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**PRIVATIZATION IN MALAYSIA AT THE CROSSROADS:
POLITICS AND EFFICIENCY**

by

Noorul Ainur Mohd. Nur

A dissertation submitted to the Graduate Faculty in Political Science in partial fulfilment of the requirements for the degree of Doctor of Philosophy, The City University of New York.

2003

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This manuscript has been read and accepted for the Graduate Faculty in Political Science in satisfaction of the dissertation requirement for the degree of Doctor of Philosophy.

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Abstract

**PRIVATIZATION IN MALAYSIA AT THE CROSSROADS:
POLITICS AND EFFICIENCY**

by

Noorul Ainur Mohd. Nur

Advisor: Professor James F. Guyot

This is a study of two prominent features of the privatization policy in Malaysia: politics and efficiency. This dissertation puts forward the claim that political interference is detrimental in any privatization policy. Cronyism and nepotism have perverted free-market mechanisms – an underlying feature of privatization – resulting in inefficiency. This study is firmly anchored in two case studies, namely, privatization of Port Klang and hospital support services. The former explains the Malaysian blueprint for privatization while the latter highlights the implementation of this policy. The privatization policy in Malaysia is also allied to the New Economic Policy, an affirmative action policy to eradicate poverty and restructure society and especially targeted for Bumiputeras. In the midst of the Asian financial crisis in 1997, criticisms over Malaysia's privatization policy are coming to light. These include criticisms from Bumiputera themselves; thus the central thesis of this dissertation – privatization at the crossroads. This is where there is a need to re-evaluate institutions and policy actors – politicians, bureaucrats, and stakeholders. Subsequently, this dissertation will reveal the influence of 'soft' and 'hard' services in determining the feasibility for privatization.

**In memory of my father, Mohd. Nur Osman,
who taught me that success is not served on a silver platter.**

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LIST OF ABBREVIATIONS

AWSJ	Asian Wall Street Journal
BER	Beyond Economic Repair
BO	Build-Operate
BOT	Build-Operate Transfer
CUEPACS	Congress of Unions of Employees in the Public and Civil Service
EBOs	Employee Buy-Outs
EPF	Employees Provident Fund
EPU	Economic Planning Unit
ESOP	Employee Stock Ownership Plans (ESOPs)
FCS	Federal Civil Service
FOMCA	Federation of Malaysian Consumer Association
FPEs	Financial Public Enterprises
FSB	Federal Statutory Bodies
GDP	Gross Domestic Product
GOEs	Government-Owned Entities
GNP	Gross National Product
IDC	Inter Departmental Committee
IHT	International Herald Tribune
IMF	International Monetary Fund
ISA	Internal Security Act
IWK	Indah Water Konsortium
KCT	Klang Container Terminal
KLGH	Kuala Lumpur General Hospital
KPA	Klang Port Authority
KPM	Klang Port Management
KMT	Klang Multi Terminal
LDC	Less Developed Countries
LSB	Local Statutory Bodies
MBOs	Management Buy-Outs
MCA	Malaysian Chinese Association
MIS	Management Information System
MoH	Ministry of Health
MOU	Memorandum Of Understanding
MTUC	Malaysian Trade Union Congress
NDP	National Development Policy
NEB	National Electricity Board
NEP	New Economic Policy
NFPEs	Non-Financial Public Enterprises
ODI	Overseas Development Institute
OSA	Official Secrets Act
PAP	Privatization Action Plan
PSD	Public Service Department
PTF	Privatization Task Force

RM	Malaysian Ringgit
SCA	Supervision and Consultancy Agreement
SCS	State Civil Service
SIHAT	Sistem Hospital Awasan Taraf Sdn. Bhd.
SSB	State Statutory Bodies
TC	Technical Committee
TEUs	Twenty Equivalent Units
TNB	Tenaga Nasional Berhad
TRPI	Technical Requirements and Performance Indicators
UMNO	United Malay National Organization
UN	United Nations
USAID	The United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1. INTRODUCTION

Privatization, as a widely-believed-in government policy for rapidly developing all economies gained currency in the Thatcher and Reagan era of the early 1980s. The two global leaders of the developed economies were strong proponents of free-market capitalism; they were the distinguished leaders who had challenged government intervention in the state's policies. By definition, privatization witnesses the interplay of free-market mechanisms with competition element that would result in efficiency. The dire situations of the economies of the developing world during the mid-1980s economic crisis warranted their leaders to find an alternative in the direction of the economic planning of the country. Thatcher and Reagan's propaganda on privatization caught the attention of the ailing developing countries and, subsequently, the policy was adopted by some of the developing countries. The implementation of privatization policy in the developing economies can be viewed in two perspectives: imposition by international organizations, especially the International Monetary Fund and World Bank, and adoption of the policy on their own accord. Consequently, debates in the developing countries evolve from the implementation of privatization where weak institutions, frail infrastructure, and unstable political systems, in contrast to the strong features found in developed economies, had given rise to issues and posed challenges for the adoption of this kind of policy.

Malaysia was among the first few developing countries that had adopted privatization in 1983. The adoption of the policy was seen as a means to prop up its economic being after having indulged its revenues in establishing and maintaining unsuccessful public enterprises in the country.

The discussion in this study begins by looking into as how successful Malaysia has been in adopting this policy: the processes involved, the problems of implementation, and how far the Malaysians have benefited from it. The debate goes a bit further: Can the privatization policy in Malaysia be a model to other developing countries?

For this purpose, two privatized entities will be studied – Port Kelang and hospital support services. Briefly, this chapter is an overview of this dissertation and it clarifies the focus of this study and maps out the direction of the research. Having explained the focus of study, the objectives of the research are then stated. This is followed by a clarification of the research methodology used in the case studies and the final part of the chapter outlines the succeeding chapter divisions in the dissertation.

1.1. FOCUS OF THE STUDY

Efficiency acts as a major force behind the worldwide adoption of privatization. The promoters of privatization policy see the efficiency element as a vital push that can influence governments to adopt the policy. By definition, efficiency is concerned with making the best use of limited resources given people's tastes and available technology

(Barr, 1998). A key concept to this understanding is that of resource scarcity – that is, resources (labor, capital, land and raw materials) are used for one purpose they cannot be used for another. This leads to another underlying feature of privatization that is competition, which would then result in speedy decision-making, high productivity, and provision of efficient services. Subsequently, this too would lead to an elimination of redtape, a negative connotation labeled to the public sector's bureaucracy.

The literature on privatization in general, and of Malaysia in particular, suggests a number of factors that lead states to adopt privatization. As briefly explained above, the generic model posits that privatization leads to efficiency. The proponents of privatization, for example, Savas (1987) and Berg and Shirley (1987), advocated that private entities are better able than public ones to achieve efficiency and economic growth. The argument rests upon the putative ability of the private enterprise to promote the efficient use of resources and the efficient delivery of services. While other reasons are given, whether ideological, administrative or otherwise, the alleged 'efficiency' of the private sector over the public sector tends to predominate. Hanke (1987) in his view states that proponents of privatization see it as a means to increase output, improve quality, and reduce unit costs. It is hoped that privatization will curb the growth of public spending and raise cash to reduce government debt; emphasizing an active role for the private sector in enhancing economic growth; and broadening the base of ownership in society.

The adoption of privatization policy by developing countries is the result of its imposition as a policy reform in an effort to curtail the state's economic role. The policy is part of the structural adjustment package of international agencies, particularly the World Bank and International Monetary Fund. These two agencies have been promoting privatization to the developing countries since the early 1980s (*World Bank Report* 1983:85).

Many developing countries, in contrast to their developed counterparts, suffer setbacks in the implementation of the program. The World Bank (1991:143) recognized the implementation problems of privatization and listed them as follows: thin markets for domestic capital, adverse economic conditions, resistance of trade unions and civil servants, infrastructure and legal issues. In spite of the known setbacks, there are still many more developing countries that are preparing and gearing up to join in the "privatization race" (Cook and Kirkpatrick, 1988).

Explanations have been offered as to why the pace of privatization policy remained slow and in some cases why policies have failed totally. Cook and Kirkpatrick (1988) explain that the implementation factor is crucial in this respect. In this context, the implementation phase as one of the policymaking processes is being considered in this study. This will hopefully yield guidelines to countries venturing into the program. Malaysia, a developing country that vigorously pursues the policy, makes an interesting case study for the reason that it had ventured into this policy on its own accord rather than having being imposed by the international organizations as in the case of many other

developing countries. The Prime Minister, Dr. Mahathir Mohamed, made privatization policy his own political agenda in paving the way for Malaysia to become a developed country.

Like any other public policy, Malaysia's privatization policy has also undergone various stages in the process of policymaking. Simply stated, "public policy is the sum of government activities, whether acting directly or through agents, as it has an influence on the lives of citizens" (Peters 1993:4). While the policymaking process can be listed in the order of agenda-setting, policy formulation, budgeting, implementation, monitoring, and finally evaluation, in reality and in practice it does not necessarily come in that order (Anderson 1994, Peters 1993). There are elements involved that can influence the policymaking process, namely, institutions, political actors, political culture and even the global state of affairs. These elements are not alien in the developing countries' perspectives where other variables, for example, authoritarian regime, patronage, and lack of good governance, will hinder the policymaking process.

1.2. THE OBJECTIVES OF THE STUDY

The objectives of this study are as follows:

- i. to describe and evaluate the privatization policy in Malaysia and to explain and compare the role of politics in its implementation in the two cases;
- ii. to analyze whether competition, the underlying feature of privatization, exists in the two case studies; and

- iii. to assess the benefits gained by the Bumiputeras, the indigenous race, with the privatization policy entrenched in the New Economic Policy (NEP), the country's indigenous policy.

On the first objective, this entails an understanding of a regime in a developing country and its political system and agenda, which could have influenced the institutions involved in the policy process. Subsequently, a comparative perspective of the two case studies will be adopted. The second objective looks into the aspect of competition and assessing whether efficiency and productivity have been achieved in the two case studies. Finally, the New Economic Policy, which is the backbone of the Malaysian political and economic systems, must be viewed in the context of privatization in this country. With the NEP, the Bumiputeras as the indigenous race of the country are given priority in enhancing their economic wealth, and privatization is one of the means to achieve this objective.

Having stated the above, my hypothesis statement states that privatization policy with its free-market mechanism and entrenched competition element can result in efficiency, but exogenous factors (politics, institutions, and political culture) may thwart the expected results or gains.

The departure point of my study takes off from the understanding posited by the proponents of privatization that the presence of competition in the policy will lead to efficiency. However, I am questioning whether the existing model propagated by the

western scholars, especially, is workable in the developing countries since Malaysia is encountering problems, for example, in the awarding of contracts and the implementation stage, in its privatization policy. Hence, I believe the hard and soft services factor (see page 9) could have a role in determining and ensuring a successful privatization program. Also, the non-economic exogenous factors like institutions, cronyism, the state's indigenous policy (the New Economic Policy), can have positive and negative effects on the privatization policy in Malaysia. The details of this statement are elaborated in the following paragraphs.

The case studies for this research are the privatization of Port Kelang and hospital support services. The research undertaken adds a significant dimension to the existing literature of privatization in Malaysia. In the case of the hospital support services, there are no earlier studies or research done in this area. With Port Kelang, there is no comprehensive study of the efficiency factors with regard to its financial and productivity aspects. Also with the view in mind that Port Kelang is categorized into hard services, whilst hospital support services are regarded as soft services, a comparative perspective can be derived from this study. In addition, there is not yet a comparative study of privatized entities in Malaysia; thus, this study can be a contribution to the present literature of privatization in the country.

As briefly stated above, the 'take-off' of this research is based on the purported understanding that privatization equals efficiency as propagated by the proponents of privatization, namely Savas (1987) and Vickers and Yarrow (1988). Volumes of

literature on privatization in the developed economies have proven that this policy is workable in developed economies. On the contrary, the literature on the privatization policy in developing countries has proven otherwise. The question is: Can the economic problems in developing countries be solved without having to undergo privatization? It is with this in mind too that the two case studies were undertaken. It is also one objective of this study to provide useful guidance in terms of policymaking for the developing world and Malaysia. The weaknesses and strengths found during the policy process stage of the privatization policy in Malaysia could provide lessons to other developing countries. It is also hoped that the Malaysian policy makers too can benefit and learn from the weaknesses, especially, of the two case studies and remedy the situations.

These two versions of the privatization policy have created confusion and dilemma for politicians, bureaucrats, the private sector, and even academicians who continue to debate the workability of the policy. Can it be that the existing model of privatization is more appropriate for developed countries where various factors like well-developed infrastructure, sophisticated financial markets, political stability, mature institutions and more transparency and accountability, has allowed the privatization policies to run smoothly and result in efficiency? Again, I view these factors as necessary preconditions to privatization. Most of the above economic factors existed in Malaysia when the country first adopted privatization. Malaysia was then considered one of the most robust economies in the developing world, and yet its privatization policy has suffered serious setbacks. During the implementation stage, for example, the awarding of contracts and the monitoring of projects that have resulted into conflict between the

government and the private party, are among the problems encountered in the process of privatization in this country. Other than the economic factors, there are other variables, for example, institutions and political culture, that could have contributed to this problem.

