIVATIZATION

- Existing Projects/Activities
 - Outright sale (assets or shares)
 - Lease
 - Management-Buy-Out
 - Management Contract
- New Projects
 - Build-Operate-Transfer (BOT)
 - Build-Operate (BO)
 - * Guiding Principle *
 - Choose a feasible method which maximize private sector investment

STAGES OF PRIVATIZATION

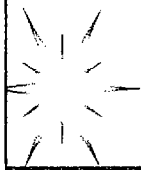


Implementation Approach

- **Two approaches adopted:-**
 - Government-initiated
 - Private sector-initiated
- **Government-initiated:**
 - Factors considered include acceptability, priority, sourcing of funds, credibility of privatisors and implementation schedule
- **Private sector-initiated:**
 - Based on uniqueness and aimed at rewarding innovativeness and ingenuity and promoting entrepreneurship

Administrative Machinery

- Centralized planning and processing at the Economic Planning Unit (EPU)
- Decentralized implementation by the ministries and State Governments
- Standardization of terms and conditions of privatization
- Decision making by the highest level of government



ASSESSMENT OF PERFORMANCE

PRIVATIZATION ACHIEVEMENTS SINCE 1983

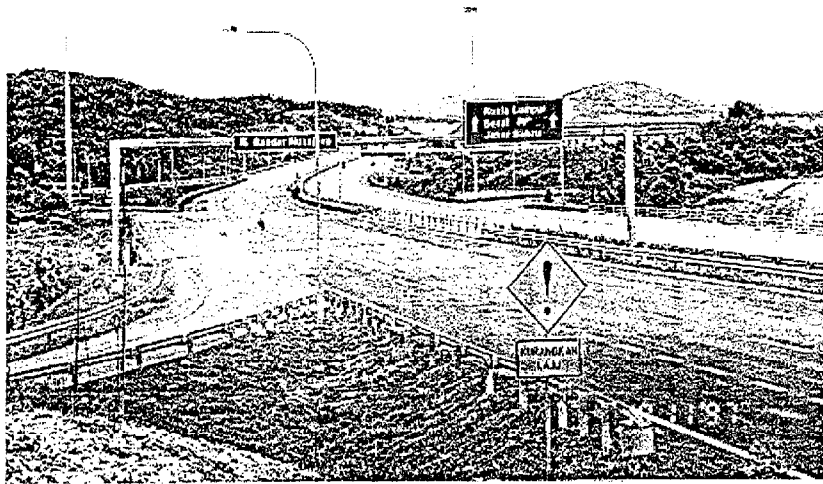
Total privatized projects	.....	457
• Existing Projects	.....	338
• New Projects	.....	119
No. of employees transferred	.....	107,000
Savings (RM billion)		
• Annual operating expenditure	.....	7.1
• Capital expenditure	.....	132.2
• Proceeds from sale of government equity	.....	23.1

METHOD OF PRIVATIZATION BY SECTOR

	No.	(%)	Main Method of Privatization
Manufacturing	67	14.7	97% by SOE
Construction	64	14.0	53% by land swap/SOA 28% by BT
Finance, real estate & Business Services	56	12.3	100% by SOE
Wholesale & Retail Trade Hotel & Restaurants	55	12.0	82% by SOE
Transportation	50	10.9	62% by BOT, 16% by SOE
Government Services	29	6.3	28% by land swap 28% by corporatization 28% by MC
Others	136	29.8	mainly SOE, SOA & BOT
TOTAL	457	100.0	

