

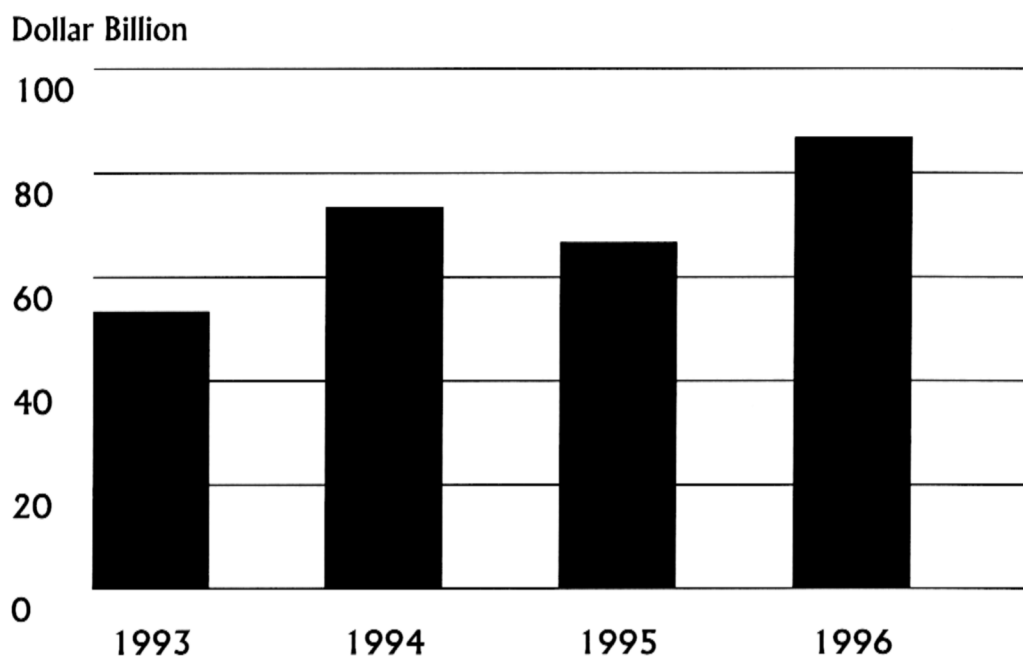
3. RECENT TRENDS IN PRIVATISATION

The early stages of privatisation, started out by the British Conservative government in late 1970s, were actually on companies that were already competing in the market. And it was obvious at the time that a change in ownership through privatisation would make relatively small differences to the companies' operations. However, perceptions and priorities began to change as the government realised the political advantages that came along with privatisation. Privatisation reduces the financial constraints on the government and the revenue earned from privatisation was a convenient way of financing tax cuts, summed up as a good political mileage for the controlling government. It was also proving to be increasingly popular with the people as many were making substantial capital gains through share issues.

Soon after, the privatisation that took place was more of giant monopolies held by the government such as telecommunication, gas, water and electricity. That, perhaps, triggered the vigorous global privatisation process where France, Australia and the UK have had the most ambitious programmes. The tide of privatisation has been rising in most developed countries. The privatisation of Lufthansa in Germany, Repsol oil-company in Spain and British Rail and British Petroleum in the UK were some of the success stories. In Africa, it was reported that the pace of privatisation was faster than the World Bank's estimates. And the east-Asian countries were also not far behind.

In 1995 and 1996, the estimated amounts raised globally from privatisation was some US \$62 billion and US \$85 billion respectively. Table 1 indicates the amounts that have been raised through privatisation programmes, worldwide. Looking ahead, this upward trend seems likely to continue as large corporations and government monopolies are being privatised and joining the fray of economic expansion programmes.

TABLE 1.
Global Amount Raised from Privatisation



Sources: National submissions and estimates by SBC Warburg and OECD Secretariat.