This is where the term 'hard' and 'soft' services might be also applicable in the context of examining the privatization policy. This term is useful in studying the feasibility of economic sectors to be privatized and the different categorization can actually lead to a better understanding in policy formulation and implementation of the privatization programs. 'Hard' services technically means that there is less human interaction or involvement in the service delivery and that it does not directly have an impact on vulnerable groups. Even when it does, it will not mean drastic changes. Examples of the types of "hard" services are ports, railways, and roads. On the other hand, 'soft' services have strong human elements in its nature of service delivery. This means that interaction of service delivery with people is both more direct and profound. The impact of privatization of the "soft" services can have its effects on the poor and the marginalized groups, for example, the elderly. Examples of the type of "soft" services are education, health, and social welfare. The nature of these two categories of services can be understood from the two case studies in the following chapters. In reference to the case studies, hospital support services is more akin to the 'soft' services category, while the nature of services of Port Kelang can be categorized as 'hard' services.

Other aspects worth pondering on the privatization policy revolve around an over-emphasis on the efficiency factor, rendering its proponents blind to political realities. In

the context of the developing countries, the acts of the regimes can offset the efficiency factor. The notion that privatization is synonymous with the free market mechanism has been the central theme of its proponents. The sadly non-economic exogenous factors have little to do with their theoretical claims. It has been alleged that, in the case of Malaysia, various forms of political interference - cronyism, nepotism, the state's indigenous policy (the New Economic Policy), institutions, political culture - all play their roles in the privatization policy of Malaysia.

Being a civil servant of the Government of Malaysia and also having had a first-hand experience in the implementation of the policy, my interest lies in further scrutiny of the subject matter. It is hoped that when armed with the knowledge of privatization policy, it would be an advantage for practitioners to envisage appropriate decisions when faced with arising issues and problems from this policy. There are lessons to be gleaned from such case studies and these can also be disseminated to other developing countries. The numerous processes involved, for example, the awarding of contracts, the formulation of policy, concession agreements, and the regulation of policy, experienced by Malaysia in its privatization policy can assist or add a new dimension to other developing countries in the respective policy.

1.3. RESEARCH DESIGN AND METHODOLOGY

Prior to undertaking the research, it was understood that the research to be done would be comparing the time period before and after privatization policy was implemented. The following matters are taken into account when the comparisons were

made: efficiency (the ratio of output to input), quality of services, ethnic balance, public perceptions and the indigenous policy (the New Economic Policy/NEP).

1.3.1. Unit of Analysis

In this study, the units of analysis are the organizations (government entities) and also the functions of the entities that have been privatized. In the case of hospital support services, the research covers the time period immediately preceding privatization in 1997 to 2001. For Port Kelang, the research covers from its first privatization program in 1986 until 2001. However, it is unavoidable that the study of agenda-setting as one phase of the policy making process will mean that the study will also cover the period prior to privatization, that is, the point in time when the agenda was first mooted and brought into the open political arena.

1.3.2. Scope of the Two Cases

The method adopted in the privatization of hospital support services is contracting-out. Contracting-out of hospital support services in Malaysia involved a package deal – cleansing, linen and laundry, clinical waste management, bio-medical equipment engineering maintenance, and facility engineering maintenance. This program is the first of its kind and has never been implemented elsewhere in the world, according to the Director of Engineering Division, Dr. M.S. Pillay, of the Ministry of Health. Hence it can be considered a pioneer effort.

The research on the contracting-out of hospital support services was conducted on two General Hospitals in Kuantan and Ipoh, and a district hospital in Bentong. The three concessionaires involved are Tongkah Medivest, Faber Medi-Serve and Radicare. The privatization scenario in this case is that of a segmented market where each concessionaire was allocated specific region for them to operate.

The program was first implemented in January 1997 and to date four medical institutions and 127 hospitals throughout Malaysia are involved in this program. During its implementation, 2,681 employees opted out from the Ministry of Health to join the privatized entities. Before being privatized, the annual budgetary expenditure of the hospital support services was RM143 million (USD37.6 million). In comparison, it was about RM500 million (USD132 million) after being privatized. Several reasons have been given for the increased financial implications. The budgeting system (Modified Budgeting System) adopted by the government does not keep track of the actual expenditure on objects or items and thus there is no monitoring of what actually is being spent. A detailed discussion on this and the figures involved will be explained in Chapter Six when assessing the program on the whole. Moreover, the expenditure figures on hospital support services being projected prior to privatization is a bit complicated and there is need to be cautious in analyzing and making a conclusion of those figures.

In the case of Port Kelang, the privatization program underwent a gradual process with the first phase being privatized to Kelang Container Terminal in 1986.

Subsequently, Kelang Port Management became a concessionaire in 1992 and followed by Kelang Multi Terminal in 1994.

1.3.3. Data Sources

On methodology, at the outset, I had determined the criteria to be used to gauge the success and weaknesses of a privatization policy. With this in mind, I selected the criteria based on two perspectives: first, the financial and productivity performance of the privatized entities; and second, the perceptions of employees and customers of the agencies involved. These perceptions are assessed only in the case of the “soft” services. By acquiring the perceptions of the employees and customers of these privatized entities through a questionnaire, important elements of the impact of privatization can be determined. The financial performance of the entities is assessed through the government’s annual budgetary reports, and performance is evaluated by comparing achievements in the years before and after privatization. Budgetary reports and records of expenditure are considered to be the vital documents in assessing the performance of the privatized entities. Other sources of data, which were published by the Malaysian Government, for example, The Second Malaysia Plan (the New Economic Policy) to the Seventh Malaysia Plan, are scrutinized, along with reports on Malaysia by international organizations, such as the United Nations, the World Bank, and the International Monetary Fund. In addition, the organizational and institutional frameworks of the hospitals were studied from a historical perspective, comparing two distinct periods: before and after privatization. The institutional framework is composed of the formal

rules, operating practices, and procedures. The same institutional framework applies in the study of Port Kelang.

Interviews were conducted with the top-level management of the public (the Public Service Department) and private sectors (concessionaires), economists (from the Economics Faculty of local universities and the Economic Planning Unit (EPU) of the Prime Minister's Department), academicians (from the local universities), and economic analysts in the government sponsored research institutions (the Institute of Strategic and International Studies (ISIS)).

The questionnaire distributed to the privatized entities covered the following:

- i. Have the performance of former government entities, in terms of efficiency and productivity, improved after being privatized?
- ii. Is the new environment in which these entities are operating conducive to performing the given tasks?
- iii. Are the employees of the privatized entities satisfied with the program?

In this study, close contact with the Economic Planning Unit (EPU) of the Prime Minister's Department, the main agency of this program, was maintained throughout my research. When interviewing individuals in this agency, I depended on the input of the Head of the Privatization Division. Then, I made a request to the Head to interview middle-level officers. Being a central agency, the EPU desk-officers listed down the names of officials that I should interview from the Ministry of Health. This approach was

also applied to the Ministry of Health when seeking the approval to interview its middle-level officers and the three concessionaires – Faber Medi-Serve, Tongkah Medinvest and Radicare. In the study of Port Kelang, I interviewed the top-level management of the three private terminal operators, which were involved in the privatization and also its regulatory body, the Kelang Port Authority.

Interviews were also conducted with the officials and employees of the privatized entities. These interviews were meant to gather information and gain understanding of the current standard of living of the employees consequent to the privatization. Nevertheless, in the process of the “one to one” interview extra information of the overall situation of the program became available.

However, the problems envisaged prior to the distribution of the questionnaire and prior to the interviews, that is, in getting honest, prompt and a high percentage of questionnaire replies (70 percent), were actually encountered during the process. The tense political situation had restricted views given by those who were interviewed. Interviewees were averse to politically sensitive questions and were reluctant to express their real opinions. To counter this difficulty, information was gleaned via visits to these organizations where informal feedback was obtained. In analyzing the response to the questionnaire and interviews in this study, I took into account the informal feedback and the factor of ‘fear’ that often creates bias in the answers to research of this nature.

I did not encounter any serious problems in getting access to data, information and interviews. Admittedly, being an Administrative and Diplomatic Officer of the Malaysian Government, ensured my access to government publications and data. I was also directly and indirectly involved in the country's privatization program, which is internationally, the most publicized policy of the Malaysian Government for the past 18 years. With this understanding, however, views given in this dissertation are based on neutral observation and research.

1.4. OUTLINE OF THE STUDY

This research study is divided into seven chapters. This chapter is essentially introductory, covering matters pertaining to the focus of the study, its objectives, and the sources of data and methodology.

The second chapter explains the definitions and concepts of privatization, methods of privatization, pressures to privatize, and privatization as a reformation of policy. In developing this chapter and the subsequent chapters, I strongly feel the need to complement literatures written by scholars from the developed and developing countries. This review is deemed necessary considering that Malaysia is categorized as a developing country and thus, literature by scholars from Malaysia and other developing countries casts a refining light on the privatization policy. At the same time, the use of literature by scholars of the developed countries can give a different perspective of privatization as they spring from a different political arena. However, there is an overwhelming literature on privatization by scholars of the western world in comparison to the work on the policy

in developing countries. Thus this dissertation is a contribution in understanding the course of privatization in the developing world with particular references to Malaysia.

In Chapter Three, the privatization policy that has been adopted by the Government of Malaysia since 1983 is traced, and also factors and pressures that have contributed to its application and development. In developing the chapter, the historical and political background of the country is discussed in detail. This entails an explanation of the economic settings prior to and after privatization. The importance of looking and tracing previous policies inherited from earlier governments is crucial in understanding the overall perspective of the existing policy.

The fourth chapter deals with the case study of privatization of Port Kelang. The overall scenario of the privatization policy in Malaysia is highlighted in the privatization of Port Kelang. Being the first entity to be privatized in Malaysia, there is much written on this subject. I will therefore not be reviewing the complete details of the program. This will then serve as interesting comparison for the less successful privatization of hospital support services. By juxtaposing the two case studies, it is hoped that a full picture of the privatization policy of Malaysia can then emerge.

Chapters Five and Six are devoted to the privatization of hospital support services, tracing the policymaking process, which involves the different stages, namely, agenda-setting, policy formulation, budgeting, and implementation. The many and different roles of the policy actors involved directly and indirectly are discussed and

explained. In this context, institutions do play a large part in determining the path of the privatization program. Rockman and Weaver's (1993) main thesis, that political institutions shape the processes through which decisions are made and implemented and that these in turn influence government capabilities, is applicable in explaining the privatization policy in Malaysia. "Features such as the extent to which decision making is centralized, the degree to which decisions are subject to multiple vetoes, and the extent to which elites are stable and share common values and objectives may affect specific capabilities," according to the authors (Rockman and Weaver 1993:7). As shown later in the following chapters, decision making in Malaysia is very centralized at the Economic Planning Unit and even when the policy formulation has been agreed upon, but the politicians can cause some deviation from the original policy.

Even though the assessment (or evaluation) process is considered to be part of the policymaking process, it is felt that this process deserves a chapter of its own. Chapter Six is a specific chapter devoted to assessing the privatization of hospital support services in Malaysia. In doing so, this chapter depends heavily on the research findings: interviews, questionnaire, financial reports, government documents, newspaper reports, among other material. Three criteria – financial, personnel, and efficiency – have been adopted as the basis of the findings, and results obtained are then analyzed and explained. In ensuring that the analyses and explanations are acceptable, data (mostly unpublished) are then tabulated based on the feedback and accumulated information obtained from the annual reports, questionnaire, and government documents. Calculations are based on these figures to extract the relevant interpretations from the data. This action is seen

necessary in order to present a more realistic comparison of the situation or financial implications in the years examined.

Finally, Chapter Seven records my concluding remarks. In this context, I will try to analyze, quoting situations of hospital support services and Port Kelang, the politics and efficiency factors in the privatization programs adopted in Malaysia. As shown by the title of the dissertation, these are the two key aspects in the privatization policy in Malaysia. Along the line, I will do a comparison of the two case studies with the intention of highlighting the differences and the similarities of the two cases. To provide a more realistic overview of the policy, it is imperative that I give and adopt unbiased thinking in the whole state of affairs.

CHAPTER TWO

PRIVATIZATION: A REFORM IN POLICY

2. INTRODUCTION

This chapter will explain how privatization made its debut in the global scene. Emphasis will be given to its acceptance as a development strategy in the developing countries. Prior to this, an explanation of the proliferation of public enterprises, especially in the developing countries in the 1960s and 1970s, will be discussed. A specific section will seek to explain why governments set up public enterprises and this is followed by a section recording the weaknesses of these entities. A more thorough explanation of public enterprises in relation to the Malaysian scenario will be discussed in the next chapter (Privatization in Malaysia). The final section of this chapter will deal with the modes of privatization, explaining the strengths and weaknesses of each of the techniques.

In developing this chapter, it is felt that not only literature from the developed countries (western-oriented) be utilized and adopted but that it is imperative to include literature from the developing countries. As explained earlier (in Chapter One), the literature from the developing countries deserves the same scrutiny as that from the developed economies. This is for the simple reason that these works offer a different perspective on privatization. With this understanding, I decided that two categories of literature – general (from the developed countries) and regional (from the developing

countries, Malaysia, in particular) - will be utilized in this chapter and in following chapters as well.

2.1. GENERAL BACKGROUND

Privatization now dominates the policy agenda of the Third World's development strategy. Literally speaking and on most accounts, where the development of the developing countries is concerned, the privatization policy will be promoted as a package. The policy is seen as the remedy to the many economic ills that have engulfed the developing countries during the debt and economic crises in the late 1970s and mid 1980s. According to Nankani (1990: 43), privatization as a force of economic change was barely acknowledged earlier, but in recent years, it is enjoying full recognition in the developing and industrialized countries, all having adopted the program. Two reasons are mainly cited for the adoption of this policy. First, by transferring activities out of the public sector there is less of a chance that they will be politicized; and secondly, it is believed that the program will lead to improved performance.¹

Interestingly, the developing countries are caught in an ironic situation. The 1960s and 1970s saw the governments of these countries actively investing in public sector activities. The 1980s, however, witnessed a shift in the role of the state towards less intervention in economic activities. This particular observation was made by Van de Walle (1989:601) and he observes, "... privatization of public enterprises has featured prominently in these attempts, just as an earlier generation of policy makers had

emphasized direct state intervention to redress perceived failures in the operation of private markets.” According to Van de Walle, by the end of 1987, there were 1,400 privatization projects, and over 80 developing countries were involved in these efforts, including Tanzania, Algeria and China, which have traditionally favored a prominent role for the state in the economy.