ROADS/HIGHWAYS

RM31.62 billion



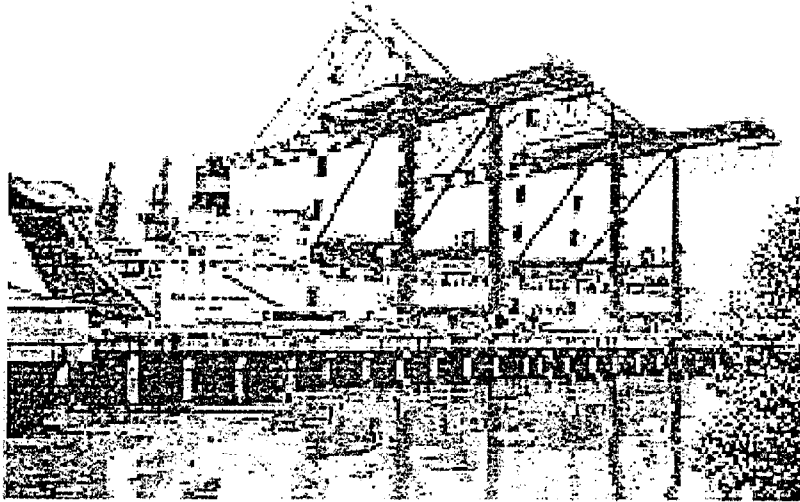
RAIL

RM12 billion

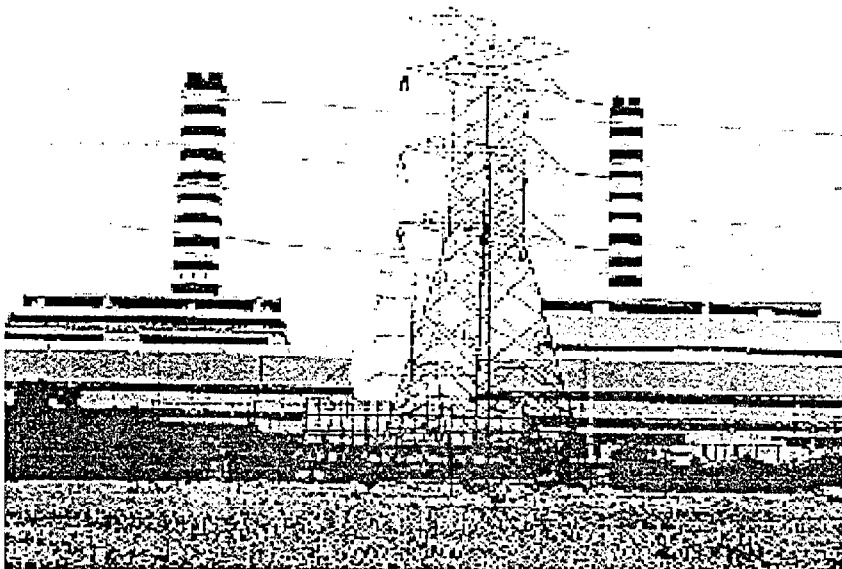


PORTS

RM7.8 billion

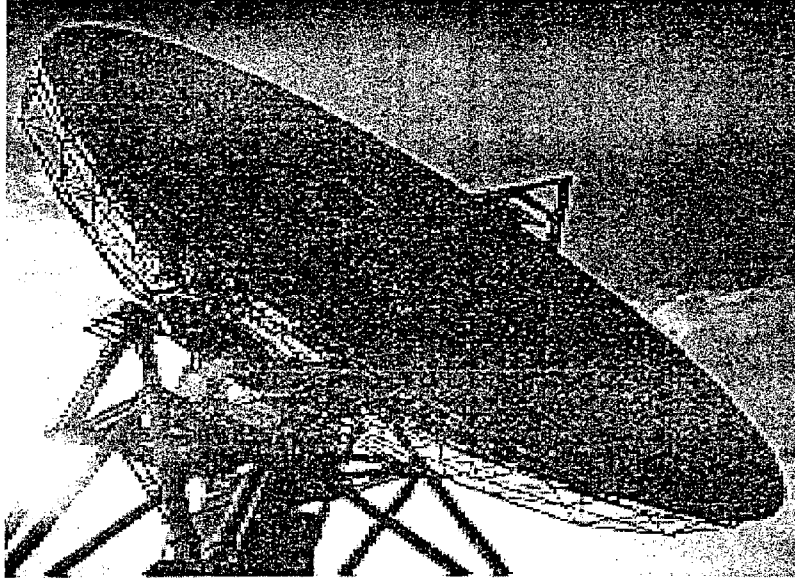


ENERGY/INDEPENDENT POWER PRODUCERS RM42.3 billion



TELECOMMUNICATION & MULTIMEDIA

RM6.6 billion



CAPITAL MARKET

- Privatization increased market capitalization of Kuala Lumpur Stock Exchange (KLSE)

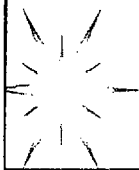
- Listing of privatized companies broadens and deepens the capital market

Market capitalization as at end of December 2000:-

- Market capitalization of 40 privatized companies : RM 131.1 billion
- % to total KLSE capitalization : 30.3%