Of the vast and varied privatisation that have been taking place, public utility is one sector that has been most prominent. This sector formed the basic framework of the country's infrastructure such as telecommunication, water and electricity and the privatisation of the public utilities sector somehow represented either a stable investment (in mature markets) or a high growth investment (in emerging markets), which makes them attractive.

Due to the nature of the services and the scope, public utilities are normally government owned. But many have shifted to become private ownership, since it has been strongly argued that privatised companies can devote to the single-minded pursuit of the delivery of the public utility services, with concentration on service quality and on the economies and efficiency arising from a technologically advance system (Hunt, 1992). It is the quality of service

that matters in the public utility sector that usually determines the make or break of the company. And in most cases, the government with its high-handed approach and bureaucracy has failed to provide the desired services accustomed to the public utilities industry.

Nevertheless, privatised companies in the public utility sector carry more regulatory risk than companies in general. Since the companies are usually monopolies or near-monopolies operating in critical industries, the extra regulatory control is expected. Normally, the existence of a stable core such as a 'golden share' in the companies has been considered as an indirect way for the government to keep control or interference in the companies. However, in order to alleviate the problem of regulatory risk, the government has tried to increase the credibility of its promise not to interfere, for example, by having a clear regulatory framework with a regulator independent of the government. But even with regulatory risk, the companies are still required to provide the public services considered as essential and too important to fail.

Similarly, Malaysia has also experience privatisation expansions with a total of 204 privatisation projects taking place under the 6th Malaysian Plan alone (1991-1995). Most of the projects were related to infrastructure such as electricity, mining and transport with another 200 more privatisation planned for the 1995-1996 period (Rancangan Malaysia KeTujuh, 1996). And relative to the global privatisation trends, Malaysia has also moved towards privatising its public utilities services. Of the four major utilities, telephone, electricity and sewerage have so far been privatised while water is still mostly under the control of the states.

Though the notion of privatisation concept is similar among the public utility companies, several factors distinguished the privatisation of the telecommunication and electricity from the sewerage. While the privatisation of the telecommunication and electricity was transacted through the flotation

of shares, the sewerage privatisation was in the form of a government concession. In its context, concession is the granting of control of certain government properties to private investors for a considerable amount of time to satisfy the demand of public services or to supply needs that under the Constitution must be provided by the government. In other words, the privatisation of the telecommunication and electricity brought about the purchase of assets from the government by the privatised companies while the sewerage privatisation only involved the transfer of assets without costs, from the states to the private company. And the ownership of the assets will be transferred back to the government at the end of the concession.

With the privatisation, both the telecommunication and electricity companies became public listed. And the performance of those companies could be measured by the values of their stocks. Increase in assets and capital inflow and reduction in expenditure can be reflected in the stock price, which will lead to the overall performance improvement of the privatised companies. On the other hand, the performance of the sewerage company is difficult to measure, as it is not a public listed company and there is no stock price to monitor. And being public listed, the people were allowed to become shareholders of the companies. The earlier public utility privatisation were more accepted as the people became co-owner of the companies, unlike sewerage.

There were also differences in the structural reforms between the two types of privatisation. While the privatisation of the telecommunication and electricity saw the transformation of the existing government agencies into private companies with no structural change, the sewerage privatisation resulted in the formation of a newly privatised company taking over the responsibility of the services from the local authorities. The early privatisation has done little to change the structure of the organisation. The telecommunication was the transition from the government department into a private company while

electricity was a change from a semi-government body to a private company, both maintaining their pre-privatisation responsibilities. The sewerage privatisation; however, saw the formation of a new company that had no previous experience in the industry.

Nevertheless, no matter how much difference the privatisation of the telecommunication and electricity as compared to the sewerage can be, the importance of these public utility services cannot be denied and should not be manipulated by these same private companies. Due to their monopolies and near-monopolies status, a strict regulatory framework to control and monitor these public utility companies is required for the purpose of political, economic and social justice. No doubt, some form of regulatory framework existed even before privatisation but then the level of implementation has not been as much or as strict as what it is after privatisation.