Two prominent political and ideological advocates of privatization – Margaret Thatcher and Ronald Reagan - should be acknowledged for successfully promoting a renewed belief in the value of market forces in economic policy making throughout the world. This resulted in their eras being dubbed as Reaganism and Thatcherism, where free-market mechanisms play a huge and pivotal role in their administrations. Both these former leaders of capitalist economies believed that the private sector would perform better than the public sector in terms of efficiency, financial performance and even redistribution. Reaganism and Thatcherism became the buzzwords when one refers to privatization. Hence, the early 1980s can be considered the departure point to the proliferation of implementation of privatization policy in the developed and developing countries.

In the case of Great Britain, privatization first gained prominence in 1979 and the word has become an umbrella term covering a number of British government policies. The British privatization program, being notable both in its scale and in its national and international profile, resulted in it being imitated by other countries, including developing countries (Bishop and Kay 1989:643).²

In a similar vein with Bishop and Kay (1989), Cowan (1990:6) views the current vogue in privatization as a phenomenon mainly of the late seventies and early eighties. It became a matter of national policy in the United Kingdom when the Thatcher government undertook the largest privatization projects ever to take place – British Telecommunications and British Gas. Subsequently, privatization spread throughout Western Europe, particularly France, although not as extensively as in the United Kingdom.

Besides this policy being associated with the two leaders, Van de Walle (1989: 601) also links this policy to the international monetary lending/donor agencies, specifically the World Bank and the International Monetary Fund. This policy, he observes, has spread rapidly to the developing world under the endorsement of these organizations.

2.2. DEFINITIONS OF TERMS AND CONCEPTS

Scholars define “privatization” differently. The concept of privatization itself is not new, and according to Cowan (1990:6), could be found as early as 1762 in the writing of Adam Smith on the early great trading companies of the early period of European empire building. The private companies - British South Africa Company and the Dutch East Indies Company – were in private hands until being taken over by their governments as part of the rise of global foreign policy interests during the imperial era of the nineteenth century.

Cowan (1990:6), however, views the term privatization as a relatively new term. The word "privatize" made its first appearance in a dictionary in 1983 and was defined as "to make private, especially to change (as a business or industry) from public to private control or ownership." In the contemporary context, its meaning has broadened to include the economic setting in which privatization occurs.

Savas, an early guru of privatization in the United States, strongly recommends governments to adopt a policy of privatization. Savas (1987:3) defines it "as an act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets." He sees the concept of privatization as relying more on private institutions and less on government in order to satisfy societal needs. Savas makes a strong point of the importance of the role of privatization with the following statement: "The role of government is to steer, not to man the oars. Privatization helps restore government to its fundamental purpose (1987:290)." He says, it must always be remembered that privatization is more a political than an economic act. Savas states the following as alternative structural arrangements for privatization: contract work, franchises, voucher systems, producer of subsidies, the marketplace, voluntary arrangements and self-service. Specifically, the key concept underlying his work is competition.

Hanke (1987:4) states that privatization is the transfer of service and asset functions from the public sector to the private sector. He includes activities that range from selling public enterprises to contracting out public services with private

contractors. Van de Walle (1989:609) defines privatization as “a transfer of ownership and control from the public to the private sector with particular reference to asset sales.” However, he differentiates between full and partial privatization. According to him, equity sales, and management, leasing and franchising arrangements between a public enterprise and the private sector are categorized as partial privatization.

The World Bank (1991:143), on the other hand, views privatization in a very much different context. Privatization does not necessarily entail a mere transfer of assets to the private sector. It is also aimed at stabilizing and liberalizing the economy by adopting free-market mechanisms, regulation, trade, and the financial sector. As an international monetary lending organization, the World Bank has included a privatization package in its lending programs. Thus, as mentioned earlier, the developing countries as clients of the World Bank are required to accept the blanket privatization package.

Adam, Cavendish and Mistral (1992) criticize many authors who have described privatization as an array of actions designed to broaden the scope of private sector activity, or the assimilation by the public sector of efficiency-enhancing techniques generally employed by the public sector. For them, this loose description can lead to the understanding that privatization is interpreted as a goal in itself rather than as a means to an end. Essentially, they view privatization solely as a process. They define privatization as the transfer from the public to the private sector of the ownership and control of productive assets, their allocation, and pricing. Concisely, their definition focuses on the following: outright or partial sale of assets by the state; transfer of assets to the private

sector under leasing arrangements; and introduction of management contracting arrangements.

Referring to the regional literature and also in the case of Malaysia, Jomo (1995) provides several definitions of this concept. Privatization, according to Jomo, refers to changing the status of a business, service or industry from state, government or public to private ownership or control. Jomo interprets the term with reference to the use of private contractors to provide services previously rendered by the public sector; and the sale of 100 per cent or at least a majority share of a public enterprise, or its assets, to private shareholders. Full or complete privatization would, therefore, mean the complete transfer of ownership and control of a government enterprise or asset to the private sector.

The Government of Malaysia (*Privatization Masterplan* 1991:13) comes up with its own definition: “the transfer to the private sector of functions, which have traditionally rested with the public sector.” This, however, does not include the implementation of new projects by the public sector via the letting of contracts on a turnkey basis. Also, the introduction of private sector practices within entities owned by government is considered as reform rather than transfer of assets or activities to the private sector.

Hence from the above definitions, the presence of market forces is seen to be the main criterion in understanding privatization. The private institution is an active actor and its direct involvement is considered to be the main factor in the process.

As indicated by the various authors, there are many possible definitions of privatization. For the purpose of this dissertation, only two aspects will be used: sales and leasing out (in the ports case) and contracting out (in the hospitals case). Privatization refers to the transfer of public sector's activities to private entities. This process of transfer can involve complete or partial transfer. The presence of market forces via competition is seen as an underlying feature in this policy process. By sales, it means a total transfer of ownership or assets from government to private sector; leasing, on the other hand, is a form whereby the government awards leases to a private company for certain duration to provide services to the public. These techniques are applied in the privatization of ports in Malaysia. Contracting out involves the government's delegating to the private sector the provision of services, which was provided by the government to the public. This technique is applied in the contracting-out of hospital support services in Malaysia. The numerous modes of privatization will be explained later in this chapter.

2.3. PUBLIC ENTERPRISES: PRESSURES TO PRIVATIZE

This section will give a historical overview that led to the establishment of public enterprises in the developing countries. It will also explain the reasons as to why public enterprises lost their vogue in the 1980s.

Simply defined, public enterprise is a revenue-generating entity owned or controlled by the state (Van de Walle 1989). Akash (1996) gives a more elaborate definition of public enterprise. He defines public enterprise as government owned or

government controlled economic entity that generates the bulk of its revenues from selling goods and services. Government ownership here implies that at least 50 per cent of the shares are owned by the state.

The 1960s and 1970s saw the proliferation of public enterprises in the developing countries. On average, they accounted for over a quarter of gross fixed capital formation in the countries, followed by a decline in the late 1980s (Van de Walle 1989:609). Looking at the trend in size of public enterprises, Akash (1996:3) observes that in the developing economies (non transitional economies whose per capita income in 1992 was less than USD8,355) the public enterprise value-added as a percent of Gross Domestic Product (GDP) at large has not decreased over the longer run in two of three regions (it did decrease in Africa). A detailed observation follows that from 1978 to 1985 there was a general upward trend in the public enterprise/GDP ratio from 9.1 percent to 11.7 percent, and from 1985 to 1991, a general downward trend from 11.7 percent to 10.2 percent (see Table 2-1).

Table 2-1: Regional Trends For Developing Economies (40 countries): Public Enterprises value added as a share of GDP (percentage)

Region	1978	1985	1991
1. Latin America and the Caribbean	7.5	10.1	8.4
2. Africa	18.6	19.8	17.3
3. Asia	8.8	11.6	10.7
4. Developing Economies	9.1	11.7	10.2

Source: Adapted from M.M. Akash (1996), *Reform of State Owned Enterprises (SOE) and Privatization* (1996:4).

Akash's observation is part of the review during the workshop of Bureaucrats in Business (BIB), which was held in Dhaka in 1996. He also observes that there was an increased pace of privatization taking place in all economies over the years in the early 1980s, and the pace of privatization was the most rapid in the transition economies of Eastern Europe and Central Asia and the lowest in Africa (see Table 2-2). Among the developing countries, the rate of privatization increased more rapidly in Latin America (312 percent), followed by Asia (239 percent) and then in Africa (12.09 percent) where it was the weakest.

Table 2-2: Increased Pace of Privatization

Region	1980-87 (8 years) No. of transactions	1988-93 (6 years) No. of transactions	Percentage Increase (%)
Africa	210	254	12.09
Asia	108	367	239
Latin America	136	561	312
Eastern Europe and Central Asia	2	1097	5475
Total Developing Countries	456	2,279	399
Industrial Countries	240	376	56.6
Divestiture World Wide	696	2655	281

Source: Adapted from M.M. Akash, *Reform of State Owned Enterprises (SOE) and Privatization* (1996:4).

2.3.1. Reasons For Establishment Of Public Enterprises

Scholars give various reasons for the establishment of public enterprises in the developing countries. Public enterprises were seen as an alternative to provide goods or services to the population. Also, public enterprises served as a vehicle to achieve social goals, which the private sector is unwilling or incapable of undertaking. Public enterprises were also used as an instrument for the government to increase the welfare of the people as a whole and as a channel to redistribute wealth. They were also established to avoid natural or private monopoly and, consequently, giving a monopoly to the state for national reasons. Waters (1985:26) sees public enterprises as the result of externalities, and shortage of entrepreneurial and management talents.³

Besides the above reasons, the establishment of public enterprises was assumed to provide government access to revenue for the country's development. The large profits to be generated from public enterprises would be able to finance investments in priority sectors of the economy. In some cases, the creation of public enterprises acts as a bailer on the part of the government to bail out failed private sector firms. Cowan (1990) lists the following reasons for the establishment of public enterprises:

- i. failure of the private sector to respond to what the government felt were good investment opportunities for lack of interest because of too little profit potential and too high an investment risk;
- ii. political exigencies required the government to find jobs in the modern economy for the new urban populations;

- iii. to provide management and board benefits in return for past political favors or military service; and
- iv. on national security grounds because it was too risky to entrust vital food supplies or the needs of the armed forces to private sector producers.

The motives for establishing public enterprises can accordingly be seen to be complex and varied, of which according to Wallis (1989:103), the key assumption to its establishment being as a fundamental component of development strategy. Wallis and some other authors (Adam, Mistral and Cavendish 1992; Hemming and Mansoor 1988) acknowledge the fact that public enterprises were created in the developing countries for complex and varied reasons. Their reasons (in italics) are similar to the ones established by Cowan (1990). First, during the time, the *ideological climate* toward the private sector was held in low esteem and there was a strong and conducive environment for the role of public sector in the economy to ensure a rapid and sustained development of the economy. Second, at the same time, *local private entrepreneurs* were in short supply and did not have access to adequate levels of capital. Most of them were linked to unpopular minorities and foreign governments. This resulted into political restrictions and an anti-business climate, which consequently created disincentives for investment. Finally, the *patronage factor* linked the state elites in utilizing the resources of public enterprises in the form of potential rents, jobs, and the servicing of constituencies. Redistributive considerations also played a role in lessening regional inequities or to enhance employment creation. To achieve this objective, the state elites invested in their

constituencies to upgrade social services and housing, and in capital-intensive agricultural schemes with the intention of modernizing their respective region of influence.

With regard to the establishment of public enterprises in the developing countries, the prevailing mindset can best be described as opinion of “what comes from the western or developed economies is the best”. It is this set mentality that has resulted in the application and adoption of policies that come from the west without considering their adaptability in the local scenario. As shown later, when the developed economies plunged into privatization, the developing countries followed suit without hesitation. Looking and interpreting the actions of the developed economies as superior to their own is the result of colonialism in the developing world.

2.3.2. Problems Faced By Public Enterprises

The call for reforms of public enterprises came at a time when not only was there a concern for their poor performance but also a perceived change in approach towards development policies (Cook and Kirkpatrick 1988). The election to power of strong conservative governments in a number of key industrialized countries in the early 1980s (Reagan in the US and Thatcher in the UK), plus the disillusionment with state planning and large-scale government intervention, resulted a general shift towards a neo-classical, market-oriented view of development. The neo-classical approach called for a reduction in the size of the public sector, the removal of government regulations and controls, and the creation of competition and greater reliance on the market mechanism for allocating

resources. Thus, these orientations were against specific policy proposals made for the public enterprise sector.

Reform strategies have been advocated for public enterprises in line with this new thinking. First, a change to partial or complete private ownership would mean less political interference in the operations of public enterprises. Arguments have also been put forward to institute internal reforms to stimulate private sector operation while retaining the enterprise in public ownership (*World Bank Report 1983*). Second was the need to reform or to rehabilitate public enterprises on the basis of property rights argument (agent-principal). It was the view then that a change in the structure of property rights would improve efficiency of operations (see explanation on page 36). Third, it was felt that the public sector monopolies needed to be broken up to improve productivity and to induce competition since this policy will help stimulate improvements. Finally, a change in the structure of ownership either full or partial was seen as viable because it will impose the discipline of capital markets on the enterprises maximizing profits and avoiding bankruptcy.