Efficiency and Productivity

Agency	Before Corporatization/ Privatization	After Corporatization/ Privatization
Tenaga Nasional Bhd. Electricity Generated Per Employee	600 kWh	1,390 kWh
Institut Jantung Negara Medical Procedures Handled: Per Doctor Per Staff	667 procedures 37 procedures	721 procedures 48 procedures
Telekom Malaysia Bhd. Response to Faults/Complaints	80%	95%
North-South Highway Travelling time from Bukit Kayu Hitam to Johore Bahru	15.4 hours	7.5 hours



ISSUES

VIABILITY OF PROJECTS

- Viability aspect is emphasized to ensure projects are successfully implemented
- Careful consideration on the following:
 - projected cash flow
 - rate of return to companies
 - other financial instruments

TARIFFS AND CHARGES

- Growing concern on tariff increase, quality and standard and availability of service after privatization
- To protect consumer interest, any tariff increase must obtain prior approval from the Government

Role of Regulatory Authority

- To regulate natural monopolies
- To protect consumers' interests in terms of:-
 - price
 - quality
 - availability of services
- To ensure privatized companies fulfil social obligations and continue provide social services

BALANCING PUBLIC & PRIVATE SECTOR INTERESTS

- For huge infrastructure projects, various concessionary terms are given, such as land advances and soft loans to ensure:
 - project viability;
 - reasonable return to investors; and
 - fair charges to consumers
- For some privatized projects which are desirable but less viable, they are packaged with other projects to enable cross-subsidization (e.g. Second Crossing)

SOCIAL OBLIGATIONS & CORPORATE RESPONSIBILITIES

- Privatization as a vehicle to ensure private sector perform social responsibilities
- Examples of social obligations:-
 - vendor development programme
 - transfer of technology and expertise
 - training of employees & new labour entrants
 - provide social services through cross-subsidization

STRENGTH AND CREDIBILITY OF THE PRIVATISORS

- To ensure project must succeed, companies are carefully chosen with proven track record in terms of:-
 - technical expertise
 - financial strength
 - experiences
- New entrants are also given opportunity through collaboration with established companies

FOREIGN PARTICIPATION

- Foreign equity participation is allowed up to 25% of share capital and is considered in the following cases:-
 - where expertise is needed to upgrade efficiency and such expertise is not available locally;
 - foreign participation is required to promote export market;
 - the supply of local capital is insufficient to absorb the share offered; and
 - the nature of business requires global linkages and international exposures.



CHALLENGES

CHALLENGES

- To promote privatization, there must be a conducive environment and investment climate
- A well-developed private sector with a certain level of maturity, expertise and readiness to undertake investment risks
- To further strengthen and streamline the implementation process in ensuring effectiveness of the programme

CHALLENGES

...continue

- Well developed financial market to support large scale investment
- To increase efficiency and productivity, competition should be introduced
- Avoid over competition as this lead to waste of resources
- To promote wider participation in privatized entities through public listing

CHALLENGES

....continue

- Identify projects which stimulate economic growth
- To ensure privatized projects are commercially viable and contribute to social well-being
- Strengthen regulatory framework to protect consumers' interests and healthy development of the privatized sector

◆ **Government Responsibilities**

- misconception that privatization had led to shifting of Government's responsibilities to private sector.

After privatization, Government will continue to:

- undertake economic and safety regulation on privatized entities;
- ensure privatized entities adhere to national policies and terms & conditions of concession agreements;
- monitor performance of privatized entities & projects to ensure smooth implementation; and
- ensure privatized entities continue to undertake certain social obligation through social projects & programmes

continue.....



◆ **Limits to Privatization**

- to ensure that national and public interests are adequately protected, the Government will continue to undertake programmes which are strategic in nature and continue with social projects

continue.....



Tariff & Charges

The principles with regard totariffs/charges are as follows:

- **tariff increases are subject to government approval;**
- **tariffs are not subject to arbitration;**
- **tariff increases are not tied to Consumer Price Index (CPI); and**
- **where possible, a single tariff rate is applied throughout the concession period. In cases where this is not suitable, tariff increases may be considered once in every 5 years.**

continue.....

◆ **Strengthening the regulatory framework by establishing the following sectoral regulators:-**

Communications & Multimedia	- covering broadcasting, communications & multimedia infrastructure
Energy	- electricity and gas industries
Transport	- rail & toll highways
Water & Sanitation	- water, sewerage & solid waste management
National Port Authority	- all ports

- ***the regulators will be responsible for both the economic & safety regulations***

CONCLUSION

- *Privatization has proven to be an effective vehicle in promoting rapid economic growth in Malaysia. The Government will continue to provide a conducive environment to further accelerate implementation of privatization programme.*



THANK YOU

