

## **CHAPTER ONE**

### **INTRODUCTION**

Chapter 1 provides the introduction to this study. This chapter discusses the definition and objectives of privatisation. The background of the study will also be discussed. In addition, this chapter will highlight the objectives of the study. A section describing the organisation of study will also be included at the end of this chapter.

#### **1.1 Definition**

Privatisation is defined as the transfer of activities and functions, that traditionally rested with the Government, to the private sector (Seventh Malaysia Plan, 1996, p199). It applies to enterprises already owned by Government as well as new projects involving the transfer of management responsibility, assets and personnel.

#### **1.2 Objectives of Privatisation**

In 1983, the Malaysian Government introduced the Malaysia Privatisation Policy to achieve the following objectives (Privatisation Master Plan, 1991):

- (i) To relieve the financial and administrative burden on the Government,
- (ii) To promote the efficiency and productivity level of the country,
- (iii) To facilitate national economic growth,
- (iv) To reduce the size and presence of the public sector in the economy, and,

- (v) To promote achievement of the National Development Policy targets.

### 1.3 Modes of Privatisation

Privatisation can take various forms, among the possibilities is the full or partial divestment of government owned assets to the private sector. The different forms of privatisation used in Malaysia are as follows:

- (i) **Sale of equity**, examples are Malaysian national automotive company (PROTON), Malaysia Airlines and the Malaysian International Shipping Corporation.
- (ii) **Sale of assets**, as in the case of quarries in Selangor and Perak.
- (iii) **Lease of assets**, for example Port Kelang, where the immovable assets are leased; other examples are the Malaysian Airport Bhd. and National Railways (KTM) Bhd.
- (iv) **Management contract (MC)**, this mode of privatisation involves the transfer of management responsibility from the government to the private sector. For example the privatisation of the management of Kedah and Selangor water treatment plants. The private sector will be responsible for operation and maintenance of existing, or newly constructed water treatment plants.
- (iv) **Built-operate-transfer (BOT)**, under the BOT contract, a private company undertakes the financing and construction of a project, operates it for a designated period during which it collects user fees. Upon expiration of the concession period, transfer the facility to the government. North-South Highway and National Sewerage Project are examples of BOT.
- (v) Other modes of privatisation include the **built-own-operate (BOO)**, **build-operate (BO)**, the **build-transfer (BT)** land development, **management-buy-out**, **reverse take-over** and **joint ventures**.

#### 1.4 Background of The Study

In the past, implementation of public infrastructure works such as water supply, electricity, roads and highways in Malaysia were always the responsibility of federal and state governments. However, this is no longer true, as privatisation has become an important approach in carrying out infrastructure works. Under the privatisation programme of the Sixth Malaysia Plan 1991-1995, a total of 204 projects were privatised as shown in Table 1.1. Most of these projects are infrastructure projects, and they contribute towards alleviating infrastructure capacity constraints in Malaysia. Public infrastructure facilities are being implemented at a faster rate as compared to when they are fully implemented by the Government (Seventh Malaysia Plan, 1996, p200).

Some of the more successful privatised infrastructure projects include the North-South Highway by PLUS, supply of electricity by Tenaga Nasional Berhad and the supply of telecommunication services by Telekom Berhad. In addition, water treatment plants were also privatised. A list of the privatised water supply treatment plants is provided in Table 1.2.

Management contract (MC) and Build-Operate-Transfer (BOT) are popular modes of privatisation of water supply projects in Malaysia (JBAS, 1997). For example, the Sungai Semenyih and Sungai Selangor Phase 1 water treatment plants were privatised in the form of MC. BOT has already been adopted in the Labuan Water Supply, Ipoh Water Supply and Larut and Matang Water Supply Schemes. Apart from that, Sungai Selangor Phase 2 water treatment plant was also privatised under the BOT mode (Syed Muhammad, Hooi dan Binnie, 1993).

From the above discussion, it is noted that privatisation is an important strategy used in the implementation of infrastructure projects. Examples mentioned above also show that MC and BOT are popular modes of privatisation in water supply industry.