There was a general agreement that the performance of public enterprises in the developing countries in the 1980s was unsatisfactory. The common weaknesses cited were low productivity, unclear or contradictory objectives, overly centralized decision making, excessive personnel costs, inadequate capitalization, bureaucratic meddling, political interference, managerial ineptitude, and high labor turnover.

Wallis (1989:105) agrees that in most countries there was a general agreement on the inefficiencies of public enterprises. According to him, "...whilst public enterprises originated as ways of bringing about development they have often proved in practice to be a major headache, a burden to governments rather than a valuable instrument of policy."⁴ The poor performance of public enterprises seemed to be linked to extensive governmental involvement in the economy. Adding to this, the economic and debt situations in the developing countries have worsened, reflected in an endemic case of fiscal crises in the early 1980s. Even though public enterprises continued to pay political dividends, governments had to make a choice because of financial losses and economic efficiency.

Waters (1985:23-28) further emboldens the argument by stating that the public enterprise monopolies produce a less than competitive output and generate monopoly profits in the form of excessive costs; and efforts made to correct the situation by altering human behavior have only led to deeper problems. Another major problem, he says, arises because public enterprises have traditionally produced what officials determine rather than what consumers want. Finally, Waters (1985:28) concludes on public enterprises: "...the non-private sector is not the path to successful economic development. There is no evidence yet that, even though the European nations are rich enough to sustain their large non-private commercial enterprises over a long period. Perhaps no nation will ever be rich enough to afford more than a select few state monopolies."

Cowan's (1990:4) explanation on the failure of public enterprises is similar to the other scholars mentioned earlier. He cited the following reasons:

- i. Conflicting objectives – social and financial – have brought conflicting signals from the government, and thus, the management was unable to determine what policies were required to meet these objectives.
- ii. Inexperienced management was unable to operate the businesses profitably with negligible thought to its proximity to markets or accessibility of raw materials. The result was that the national treasury had to make up for the growing negative cash flow if the public enterprises were to continue in business.
- iii. The governments of developing countries failed to develop effective means for monitoring the numbers and performance of public enterprises. Reasons cited were: uncoordinated donor assistance; projects were often initiated through several ministries; and inadequate information on the exact number of enterprises the government owned.⁵

The literature abounds with well-documented evidence of inefficiency, losses, and corruption among public enterprises in the developing countries. In addition to that, some public enterprises are not pursuing goals for which they were created and therefore are not fulfilling their original purposes. Their objectives – social and revenue generating - were difficult to achieve because they contradict each other. Where public enterprises were created out of failed private sector firms, it further made worse their existing problems. The buying-out action of the government, with the intention to save the

entities, was made instead of institutionalizing the existing inefficiencies and accepting compounded losses.

Thus, in many developing countries, the public enterprise was seen as evidence of a failed development strategy, for they were a substantial drain rather than a contributor to their countries' economies. This situation caused the governments of the developing countries to dispose of public enterprises. The ideological climate also changed and turned against the public sector in favor of the private, as observed by Van de Walle (1989:609).

On problems faced by the public enterprises, the cited authors seem to give the same reasoning to the weaknesses of public enterprises. Research reveals that the public enterprise entities or institutions were weak to begin with. In the early 1970s, when public enterprises were established in the developing countries, most of the developing countries had just gained independence. The states' institutions were new and public sector employees were not given training in capacity building. This was the root of the problem that led to the inefficiencies of public enterprises in the developing world. To make matters worse, irresponsible politicians came into the management of these entities and started controlling and meddling with the whole administrative and management system which not only resulted in their collapse but also created a culture of patronage. Most authors who had written on public enterprises did not deal with the capacity building factor in-depth particularly with regard to the strengthening of the public enterprises as

one of the contributory factors, or more as a vital reason to the failure of public enterprises in the developing countries.

2.4. PRIVATIZATION: A POLICY OPTION

Proponents of privatization see this policy as an end or goal in itself and argue from an ideological premise that most functions and activities should be transferred from the public sector to the private sector. The efficiency of free markets and the importance of ownership in guiding enterprise behavior are the basis of their ideology. The primary function of any enterprise is to operate efficiently and to them privatization is the only solution to public enterprise problems. Privatization is seen as a means to achieving efficiency and for correcting the deficiencies of public enterprises. In their view, privatization is not only pragmatic but also an ideological solution to the problems of public enterprises.

Taking a departure from the literature thus far, Hemming and Mansoor (1988:32) state that while the promotion of efficiency, both economic and social, is central to the discussion of privatization, this policy has also been assigned other objectives. Most notably, privatization has been suggested as a means of reducing budget deficits. They view asset sales as more closely related to bond financing in its impact and in the process a country can raise additional revenue in the future. For example, a country can utilize the asset sale to replace its forgone income and a bond issue to service its debt. Only if an

enterprise is run more efficiently and profitably in the private sector, will the budget benefit from privatization on a permanent basis.

In addition, Hemming and Mansoor (1988:4) continue to see privatization as a means of diluting the strength of public sector trade unions. However, they view competition accompanied by the risk of bankruptcy resulting in tighter budget constraints and think this more likely to be effective; otherwise, the answer lies in trade union reform and other legal sanctions, not privatization. Besides, privatization could mean wider sharing of ownership and subsequently, this would reflect concerns for increasing and more equitably distributed income and wealth. But efficiency gains, however achieved, are the key to increasing total income and wealth, while taxes and transfers can most directly influence the distributional consequences of such gains.

As quoted in the earlier section of this chapter, Savas (1987), who worked with the Reagan administration, made a strong statement for the viability of privatization: "The role of the government is to steer, not to man the oars. Privatization helps restore government to its fundamental purpose," says Savas.⁶ As reflected in his work, Savas sees privatization both as a means and an end. Savas's view, however, was challenged by a study of the *World Development Report* 1991. According to that report, privatization is necessary and highly desirable, even though difficult and time consuming. The report goes on to say, "It is not to be undertaken as end in itself, but as a means to an end: to use resources more efficiently" (*World Development Report* 1991:144).⁷ The statements

made by Savas and the World Bank could be conflicting, but it sets one to think of the actual direction of privatization policy in one's country.

More comprehensively, Savas (1987:4-5) concludes there are four major forces, or pressures, behind the privatization movement, namely pragmatic, ideological, commercial, and populist. For the pragmatists, the goal is better government, in the sense of a more cost-effective one. For those who approach the matter ideologically it means less government, one that plays a smaller role vis-a-vis private institutions. For those whose goal is commercial interest, privatization is a means to engender more business by having more of government's spending redirected toward them. Finally, the populist goal is to achieve a better society by giving people greater power and choice to satisfy their common needs, while diminishing that of large public and private bureaucracies. A detailed illustration of the above forces is given in Table 2-3. In this regard, I view Malaysia as one enforcing the "commercial" strategy, inviting an aggressive private sector to dominate the economic scene. Moreover, the government of Malaysia has stressed and publicized the fact that the private sector is and will be the engine of growth in gearing the country towards a developed nation status by 2020.

Table 2-3: The Forces Behind Privatization

Force	Goal	Reasoning
Pragmatic	Better government	Prudent privatization leads to more cost-effective public services.
Ideological	Less government	Government is too big, too powerful, too intrusive in people's lives and therefore is a danger to democracy. Government's decisions are political, thus are inherently less trustworthy than free-market decision.
Commercial	More business	Government spending is a large part of the economy; more of it can and should be directed toward private firms. State-owned enterprises and assets can be put to better use by the private sector.
Populist	Better society	People should have more choice in public services. They should be empowered to define and address common needs, and to establish a sense of community by relying more on family, neighborhood, church, and ethnic and voluntary associations and less on distant bureaucratic structures.

Source: Adapted from Savas, E., *The Key to Better Government* S (1985:7).

Going back to Savas (1987), his work also deals with privatization in both the developed and the developing economies. The major gap and deficiency of Savas' argument is that privatization when implemented in developing countries will not have the same result as in developed economies and will encounter more implementation problems. The occasional reasons cited for the implementation problem in the developing

countries are the lack of expertise, scarcity of indigenous capital, and inferior infrastructure, factors which are abundant in the developed economies. In fact, as shown later on in this chapter, these reasons are the same given by many authors when analyzing the implementation problem of privatization in developing countries.

Berg and Shirley (1987:2-3) cited several reasons which are similar to those given by international organizations, like the World Bank. The cited reasons are as follows:

- i. The public sector is too big and it does too many things that could be done more efficiently by the private sector. Privatization will reduce the managerial burden on the state while private ownership will lead to more innovative management.
- ii. Increased popular participation in the ownership of national assets is an important consideration in many countries. In industrial countries, privatization is seen as a way to bring stock ownership to the grass roots. Brazil is selling stock in its public enterprises as a way to "democratize" ownership while raising capital.
- iii. Privatization is seen as a way to raise government revenues. Recent moves to sell equity in public enterprises in Pakistan and Thailand, for example, have been justified in public discussion in part by the argument that the government may be able to raise substantial revenues.
- iv. A major factor leading governments to consider a divestiture program is the desire to reduce fiscal and credit pressures. Authorities in these developing countries implemented privatization in order to get rid of

unprofitable public enterprises, those requiring budget subsidies and continued infusions of credit. For example, of the 61 enterprises that the Brazilian Government has proposed to sell to the private sector, most are unprofitable. Privatization programs in Africa show even more strongly this tendency for privatization to be viewed as a budget-relief and credit-reducing exercise.

Admittedly, Berg and Shirley (1987) in their work betray a bias for international organizations. Thus, they are strong proponents of privatization and their work reflects the many advantages one gets when privatization is adopted as a policy.

On the other hand, Sassen's (1993) view on privatization is unique in comparison to the other scholars. For one, Sassen relates privatization to the concept of globalization, which she defines as a myriad of activities that bind the global cities, namely Tokyo, New York, and London. The birth of the global cities was an outcome of the collapse of the manufacturing sector in these cities in the late 1970s. Hence, the former big organizations were reduced to small businesses or firms run by the younger generation, otherwise known as the high-income earners or the "yuppies". These are in the form of services and financial sectors. Since the once big organizations have shrunk to small offices, it was uneconomical to employ a large number of staff, especially low-income staff. Thus, the solution at hand then was to contract-out or privatize jobs, i.e., cleaners, typists to other firms or individuals. In the process too, this action increased the number of female employees. I see this as an interesting phenomenon, which has not been taken up in detail

by other scholars when discussing privatization. In other words, Sassen relates the outsourcing technique adopted not only by the public sector but also the private sector. The most common method of privatization practiced in this set-up is contracting-out. The smaller firms now would contract workers to handle most of the tasks earlier on done by permanent workers. The jobs being contracted out are mostly the semi-skilled or unskilled categories, for example. typing, printing, gardening, cleaning.

On the Southeast Asian regional literature, and also in contrast to the general literature (mostly from the developed economies), Jomo (1995) challenges the relationship between efficiency and free market competition.⁸ Privatization may improve the profitability of enterprises, but such changes may not necessarily benefit the public or consumers. Jomo sees the danger in privatizing public monopolies because this situation will hand over such monopoly powers to private interests likely to use them to maximize profits. Furthermore, the privatization of public services will impose hardship on certain groups of people, especially if charges are raised for privatized services. In a strong statement, Jomo agrees that public sector inefficiencies and other problems need to be addressed but the sad outcome of the privatization policy in Malaysia is that it has primarily enriched the few with strong political connections to secure many of these profitable opportunities. As for the public, it seems that their interest has been increasingly sacrificed to private business interests.

Jomo (1995) probes further and asks whether such inefficiencies found in public enterprises are necessarily characteristics of public ownership, and therefore cannot be

overcome except through privatization. He concludes that if the record of Malaysian public enterprises is primarily due to the nature, interests, and abilities of those in charge, rather than to the consequences of public ownership per se, then privatization in itself cannot and will not overcome the root problems. Subsequently, while privatization may improve enterprise profitability for the private owners concerned, such changes may not necessarily benefit the public or consumers.

Ismail and Rani (1991) contend that in the case of Malaysia, more than any other factor, privatization was a public policy response to poorly managed state-owned enterprises. These were characterized by rapidly increasing external and domestic debt levels and public sector deficits that became unsustainable. The authors state that privatization also posed problems for Malaysian policy makers because an inherent tension existed between the two objectives (eradication of poverty and restructuring of society) of its indigenous policy - the New Economic Policy (1970-1990) but later known as the National Development Policy (1990-2000). This policy tries to extract the energy and resources of the public sector with the desire to protect and promote Bumiputera (indigenous Malays) interests, simultaneously.

While Jomo (1995) tends to be more direct in his analysis of the outcomes of privatization policy in Malaysia, Ismail and Rani (1991), on the other hand, are more subtle in their critique of the policy. According to the authors, it is a known fact that the privatization policy in Malaysia is intertwined to the New Economic Policy (NEP), and thus the reasons for the tension that occurs in the context of a multiracial society as in

Malaysia. The privatization policy is seen as promoting and enhancing the economic status of the Bumiputeras. In the next chapter, a brief explanation on the Bumiputeras' status vis-a-vis privatization will be given albeit the findings are derived from the government documentation itself.

Again, looking at Malaysia, Adam, Cavendish and Mistry (1992) take a different position in comparison to Savas and Jomo. According to the authors, Malaysia's privatization policy has the efficiency element in its perspective. Nevertheless, the main drive of the policy is to accommodate the NEP, an affirmative action policy that would benefit the Malays. The authors see the necessity to converge the two policies (privatization and the NEP) in order for Malaysia to achieve political and economic stability. The management of ethnic relations in Malaysia had been problematic at one time and the state moved to address the concerns of the majority community to prevent future trouble. By actively accommodating the involvement of the Malays into the corporate sector through privatization programs, the Malaysian government envisaged that the two main objectives of the NEP could be met.

For easier understanding, the reasons as to why the governments opted for privatization is best viewed as in Table 2-4. I have decided to categorize them into two categories: economic and political factors. This is a summary of factors derived from the opinions of scholars discussed earlier in this chapter. Developing countries adopt privatization to ensure productivity, efficiency, to reduce the size of the public sector, to raise government's revenues, and to settle debt and fiscal crises. On the other hand, the

political aspects involve restructuring society, the participation of society in ownership, imposition by lending or donor agencies on the regime's agenda, and ideological climate favoring the private sector. The government of developing countries, most of the time, explains the adoption of privatization based on the cited reasons.

Table 2-4: Why Governments Privatize?

Factors	Reasons
Economic	<ul style="list-style-type: none"> i. high productivity ii. efficiency iii. reduction in the size of public sector iv. to raise government's revenues v. to settle debt and fiscal crises
Political	<ul style="list-style-type: none"> i. restructuring society ii. participation of society in ownership iii. imposition by lending or donor agencies on the regime's agenda iv. ideological climate favoring the private sector v.

Source: Table derived from different views expressed by scholars/writers on privatization.

2.5. DONOR AGENCIES: INVOLVEMENT IN REFORM

The appearance of privatization on the development agenda is largely due to external pressures from international aid donors and banking agencies, such as the World Bank and the International Monetary Fund (IMF). The US Agency for International Development (USAID) promotes denationalization for avowedly ideological reasons. The capitalist approach with the elements of competition and free-market mechanisms are behind this staunch belief. The USAID and international agencies such as the World

Bank are more sensitive to the diversity of economic cultures worldwide and adopt a more pragmatic approach to privatization. For these international organizations, too much interference by the state government in the economy of a state will result in inefficiencies which will further deteriorate the almost failed states. The World Bank points to growing debts of many public enterprises swallowing public spending which could otherwise be spent on health or education.⁹ On the motives of the above agencies, it is felt that they have a strong tendency to promote free-market mechanisms via privatization in their strategies.

International aid donors and agencies are applying external pressures on the developing countries to ensure that the privatization policy is high on the development agenda. The World Bank and the International Monetary Fund (IMF), especially through their structural adjustment lending, attached conditions requiring borrowing countries to implement certain basic economic reforms, of which privatization policy is one. Also, the governments have been urged to emphasize the roles of the private sector as part of the restructuring plan in their economies.

The World Bank had established a special section in 1986 to deal explicitly with measures for improving the efficiency of public enterprises by restructuring and privatization. Thus, the many conferences, seminars, workshops, and other talks organized by the international organizations – the World Bank, the International Monetary Fund, the United Nations and other agencies - stressed the importance of privatization as an approach to the development policies.

Berg and Shirley (1987), reporting for the World Bank on privatization in developing countries, have also come out with a detailed report on the outcomes of privatization. Both authors, well-known in the respective area discuss the obstacles and pitfalls of the policy – low values on public enterprise's assets and concentration of wealth. Even though Berg and Shirley are proponents of privatization, but they pointed out that privatization does not necessarily have efficiency as its ultimate goal. At the same time, the authors recognize the fact that privatization in developed countries can be implemented more successfully for the following reasons: privatized firms are inserted into a private sector dominated economy; a well-structured policy setting with stable tax laws; established and well-understood regulatory system; a large (or service) sector with many firms and, in most instances, a reasonable degree of competition.

According to Wallis (1989:119), the severe external and domestic economic imbalances in many developing countries force them to adopt major adjustment programs with elements of privatization aimed at reducing and restructuring public expenditure. He quoted the Berg Report of 1981 on Africa as an influential donor study, which argued strongly in favor of free market mechanisms. For Wallis, this report was akin to propaganda by the donor agencies when imposing privatization in developing countries.

The emphasis on the private sector's role in the economy has become a standard feature of the economic packages put forward by the international agencies that the developing countries are pressured to implement. For instance, the bilateral donors now link their interventions to the developing countries' acceptance of World Bank and IMF

policies for economic reforms. The need to reduce the role of the state has also been expedited by extensive privatization programs introduced in several developed economies. The donor agencies' staunch ideological preference for the private sector's role, plus a belief that the preference is valid across all types of economies has proved to be a crucial factor in determining the framework for policy reform in developing countries.

As for the United States Agency for International Development (USAID), privatization is seen as an opportunity to increase foreign investment. For example, "In February 1991 the head of the US Agency of International Development (AID) stated that it would direct an increasing amount of funds to those countries that are moving towards economic and political liberalization" (ODI 1986). However, some have questioned the direct or causal association of public ownership with poor economic performance and are skeptical of foreign capital investment in many developing countries under any circumstances. On the other hand, others are of the opinion that the value of public infrastructural investment is an attractive way of mobilizing domestic resources. To avoid confusion and misunderstanding, the advocates of privatization are careful on the ownership issue. Hence it is seen as one element in a larger set of prescribed liberalizing measures on which the success or failure of privatization itself is ultimately dependent (ODI 1986).

The extent to which developing governments are prepared to redefine the public-private boundary depends much on their countries' economic and social condition as well

as the pressure imposed by the donor. As it is, with many developing countries' economies immersed in an acute hostile trading and financing environment there is less room for maneuver, and therefore greater scope for donor pressure.

2.6. MODES OF PRIVATIZATION

This section will first give a general view of the many methods used in privatization. Much emphasis will be given on the methods used in the case studies that I have been working on. The respective techniques are direct sale, leasing, and contracting-out.

The main criterion advocated by the proponents of privatization is that privatization, as an economic reform, will only stand to gain if it is accompanied by moves towards greater competition. Just by converting a public sector monopoly into a private monopoly will not necessarily confer any benefits. Privatization strategies should take into account the two factors - transfer of ownership and change of market structure. On the modes of privatization, different scholars have different interpretations and terms. Structurally, the techniques are the same although the terms used might be different. For this purpose, the report made by the United Nations Ad Hoc Working Group in *Comparative Experiences with Privatization* (1995:66-101), which was covered in four sessions over a period of 16 months during 1992-94, was discovered to have a clearer perspective on this subject. Table 2-5 highlights the methods used in privatization.

Specifically, this section adopts explanations and understanding of modes derived from the said report.

2.6.1. NON-DIVESTITURE

The non-divestiture option is considered an intermediate step towards sales or “the road to privatization” in which the commercial viability of public enterprises is demonstrated. The measures in this option range from corporatization to management contracts and involve the removal of subsidies, and the exposure of the public enterprises to private sector disciplines and competition. The main types of non-divestiture privatization options are shown in Table 2-5. Assessment of some of the techniques being adopted in the implementation of privatization policy will follow.

In their report, Berg and Shirley (1987) observed that privatization other than by the sale of assets is less controversial, can be done gradually, need not strain the domestic capital market, increases competition and avoids the embarrassing write down of assets. They acknowledge however that the number of incidents of divestiture by leasing, management contracts and joint ventures is surprisingly low. Management contracts are widely regarded as a minimal or first step in privatization. Leasing is a highly flexible tool, which allows a disguised write-off of assets by adjusting rental payments. It allows retention of assets, so that crises resulting from temporary or cyclical factors need not lead to sales at bargain basement prices.

Table 2-5: Methods of Privatization

Options	Techniques
NON-DIVESTITURE	<ul style="list-style-type: none"> i. Public enterprise reforms: <ul style="list-style-type: none"> a. <i>Restructuring</i> b. <i>Commercialization and Corporatization</i> ii. Privatization of Management: <ul style="list-style-type: none"> a. <i>Management contracts</i> b. <i>Leases</i> c. <i>Concessions</i> iii. Contracting out iv. Joint ventures
DIVESTITURE	<ul style="list-style-type: none"> i. Direct sale (full or partial) to general investors ii. Public share offerings on stock markets iii. Private offering or placement with "strategic" investors iv. Public auctions v. Employee/management buy-outs and employee share ownership plans vi. Mass privatization vii. Liquidation viii. Other selected techniques

Source: Tabulated by the author from the report of the United Nations Ad Hoc Working Group in *Comparative Experiences with Privatization: Policy Insights and Lessons Learned* (1995).

2.6.1.1. Public enterprise reforms:

a. *Restructuring*

The purpose of restructuring is to enhance the value of the affected public enterprise. It involves changes with the intention of enhancing efficiency and to make it more attractive to potential investors. There are three forms of restructuring: organizational, financial and operational.

Organizational restructuring usually includes splitting up the public enterprise into smaller units, and some labor shedding. The main purpose is to put the public enterprise on a sound financial and commercial footing, and to increase the net worth or sales value of the public enterprise. For example, this technique with corporatization, has helped increase the net value of public enterprises in France, the Netherlands and New Zealand.

Financial restructuring concerns the treatment of the debt of the enterprise, and allows an enterprise saddled with accumulated losses to “clean up” its balance sheet. If divestiture is contemplated, financial restructuring prior to the sale can help to put a public enterprise on a sound financial footing, thus enhancing its sale value. In some instances, the government may have to absorb the large debt liabilities.¹⁰

Operational restructuring involves new investment in order to upgrade the enterprise’s physical capacity or technology. However, experience indicates that where the public enterprise is to be divested, operational restructuring should be left to the buyer to undertake.

These forms of restructuring, I believe, are equivalent to administrative reforms being adopted by public enterprises or public sector generally. The techniques are not something new and can also be considered as a positive move by an organization to ensure that it becomes more efficient and effective. The techniques mentioned above may also involve a change in attitude and corporate restructuring.

b. *Commercialization and Corporatization*

Commercialization and corporatization are related to the restructuring of public enterprises, and with them comes along the introduction of commercial principles and objectives into the management and operations of a public enterprise. This procedure may involve removing government subsidies, and in doing so, the public enterprise is exposed to market disciplines in addition to a hard budget constraint.

Commercialization can be achieved through contract plans or performance agreements. These are negotiated agreements between the government, acting as the owner of the public enterprise, and the public enterprise itself. The contract spells out the obligations and responsibilities, which are based on negotiations between the government and the public enterprise managers. A typical contract plan specifies enterprise objectives in terms of production goals, the quality of the services or goods produced and the desired overall social impact.¹¹

The distinction between a contract and a set of directives imposed by a firm's owner is that the government obligations and limitations are also spelled out in the contract. A contract is thus a step towards an "arm's length" market relationship. In some countries where the State lacks a reputation for fulfilling its obligations and observing the rule of law, the enforceability of the contract vis-à-vis the State can become a problem.¹²

Corporatization involves the transformation of a public enterprise into a corporation or a business organization determined by relevant laws. This means that the public enterprise or departmental organization is converted into a legally and economically independent legal body with a board of directors. The government retains its equity ownership. Eventually, the government's share of equity can be sold, for example, once the company has secured a market position and has become reasonably profitable. The assumption behind corporatization is that public enterprises operating in the same environment as private companies would make the maximization of the shareholder's wealth the management's primary goal; the only difference is that the shareholder is the government itself.¹³

Nevertheless, I find corporatization as an ambiguous concept. Corporatization ala Malaysia is the "the road to privatization." By this understanding, it means that a corporatized entity has 'yet' to be privatized. Corporatization and privatization are two separate concepts, and the basic assumptions in both concepts are totally different. Corporatization, in Malaysian terms, means that an entity is undergoing reforms, mostly private sector biased reforms. Corporatization is a form of decentralization. Corporatization entails a new organizational set up (boards/committees), independent from the Public Service Department (though the General Order is still applicable to all employees) and independent from the Ministry of Finance. However, the financial procedures and regulations still follow that of the Ministry of Finance (even the salary scales would have to be approved by the Central Agencies such as Ministry of Finance

and Public Service Department). In this context, the big missing link is a direct private sector involvement in the entity.

2.6.1.2. Privatization of management:

The privatization of the management of a public enterprise is achieved by granting a *management contract*, a *lease* or an *operating concession* to a private sector operator which can be used as an end in itself (with no subsequent transfer of ownership) or as a preparatory step to divestiture.

a. *Management contracts*

A management contract is an agreement by which a public entity contracts with a private firm or individual for the operation of a public enterprise. Only the operating rights of the public enterprise are transferred to the private operator, not the ownership of assets. In many ways, this procedure is similar to leases, but the differences are, first, the operator is paid a management fee and is not necessarily entitled to profits and, second, the public entity continues to make financial provisions for the operating costs and investments.

Management contracts are used especially where the government hopes to revitalize loss-making public enterprises by introducing private sector management methods, in order to increase the net worth and future sales value of the enterprise concerned. The problems associated with management contracts are mainly related to the

duality of private management and public ownership. A conflict of interest can occur between the government and the private sector. The absence of an equity stake on the part of the private operator tends to reduce his commitment to performance. This may be solved by linking some part of the total management to profit, output or sales, as appropriate. A private contractor may attempt to achieve better financial results or to raise productivity by resorting to excessive layoffs and wage cuts, or alternatively by over-investing. These measures are particularly appealing to the private contractor when the government bears the political and financial cost of such decisions.