**Table 1.1 : Number of Privatised Projects by Sector and Mode, 1991-95**

Sector	Modes of Privatisation									Total	%
	SOE	SOA	BOT	BOO	COR	MC	LOA	MBO	BT		
Agriculture and Forestry	13	0	0	0	3	0	0	0	0	16	7.8
Mining and Quarrying	6	3	0	0	0	1	0	0	0	10	4.9
Manufacturing	27	0	0	0	0	0	0	4	0	31	15
Construction	1	23	13	2	0	1	1	0	5	46	23
Electricity, Gas and Water	3	0	0	8	1	0	2	0	0	14	6.9
Transport, Storage and Communications	6	3	4	4	5	0	0	0	0	22	11
Wholesale & Retail Trade, Hotel and Restaurant	13	1	2	0	0	5	2	0	0	23	11
Finances, Real Estate and Business Services	13	0	0	0	0	0	0	0	0	13	6.4
Government Services	0	3	1	2	4	0	0	1	0	11	5.4
Other Services	12	0	1	2	0	2	1	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>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 : Corporatisation

Source: Seventh Malaysia Plan, 1996

**Table 1.2 : List of Privatised Water Treatment Plants in Malaysia**

<b>State</b>	<b>Concession Period</b>	<b>Private Operator</b>
<b>Selangor</b>		
1. Sg. Semenyih	1987-1997	Taliworks Consortium Sdn. Bhd.
2. Tg. Karang	1991-2001	Taliworks Consortium Sdn. Bhd.
3. Sg. Selangor Phase 1	1993-2003	Perangsang Group Sdn. Bhd.
4. Sg. Selangor Phase 2	1996-2020	Puncak Niaga (M) Sdn. Bhd.
5. 26 Treatment Plants	1994-2020	Puncak Niaga (M) Sdn. Bhd.
<b>Negeri Sembilan</b>		
1. Sg. Terip	1989 - 1999	Taliworks Consortium (NS) Sdn. Bhd.
2. Kepis	1990-2000	Taliworks Consortium (NS) Sdn. Bhd.
<b>Kedah</b>		
1. Bukit Pinang	1990-2005	Sisma Management Sdn. Bhd.
2. Pelubang	1990-2005	Sisma Management Sdn. Bhd.
3. Sg. Ular	1990-2005	Sisma Management Sdn. Bhd.
4. Pinang Tunggal 1	1990-2005	Sisma Management Sdn. Bhd.
5. Pinang Tunggal 2	1990-2005	Sisma Management Sdn. Bhd.
6. Langkawi	1995-2020	Taliworks Consortium Sdn. Bhd.
<b>Perak</b>		
1. Sultan Idris Shah (a) Ulu Kinta	1989-2009	Metropolitan Utility Corporation Sdn. Bhd.
(b) Parit	1989-2009	Metropolitan Utility Corporation Sdn. Bhd.
2. Krian, Larut & Marang	1989-2009	Innovest Lyonnaise Sdn. Bhd.
<b>Labuan</b>		
1. New Labuan Supply	1988-2001	Labuan Water Supply
<b>Johore</b>		
1. Johore Bahru	1992-2012	Equiventures Sdn. Bhd.
<b>Sarawak</b>		
1. Miri, Limbang and Bintulu	1996-2021	Laku Management Sdn. Bhd.
<b>Sabah</b>		
1. Kota Kinabalu	1992-2012	Jetama Sdn Bhd.
2. Tawau/Sandakan	1993-2013	Timatch Sdn. Bhd.
3. Lahat Datu, Semporna, Kunak, Pulau BumBum	1995-2014	Lahat Datu Water Supply Sdn. Bhd.
<b>Kelantan</b>		
1. Kelantan	1995-2020	Kelantan Water (M) Sdn. Bhd.

Source: Malaysia Water Industry Report 1995/1996, JKR, 1997

## **1.5 Purpose of the Study**

The main purpose of this study is to conduct a financial evaluation analysis on the two different modes of privatisation used in the Sungai Selangor Water Treatment Plant Scheme. These two modes are BOT and MC. Discounted Cash Flow analysis will be used in this study.

In addition, the information gathered can be used as a guide to provide some insight for financial managers when making decision in selecting a particular mode of privatisation. The result of this study may lead to the identification of relevant factors that affect the returns (Net Present Value) obtained from using a particular of privatisation mode.

## **1.6 Organisation of the Study**

Chapter 1 presents the introduction to this study. Chapter 2 contains a review of the literature related and relevant to this study. The research methodology is explained in Chapter 3. Chapter 4 analyses the data and presents the results. Chapter 5 summarises the main findings of the study and presents recommendations for further research.