To avoid conflict, management contracts should clearly stipulate:

- i. the scope and nature of the services to be provided by the private sector;
- ii. the criteria used to evaluate his performance and the procedure used to monitor the contract;
- iii. the amount of the fee and the modalities of payment;
- iv. private operator's powers, especially with regard to pricing and investment; and
- v. rules concerning labor force employment.¹⁴

b. Leases

This technique is adopted in the privatization of Port Kelang, the subject of my case study. By definition, a *lease* is a contractual agreement whereby the owner of an asset (*the lessor*, i.e., the state) grants another party (*the lessee*) the right to use the asset and to profit from it for an agreed period of time in return for payment of rent.

The most important types of leasing are *operating leases*, *financial or capital leases*, and *sale and leaseback arrangements*. Under an operating lease, the lessor is generally required to maintain and service the leased assets and the lessee has the right to cancel the lease before the expiration of the lease agreement. Financial or capital leases ordinarily do not provide for maintenance service by the lessor; they transfer most of the risks and benefits of ownership to the lessee. They span a longer duration. Under a sale and leaseback arrangement, a firm that owns fixed assets sells them to another party and simultaneously executes an agreement to lease the property back from the buyer for a given period. In so doing, the seller not only receives the purchase price, but retains the use of the assets.

The leasing out method offers several advantages to the public authorities and is applied for the reasons as tabulated in Table 2-6. Since this is one of the techniques used in my case study, I have simplified and have a table tabulated for easier understanding. The inputs of the table are derived from the United Nations Ad-Hoc Working Group Report (1995).¹⁵ Basically, Table 2-6 lists the advantages of leasing.

For instance, where skills are concerned, leasing can bring new and relevant skills to the entity and, therefore, allowing assets to be used more efficiently. In terms of improvement of the entity, leasing can improve management and performance during the period of a lease and hence increase the net worth of a company. However, the leasing method is not without its problem. Since leasing does not involve transfer of ownership of assets, the lessee has no incentive to maintain or improve the value of the leased assets

beyond the level necessary for earning a satisfactory return on his investment during the period of the lease.¹⁶

Table 2-6: Advantages of Leasing

Factors	Reasons
i. Skills	leasing can bring new technical and managerial skills to the enterprise, allowing assets to be used more efficiently.
ii. Costs	the government can shed the responsibility of operating costs and investment risks without giving up the ownership of the enterprise.
iii. Losses	a lease may alleviate government losses by significantly reducing or even halting the payment of subsidies and other financial transfers.
iv. Political	in situations where it is politically difficult to divest a particular enterprise, leasing may be an acceptable alternative.
v. Stable Income	it enables the government to receive a stable annual net income without incurring the associated market and business risks.
vi. Tax income	in cases when public enterprises are inefficient, efficiency and financial results may be improved by leasing a public enterprise to a private operator, resulting in increased tax income for the government.
vii. Competition	it enables the government to negotiate more advantageous contractual conditions by encouraging competition among the potential lessees.
viii. Acceptable buyer	a prospective lessee may be easier to find than an acceptable buyer.
ix. Improvement	improved management and performance during the period of a lease may increase the net worth of a company.

Source: Tabulated from the United Nations Ad-Hoc Working Group Report in *Comparative Experiences with Privatization: Policy Insights and Lessons Learned* (1995).

In drawing a lease contract, the following issues are covered:

- i. the degree of autonomy to be entrusted to the lessee, including his powers and rights, as well as his responsibilities and obligations with regard to the State and the employees of the enterprise concerned, especially the right to hire and dismiss employees;
- ii. the nature of government regulations with respect to pricing, product mix, taxation, subsidies, and export/import licensing;
- iii. modalities and responsibilities of each party in terms of financing and redundancy or severance payments, voluntary early retirement schemes, and retraining or vocational training;
- iv. the amount and modality of payment (this can be a fixed sum or tied to the profit of the enterprise); and
- v. adopt certain mechanisms to review the contract within a reasonable time period.

Other important options to be considered during the negotiation of the lease are the terms for renewing the lease after its expiration and an option to purchase the enterprise upon termination of the lease. Both initial and subsequent leases should be accorded on the basis of competitive bidding. When renewing the lease, however, it should be noted that the previous lessee enjoys a clear advantage over other bidders due to the experience and inside information acquired in running the enterprise. Similar advantages are also present if the leased asset is subsequently put up for sale with the lessee competing for the right to purchase.

c. Concessions

In granting a concession, the government transfers operating and development rights to a private sector entity. The government can grant concessions through central organs, such as ministries or government departments, or indirectly through public enterprises. If a concession is granted to more than one legal entity simultaneously, a consortium concession is established.

Unlike leases, the holder of a concession has responsibility for capital expenditures and investments. Consequently, many governments prefer this type of arrangement over leases. However, as concessions typically involve a substantial investment, potential concessionaires are usually very cautious about committing themselves, especially in sectors or countries in which the political and economic risks are considered excessively high. One typical form of concessions is the build-operate-transfer concession for the private development of infrastructure.

2.6.1.3. Contracting out

This is the method used in the privatization of hospital support services in Malaysia. It is an approach whereby the provision of a good or service is transferred from public to private sector, while the government still maintains ultimate responsibility for supplying the service. Examples of this technique are franchising, or contracting out, of public services and the leasing of public assets to the private sector.

The reasons for contracting out to the private sector as cited by Hatry (1983:13) are to reduce costs and based on the assumption that private firms are able to deliver the service at lower cost than the government agency. According to him, the private firms have more incentive to keep costs down, especially if there is competition for the contracts among potential suppliers. On the other hand, the Overseas Development Institute (1986) sees the negative part of this as the ever present danger of corruption in the granting of contracts and licenses.

Savas (1987:109) gives a lengthy explanation on this arrangement. Contracting-out, according to him, is feasible and works well under the following set of conditions: the work to be done is clearly specified; a competitive environment with several potential producers; the government is able to monitor the contractor's performance; and appropriate terms are included in the contract document and enforced. Savas acknowledges the fact that of all the privatization options, contracting has engendered the most discussion and heated debate.

Savas (1987) goes further by listing down the pros and cons of contracting. Since contracting is one of the options used in my case study, I have decided to give this more detailed attention (see Table 2-7 and Table 2-8), making Savas' points easier to understand. The table is also based on the arguments posited by its advocates and those who rebut them, and as discussed by Savas.

Savas (1987), however, realizes that the above claims and counterclaims are in direct conflict with one another (see Table 2-8). For example, the contractor is said to lose his autonomy to government and yet is held not to be accountable to or under sufficient control of the government. He also noted that contracting reaps and dissipates economies of scale; it increases and reduces government flexibility; it surmounts civil service obstacles and subverts the merit system. Furthermore, though it makes scarce talents available to the government, it also deprives the government of those same talents. Lastly, it is efficient and at the same time, inefficient.

The UN Ad-Hoc Working Group (1995) study states that in contracting out, a public authority contracts a private firm to perform some specific service in the place of a public entity or in competition with it. Contracting out has proved to be an important method for privatizing community social services.

Table 2-7: Arguments for Contracting

Advantages	Reasons
i. Efficient	a. It harnesses competitive forces and brings the pressure of the marketplace to bear on inefficient producers b. It is free of most of the distracting influences that are characteristics of overtly political organizations c. The costs and benefits of managerial decisions are felt more directly by the decision maker, whose own rewards are often at stake. d. It provide skills that are lacking in government workforce. e. It overcomes obsolete salary limitations and civil service restrictions.
ii. Flexibility	In adjusting the size of a program up or down in response to changing demand and availability of funds.
iii. Quick response	Immediate response to new needs and facilitates experimentation with new programs.
iv. Spreads costs	Avoids large capital outlays and spreads costs over time at a constant and predictable level.
v. Economies of scales	Permits economies of scale regardless of the size of the government entity involved.
vi. Costs comparison	Contracting a portion of the work offers a yardstick for comparing costs.
vii. Good management	The cost of the service is highly visible in the price of the contract, whereas the cost of government service is usually obscured.
viii. Lessens vulnerability	Reduce dependence on a single supplier and so lessens the vulnerability of the service to strikes, slowdowns, and inept leadership.
ix. Opportunities	Creates opportunities for entrepreneurs from minority groups.
x. Reduces government	In terms of size and number of employees
xi. Promote R & D	Promote private-sector research on innovative ways to satisfy society's needs.

Source: Tabulated by the author from Savas, E.S., *The Key to Better Government* (1987).

Table 2-8: Arguments against Contracting

Disadvantages	Reasons
i. Expensive	<ul style="list-style-type: none"> a. corrupt practices in awarding contracts b. "outrageous and pernicious work practices" among private-sector unions c. high profits, whereas government is nonprofit d. cost of layoffs and unemployment for government workers e. shortage of qualified suppliers and lack of competition f. cost of managing the contract and monitoring contractor performance g. low marginal cost of expanding government service h. cost-plus-fixed-fee provisions in some contracts, which provide no incentive for efficiency i. absence of effective competition in "follow-on" contracts, after government gets out of the business and is at the mercy of the contractor.
ii. Nullifies basic principle of merit employment	It nullifies the basic principle of merit employment and subverts laws regarding veterans preference in government employment; it is demoralizing to employees, deprives government of the skills it needs in-house, and therefore is fundamentally debilitating of government capability.
iii. Inflexible	Limits the flexibility of government in responding to emergencies.
iv. Undesirable dependence	Undesirable dependence on contractors and leaves the public vulnerable to strikes and slowdowns by the contractor's personnel and bankruptcy of the firm.
v. Depends on written contracts	Depends on adequately written contracts, which are difficult to draw up, and as a result there is a loss of government accountability and control.
vi. Limits opportunity	Limits the opportunity to realize economies of scale.
vii. Increase power of private sector	Entrusting services to private organizations increases the political power of the latter and creates a lobby for more government spending.
viii. Job losses	Result in disproportionate job losses among members of minority communities, many of whom are government employees.

Source: Tabulated by the author from Savas, E.S., *The Key to Better Government* (1987).

On the whole, contracting out has been a success when the following conditions are met:

- i. the selected contractor has the equipment and know-how to provide the services or products, adequate financial resources and a reputation for excellent work;
- ii. the contract specifies the performance required and stipulates penalties for low quality or incomplete services;
- iii. a particular agency is designated to monitor the contract and to receive complaints from the public;
- iv. the authority requires regular reports about service delivery, prices, costs and complaints; and
- v. contracts can be revoked for non-performance or significant breach of contract.

As in the case of the privatization of hospital support services in Malaysia, the Ministry of Health and the privatized entities are having problems with the contracting-out technique adopted. Some of the difficulties are due to the ambiguous areas covered in the Concession Agreement, delivery of services, and the non-performance agreement. These issues will be highlighted more thoroughly in Chapter 6 when assessing and analyzing the program.

2.6.1.4. Joint ventures

This method gives the government the right to retain a share of the public enterprise and it can be defined as an association of two or more natural persons or legal entities (juridical persons) collaborating in an enterprise and sharing the risks and benefits of the joint venture. Normally, this partnership involves a foreign partner who may provide capital and know-how. The partners combine their resources to accomplish a specific objective and the agreement defines the business relationship between the partners.

Joint ventures offer advantages to the government and the private sector, and also the foreign partner. The advantages of this method to foreign investors are access to local markets and government contacts and knowledge of local business conditions. In the case where direct foreign ownership of an enterprise is prohibited, a joint venture may be the only way to do business; and the participation of host country entities reduces the risk of expropriation.

Governments may seek international cooperation through joint ventures with foreign partners because the public enterprise may gain access to a foreign partner's international distribution network, thus facilitating access to new export markets. It may offer the public enterprise access to foreign technology, capital, management and know-how.

Joint ventures with public enterprises have not been frequently utilized as a method of privatization because private investors often favor setting up a new venture rather than participating in an established public enterprise. For the private investors, to begin afresh is so much easier than trying to turn round a loss-making or inefficient public enterprise.

2.6.2. DIVESTITURE OPTIONS

These options involve the transfer of ownership rights from the public to the private sector and may be preceded by non-divestiture privatization technique, which are usually aimed at improving the financial and operational situation of the public enterprise, thus increasing its potential sale value. There are numerous forms of divestiture, ranging from direct sales or public offerings on the stock market to the liquidation and sale of the public enterprise's assets. The government may also choose to retain a minority or majority share in the privatized enterprise.

Divestiture options in privatization can comprise or form a sensitive political issue, often stirring up fears of selling "the family silver" to foreign investors. This fear is understandable because the public detests situations whereby government assets are sold to foreigners at less than their domestic value. Dissatisfaction can also arise when government assets are sold to a certain individual or prominent elite group who are close to the establishment. Public resentment can also arise if the sale price is perceived as

having been too low, especially if share prices rise significantly soon after the initial sale.

The principal methods of divestiture are (also see Table 2-5):

- i. direct private sale (full or partial);
- ii. public share offerings on stock;
- iii. private placement with “strategic” investors or joint venture;
- iv. public auctions;
- v. sales to employees or management teams through employee share ownership plans, management or employee buy-outs (“internal privatizations”);
- vi. mass or voucher privatization; and
- vii. liquidation, followed by the sale of assets.

2.6.2.1. Direct sale (full or partial)

The government’s share of a firm is sold directly to private buyers. A direct sale can be carried out in two possible ways: competitive bidding (direct sale by tender) and to a predetermined selected buyer. Through competitive bidding, it allows the government to compare and select the buyer offering not only the highest purchase price but also the greatest compliance with various government requirements and privatization objectives. Another positive aspect of this process is its high degree of transparency compared to sales to selected buyers. The main disadvantage of public tenders is their slowness and the process also involves significant administrative costs.

The main reason for the participation of foreign investors is that they possess the necessary capital, technology and know-how. The involvement of foreign buyers may be a sensitive issue, especially if transparency is low. Thus the government needs to ensure that public confidence in the integrity of the procedures is maintained.

This method is widely used in developing countries and countries in transition for the reason that their capital markets are either underdeveloped or nonexistent, thus precluding public share offerings. Besides, this method is simple in terms of preparation and execution.

In reality, I believe, this mode of direct sale through competitive bidding is not as transparent as it sounds, at least in the context of developing countries. As elaborated in the coming chapter, the buyers could be the ones pre-selected even with the competitive bidding still going on. As alleged in the privatization policy of Malaysia, the selected few are the ones close to the regime. This again will be detailed in Chapter 3 on Privatization in Malaysia.

2.6.2.2. Public share offerings on stock markets

This method is usually used for profitable, large-scale public enterprises. The share offer is employed as a way to raise additional capital, as well as transferring ownership of the enterprise. With this, it serves the objective of promoting transparency

and widespread share ownership through the allocation of a proportion of shares to small investors.

By this method, shares are offered to the general public at a fixed price. In a public issue, shares are sold under a formal contract overseen by the state regulatory authorities. Transparency in this case is generally greater than that for the direct sales of public enterprises because of the advertising and disclosure requirements associated with a public share offer.

2.6.2.3. Private offering or placement with “strategic” investors

In a private placement, the company or a controlling stake is sold to a limited number of investors. This method sees the government negotiating the terms of the placement directly with the investor, thus eliminating the underwriting function of investment banks. In general, private placement involves much less governmental regulation than public offerings.

Among other advantages, private placement is an appropriate method when enterprises are not large enough to warrant a public share offering as flotation costs would be too large relative to expected revenue. Due to its poor financial situation and inadequate management, a public enterprise can be turned around only by means of a transfer to a financially strong and experienced private investor. Also, this method is

appropriate when a public enterprise needs inputs of new technology and know-how or access to foreign markets.

The disadvantages with private placements (especially if there is only one buyer involved) are the concentrated ownership or controlling interest in a single institutional investor, the risk of under-pricing the public enterprise, and political opposition to a private placement due to concerns about possible corruption and favoritism or sensitivities concerning a foreign buyer.

2.6.2.4. Public auctions

Public auctions provide for open competitive bidding, thus making this technique highly transparent. This technique is generally politically more appealing than other privatization methods such as direct sales because this process is comparatively fast and uncomplicated. This technique entails the following precautions. To be effective, it has to be adequately publicized, and potential buyers are likely to be available to attend on the day of sale. It has to be ensured that auction sales are not “rigged” by potential buyers through collusion among them. Successful privatization by public auction thus requires adequate and effective regulation, and experienced auctioneering services.

Public auctions have been the prevailing privatization procedure used in numerous countries of Central and Eastern Europe for “small privatizations” involving businesses such as hotels, shops, repair services, and restaurants. Small-scale privatization through

public auctions in the former Czechoslovakia has set an example of efficiency and speed. Malaysia, however, does not adopt this approach in its privatization programs.

2.6.2.5. Employee/management buy-outs and employee share ownership plans

Although sales to employees or management teams may take different forms, they are usually grouped under the heading of “internal privatizations”. The common factor is that they result in management and/or employees gaining ownership in the enterprises they work for. Most management/employee buy-outs (MBOs and EBOs respectively) involve the sale of an entire enterprise, but there are also cases where only a division or a sub-unit of a firm is sold in this way.

One of the advantages of this method is that by giving management and/or employees a personal stake in the company, they are motivated to find ways to cut costs, improve productivity and generally operate more efficiently. Furthermore, they tend to facilitate the restructuring of enterprises concerned by reducing the social costs. Besides, it also helps to win the support of reluctant employees and managers for privatization. This technique may serve as a powerful tool in promoting greater popular participation in production and broader share ownership.

Another method, the Employee Stock Ownership Plans (ESOPs) allows employees to purchase stock on favorable terms. Under this term, the key executives are given the option to purchase shares, reserving a certain amount of discounted stocks for

lower level employees. In this set-up too, a company sets up a trust fund to which it contributes new shares of its own stock, and with it, employees can borrow money to purchase shares. In most instances, a limited allocation of free shares is often offered for employees, who do not have adequate access to funds to purchase shares even at discounted prices. Specific conditions may be attached to ESOPs, for example concerning the transfer of share ownership, penalties for premature sale (to prevent speculation) and rewards for long-term ownership, and share quotas that can be acquired.

Again, in the case of Malaysia, employees of the newly privatized entities are allocated a certain number of shares that they can own. This strategy is adopted with the intention of ensuring that employees stand to gain from the privatization process.

2.6.2.6. Mass privatization

Mass privatization (otherwise known as voucher or coupon privatization) has been widely used in the countries in transition of Central and Eastern Europe. This method is based on the population-wide distribution of vouchers or certificates free of charge or for a nominal fee. The rationale to this is that ownership of the assets, the means of production, was considered to belong to the people as a whole. The approach is deemed appropriate because in these countries almost entire economies were in the hands of their respective governments and therefore, rapid ownership transformation would be impossible through more standard forms of privatization.

The advantage of this method is the rapid and direct transfer of ownership from the state to individual shareholders. Mass privatization has successfully introduced limited control on the part of the government over the management of former public enterprises. Indirectly, by creating a big class of new owners, it fosters “people’s capitalism” through wider share ownership and it encourages popular support for the whole privatization process. Finally, it indirectly promotes the development of capital markets.

On the other hand, the principal argument against mass privatization is that it does not result in improved economic efficiency. This is due to several reasons. First, widely dispersed ownership may result in ineffective control of the privatized enterprises, especially when the key actors lack the necessary experience and skills for enterprise management in a commercial market context. Second, it does not address the real problems facing public enterprises such as under-capitalization, huge indebtedness, outdated equipment and technology, insufficient competition and poor management. Third, the transfer of ownership without any provisions for fostering competition or without adequate regulation merely transforms state-run monopolies into private companies. In countries, which have not established clear property rights prior to divestiture (opting instead for rapidity), mass privatization has brought about a huge number of property-title litigation suits. In the case of Malaysia, it does practice this technique in its privatization policy.

2.6.2.7. Liquidation

Liquidation is a method whereby the government sets out to liquidate the public enterprise and sell its assets instead of selling it as an ongoing operation. Liquidation may also be a non-divestiture option if the enterprise's assets are leased after being liquidated.

Liquidation occurs mostly when:

- i. it is more advantageous for the State to sell individual assets instead of the entire enterprise since its breakup value is higher than the company's current market value as a going concern;
- ii. prospective private investors are reluctant to buy a public enterprise as a going concern;
- iii. the assets of a public enterprise no longer serve the economic purpose for which they were created;
- iv. excessive strain on the state budget necessitates the immediate liquidation of the public enterprise and the sale of its assets;
- v. the possibility of restoring the public enterprise to financial health is so remote that the creditors would face a high risk of even greater losses if operations were continued; and
- vi. when creditors are about to file a petition initiating bankruptcy procedures.

In a liquidation followed by sale of the assets, the most important objective is to obtain the highest possible sales price for the assets involved. There are two ways of establishing the price: tender offer followed by competitive bidding or alternatively an

auction. In cases where it is necessary to negotiate a contract of sale with only one potential buyer (due to lack of interest, for example), care should be taken to ensure that the negotiating process is transparent. This method has not been practiced by the Government of Malaysia in its privatization policy.

2.6.2.8. Other selected techniques

In addition to standard divestiture methods, other particular techniques may be employed, for instance in Malaysia, the private sector may initiate *unique privatization* projects by submitting proposals, a technique that encourages innovation and entrepreneurship. This technique is known as “*first-come, first-served*” basis. If a proposal provides a unique, cost-effective solution to an economic problem, if it brings with it certain patent rights, know-how or additional assets, a letter of exclusivity is given to the private sector party to conduct a feasibility study and to submit a complete proposal to the Economic Planning Unit of the Prime Minister’s Department. Should the proposal be acceptable, negotiations will follow and an award will be made when agreement is reached. This technique has been criticized by scholars for the reason of its lack of transparency due to non-competitive bidding.

Another type of privatization technique is sometimes referred to “*self-privatization*”. This technique was developed in Hungary by the State Property Agency. With the technique, certain enterprises (with a staff of fewer than 300 and a turnover and gross property value of less than 300 mn forints – USD2.7 million) can initiate

privatization themselves provided that they employ one of the independent consulting and property evaluating companies selected by the Agency and do not violate legal regulations. Under this procedure, public enterprises themselves identify appropriate partners, then design and carry out their own privatization. This mode has also not been utilized in Malaysia.

2.7. CONCLUSION

The proliferation of public enterprises in the 1960s and 1970s was a new wave creating a phenomenon in the global economic perspective. This situation had brought with it predicaments which had strained the financial state of the developed and developing economies. The sad state-of-affairs was much worse in the developing countries where rent-seeking and patronage were seen to be part and parcel of the political attributions being practiced in this type of economy.

Looking at the modern economic scenario, undeniably, the two leaders of the developed economies – Reagan and Thatcher – were responsible for the return of the free-market mechanisms in early 1980s. The adoption of free-market via privatization of public enterprises on a grand scale in the United Kingdom and the United States had provided the stimulus for the rest of the developed and also developing countries to follow suit. The question remains: Do the developing countries, especially, have the appropriate infrastructure in the implementation of its privatization policy? These are

some of the questions that have been explored by other scholars and, in this context I, too, will try to analyze the situations in the two case studies in this dissertation.

As elaborated in this chapter, many reasons are given by scholars as to why privatization become vogue in developing countries. On most counts, privatization is seen as an effective mechanism to enhance the role of the private sector in various sectors of a country. This also means that the public sector has to “roll back” its investing in the sectors. Privatization is also believed to assist an entity to be more efficient which would lead to an increase in productivity.

There are numerous techniques of privatization that have been adopted by developing and developed economies. Since the methods vary, so do the results. Depending on the entities and circumstances, countries can choose one or more of the methodologies and utilize their appropriateness to a specific scenario. However, it is not uncommon that certain techniques being adopted could have contributed to some failures of the privatization policy and thus there is a need to be cautious in choosing the right mode. This is where a feasibility study is important and should be given emphasis prior to adopting the privatization policy. This aspect of feasibility study has also been discussed in the next chapter.

Privatization is not free from critics who believe that efficiency can be achieved with restructuring and administrative reforms instead of having to undergo the privatization process. This will also be further examined in the following chapters.

NOTES

¹ Asian Development Bank (1985), *Privatization: Policies, Methods and Procedures*, Heald D. (ed), Manila Conference on Privatization, p. 62.

² Asian Development Bank, op. cit., *The Experience of the United Kingdom*, Clementi D., p. 171. There are four principal strands in the policy of the Thatcher Government:

- a. to transfer them to private ownership;
- b. to accommodate liberalization in their activities;
- c. to sub-contract or eliminate certain functions; and
- d. to adopt user-charges for public sector services.

³ Asian Development Bank, op. cit., *Privatization: A Viable Policy Option*, Waters, A.

⁴ Wallis, M. (1989:105) recognizes that public enterprise model tried to combine two distinct requirements - political control and management freedom. As he sees it, where political control is strong, the managers of enterprises will lack freedom to act in a business-like manner. However, when freedom is given to them, politicians tend to worry about losing control.

⁵ The Kenyan government found that it had an interest in some for hundred enterprises; the Ministry of Finance was unaware of many of them. The governments of developing countries were unaware of the extent of the debts that they had guaranteed in loans to public enterprises. They were slow to realize the dangers posed by public enterprise indebtedness, which in many cases accounted for 20 per cent to 40 per cent of total domestic credit. Between 1976 and 1983, public enterprises were responsible for USD80 billion of LDC debt.

⁶ Personal communication with E.S. Savas, professor at Baruch College, The City University of New York, in April 1997, and the author of *Privatization: The Key to Better Government*, (1987).

⁷ Viewing the matter from an economics perspective, the report states that removing price distortions and controls as quickly as possible is essential for that purpose. Unless prices are true indicators of costs and consumer demand, the true profitability of an enterprise could not be known, so its asset cannot be properly valued. Letting the price system work as it should means removing distortions such as price controls, distorted transfer prices between enterprises, subsidized loans, and preferential access to the budget and credit system; it also means getting macro economic policy right, and that includes avoiding an overvalued exchange rate (*World Development Report 1991:144-145*).

⁸ Personal communication with Jomo K.S., a professor at the Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia, in June 1998.

⁹ "Privatization in Developing Countries," *Jonathan Ayles Lloyds Bank Review*, January 1987, pp. 15-30.

¹⁰ In Argentina, public enterprises have been rationalized or restructured prior to privatization through the cancellation, consolidation or refinancing of their debts; in some cases, the government has assumed some of the debts in order to facilitate sales.

¹¹ Contract plans should be kept short and simple, focusing on overall aims and principles. They should be flexible, with built-in mechanisms for re-negotiation at appropriate intervals. It must be remembered that the weaker the public enterprise's performance and managerial capabilities, the harder it is to negotiate and implement a contract plan.

¹² A memorandum of understanding (MOU) is a variation of a contract plan. An MOU is essentially a contract between the government and a public enterprise in which the two parties come to a mutual understanding regarding the targets to be fulfilled by the public enterprise and the corresponding obligations of the government which are considered essential to ensure the fulfillment of these targets.

¹³ Some corporatized public enterprises have the right to raise capital on the private capital market (Finland, the Netherlands). Some corporatized public enterprises are able to involve the private sector in increasing the capitalization of their enterprises (Senegal, Tunisia) or in acquiring shares of private companies (Morocco), giving rise to some form of "rolling privatization". (1995:72)

¹⁴ The government should bear in mind the fact that, in addition to management fees, monitoring the implementation of the contract may incur substantial costs. These costs must be outweighed by financial and efficiency benefits if a management contract is to be used. For example, management contracts are used for plantations in Sri Lanka, where contracts are awarded to private sector operators through competitive bidding and where strict performance criteria are applied in order to avoid asset stripping or short-term profit maximization at the expense of long-term development. In China, where management contracts are widely used and are subject to competitive bidding, potential managers are required to submit a business plan playing a prominent role in the evaluation process.

¹⁵ United Nations (1995) *Comparative Experiences with Privatization: Policy Insights and Lessons Learned*, United Nations Conference on Trade and Development (UNCTAD).

¹⁶ This problem may be overcome by giving the lessee a stake in the residual value of the assets. For instance, if the enterprise is later to be sold, some form of equity stake, or purchase option, might be incorporated into the lease. Another possible solution might be to provide for the individual value of any new investment to be repaid to the lessee upon termination of the contract; difficulties in determining the "residual value" may make this solution impractical, however.

CHAPTER THREE

PRIVATIZATION: A POLICY OPTION IN MALAYSIA

3. GENERAL BACKGROUND

Malaysia, situated in Southeast Asia, covers an area of 329,758 square kilometres and has a population of 22.6 million.¹ Major ethnic groups account for different proportions of the population. Of the total population in 2000, 10.7 million (50.7 percent) were Malay Bumiputeras² followed by 5.6 million Chinese (26.5 percent), 1.6 million Indians (7.6 percent), 2.5 million other Bumiputeras³ (11.8 percent), and others 727,000 or 3.4 percent.

The country gained its independence from British rule in 1957. The population of the two main races during the time, the Malays constituted 50 percent of the population, while the Chinese 37 percent (Snodgrass, 1980). The Malaysian economy has performed well since the country's independence and the country is still the world's major exporter of tin, rubber, and palm oil. Dubbed as one of the "tigers" of the newly industrialized countries, Malaysia attained considerable achievement in securing average annual growth rates of 7.4 percent in 1965 to 1980 and 4.9 percent in the period 1980 to 1989. Despite the economic setbacks, as a result of the financial crisis that struck the Asian region in mid 1997, the real GDP growth in Malaysia for the year 1996-1997 averaged 8.2 percent per annum.⁴ Because of the country's success in diversifying sources of growth and export earnings, it is recognized and categorized by the World Bank as an upper-middle income country.⁵

3.1. ECONOMIC SETTINGS

In understanding the circumstances, which accounted for the implementation of the privatization policy, the historical background of the country's economic development prior to the policy should be highlighted. Basically, this chapter agrees with the reasoning of Rose and Davies (1994), that problems faced by the government of the day are inherited as a cumulative consequence of past decisions of many administrations. For the authors, to understand the inheritance of a policy one must understand two complementary processes – how programs endure, and under what circumstances they change. Thus, in the case of Malaysia, two important eras of its historical and political background will be elaborated: the 1970s and the 1980s.

3.1.1. The 1970s and the New Economic Policy (NEP)

This era witnessed a disparity in socio-economic growth where a significant proportion of the population was living below the poverty line. Tense relations between the racial groups, especially between the Malays and Chinese, existed and hostilities were imminent because economic wealth was concentrated in the hands of a few. It is worth noting that one important feature of the evolution of the Malaysian economy is the way economic activities are divided among major ethnic groups.

The Second Malaysian Plan (1971-75) document states that the indigenous Malays constitute 55 percent of total population and were predominantly found in the rural and agricultural sector. The Chinese (35 percent) dominated the business sector and

the Indians (10 percent) traditionally worked on plantations. This scenario is depicted in Table 3-1, where the country's distribution of wealth was disproportionately owned among the three main races and foreigners.

Table 3-1: Corporate Wealth Ownership According to Race (1970)

Race	Population percentage	Corporate ownership percentage
Malays	55	4
Chinese	35	33
Indians	10	Less than 1
Foreigners	Less than 1	62

Source: Adapted from *The Second Malaysia Plan, 1971-75*, Government of Malaysia.

The segregated ethnic economic arrangement was not a natural condition, as observed by Jomo (1997), but an outcome of the structural transformation undergone during the British colonial period. The Malays were marginalized from the growing capitalist sector, with the elite Malays integrated into the colonial state administration while the masses remained peasants. It was a different situation with the Chinese, who were given the opportunities by the colonialists to be urbanized and involved in the business sector. Jesudason (1989) explains that one of the reasons the Malays suffered from commercial backwardness was their cultural orientation toward capital accumulation. The Malays lacked institutions that could mobilize capital and pool economic resources, while the Chinese had clan-based organizations with the intention of assisting each other financially in the commercial sector.

As reflected in Table 3-1, the Malays after independence realized that they possessed only 4 percent of the corporate wealth, while a huge percentage was owned by the Chinese and the foreigners or multinational corporations. As explained by Jomo (1997) and Jesudason (1989), this is the outcome of disparity in growth in the sectors where the races predominated as arranged by the British. With this, the Chinese were considered to be at an advantage by the fact that they prevailed in the business sector and thus enabled them to enhance their economic status.

A very significant change in the posture of the Malaysian government came in 1969 when, subsequent to a bloody racial riot, the New Economic Policy (NEP) was introduced in 1970.⁶ For Snodgrass (1980:60), “the NEP represented a genuine new departure for Malaysian development policy, in that it boldly recognized and confronted the problem of Malay economic inferiority and prescribed remedies which stressed intersectoral movement and urbanization in addition to the rural development measures undertaken in the past. In launching the NEP the government went far to cover its flank against charges of ‘not doing enough to help the Malays’.”

To fully understand the political situation that had resulted into the birth of the NEP, one has to trace the historical perspective on the occurrence of the May 13, 1969, riot. A few days before May 13, Malaysia had its general election and the Alliance consolidation, which consisted of the three major political parties that represented the three main races, won the general election. The three major racial parties were the United Malays National Organisation (UMNO), the Malayan Chinese Association (MCA), and

the Malaysian Indian Congress. The cooperation and consolidation of the three parties under the Alliance banner was first witnessed in the country's pre-independence federal elections in 1955 when they won all the 52 seats contested and lost only one seat to the exclusively Malay opposition party, Pan Malayan Islamic Party (PMIP). However, this was not the case in the 1969 general election when the Alliance won but with a reduced majority. The main reason cited for the loss was that the UMNO was losing support from the Malays and the Chinese were not supporting the MCA either. The Malays, especially, found themselves to be the victims of the colonial "divide and rule" policy which then made them lose out to the Chinese in terms of the economic power (Snodgrass 1980; Mahathir 1998).

It was after the May 13 tragedy when the state began to intervene strongly in the economy by 'partial abandonment' of laissez faire policies that emphasized the private sector, favoring and expanding vigorously in the state enterprise sector (Jesudason 1989, Jomo 1997). Laissez-faire had long been the hallmark of the approach to economic development during the colonial period. But during this era the above approach was discredited and the government saw that an important means of achieving wealth and income redistribution was through extensive state involvement in the economy, and the growth of a large bureaucracy to implement and monitor the programs.

The NEP implied a failure of private markets in contributing to an equitable distribution of development and wealth, and thus provided for intervention in them to bring about redistribution. It also showed that the need for state involvement in the

economy was to increase economic efficiency and correct market failures both in resource allocation and in distributive terms. The government at the time felt that the various distributional targets, such as asset ownership and employment composition targets could not be obtained if reliance was exclusively placed on the private sector.

The NEP's objectives were to restructure the economy with the twin aims of eradicating poverty irrespective of race and erase the link between race and economic function.⁷ These distributional objectives entailed a much more sizeable role for the government as it was felt that the private sector would face constraints in meeting them (Radin and Zainal 1985). The NEP set a target of at least 30 percent Malay ownership of corporate wealth by 1990. To achieve these objectives, the NEP set rapid growth of the modern economy as its goal. It advocated 'positive' discrimination in terms of educational opportunities, trade concessions and a variety of other protective policies. On this, Mahathir (1998:11) holds the view that the NEP, which had a 20-year time target, was aimed to increase the share held by the Bumiputera from 2.4 percent⁸ to 30 percent, while at the same time increasing the non-Bumiputera share from 34.3 percent to 40 percent, and reducing the share held by foreigners from 63.3 percent to 30 percent.

However, it is imperative to acknowledge Snodgrass' (1980: 47-49) observations made prior to the implementation of the NEP. According to him, there were special privileges and rights for the Malays even prior to the NEP. For example, the establishment of the Rural and Industrial Development Authority (RIDA) in 1950 was to stimulate the economy of the rural Malays by giving out loans for productive projects.

The Federal Land Development Authority (FELDA), established in 1956, acted as a co-ordinator and financier of land development schemes. The other programs prior to the NEP (during the late 1950s and 1960s) that had the objectives to enhance and assist the economic well-being of the rural Malays were agricultural extension, co-operatives, rural road construction, new water supplies and the extension of social services to rural areas. In other words, Snodgrass views that the Malays were not totally left out during the development process prior to the NEP.

The NEP is claimed to be a policy that provides special treatment to the Bumiputeras, or the Malays, specifically. While Mahathir (1998:17) posits the same view, he also characterizes the shape of the goal of such treatment as the following:

“The objective of the NEP was never to enrich all the Bumiputeras, so that they actually became better off than the non-Bumiputera communities. The NEP was not about reversing the distribution of wealth between the races. It aimed at achieving an equitable distribution at all levels between the different communities. There had to be proportionately the same percentages of rich and poor Bumiputeras as there were rich and poor non-Bumiputeras.”

Mahathir (1998) was quick to defend the policy as a non-discriminating policy towards the other races. As observed by Mahathir, the latter years of the NEP had accumulated a group of able Bumiputera business executives, and these new entrepreneurs were a different breed of people, not the kind that existed in the early years of the NEP where they lent their names to the ‘Ali Baba’⁹ type of joint ventures. At the same time, Mahathir (1998) did not deny the fact that some of these Bumiputeras still depended on the favor shown by the government to Bumiputeras under the NEP. He continues:

“However, it must be pointed out that non-Bumiputeras were not really deprived, as certain Government contracts were beyond the capacity of Bumiputera-owned or even state-owned enterprises. Despite the NEP, a large number of Government contracts and almost all contracts in the private sector went to non-Bumiputera companies. The accusation that the NEP deprived the non-Bumiputeras of business opportunities is therefore without basis (1998:19).”

The NEP paved the way for the United Malay National Organization (UMNO), the prime Malay political party and the strongest party in the regime’s coalition, to venture into business. As seen by Gomez (1990:166-167), the policy provided the opportunity for greater government involvement in the corporate sector as a means to redress the corporate ownership disparity between Malays and non-Malays. Also, UMNO’s control of the government was an advantage to the Malays, and subsequently, led to the rise of benefits in the form of allocation of funds, or appointment of directorships. Gomez (1990) further sees this trend as an avenue to raise funds for the party and also promoting a form of patronage. Besides those reasons, Gomez listed the following for UMNO’s involvement in business: to control the foreign-controlled publishing media, to gain financial independence from its mainly Chinese contributors, and to secure funds for its headquarters. On the part of Mahathir, Gomez (1990:167) feels that the premier wanted to ensure Bumiputera participation in business and felt it necessary to develop capable Bumiputera capitalists. He was quoted as saying, “...the best way to keep the shares between Bumiputera hands is to hand them over to the Bumiputera most capable of retaining them, which means the well-to-do.”

Gomez's scepticism of Bumiputera capability and claim that only selected few graduated to be "main players" in the NEP is challenged by Mahathir (1998:33-34) and this is best reflected in his work *The Way Forward*:

"The NEP, it must be reiterated, was not concerned with making all the Bumiputeras earn equally, or share equally, the wealth distributed amongst them. This would have made the Bumiputeras all equally poor, not equally rich. When shares or contracts were given out, they were not distributed equally. In the first place, the amount was never enough to make any difference to the millions of Bumiputeras who would have been considered eligible purely because they were Bumiputeras. In the second place, the capacity of every Bumiputeras to acquire the shares was not equal. This would have meant giving them out free, but distributing wealth in such a way would create a dependence mentality, which would only weaken the character of the Bumiputeras. It has been noted that workers in communist and socialist societies were not generally inclined to work. The NEP was never intended to make the Bumiputeras lazy. In the third place, the NEP was not merely about distributing wealth amongst the Bumiputeras, but also to reflect the distribution of wealth amongst the non-Bumiputeras. Mere wealth without the skill to manage it is not durable. The NEP was about active and meaningful participation in business by Bumiputeras, so that they could acquire wealth and retain it. Quite obviously, it would be impossible to give every Bumiputera, some 10 million of them in total, the major controlling interest in all enterprises. By the same token, some Bumiputeras had to play a greater role and some a lesser role, and the majority very little role, in the management of business enterprises. Their rewards too could never be equal. They had to reflect the roles they played, or the rewards would not be commensurate with the roles."

Obviously, Mahathir (1998), with the above statement, believes that even though the NEP would have a few "main players", in the long run the trickle-down effect would prove to be positive and spread wealth to the other Bumiputeras. Mahathir reiterated his position in this issue maintaining that the gap dividing the Malays and Chinese was a "time bomb" created during the British colonial era that erupted into May 13, 1969, racial riot.¹⁰ According to Mahathir, although the NEP managed to narrow the gap, the Malays' "fragile achievements were eroded" during the 1997/98 financial crisis. He then urged Chinese businessmen to impart their skills and form 'genuine partnerships' with their

Malay counterparts. "Ali-Baba partnerships whereby the Bumiputera is only a 'front' do not help the process of transfer of efficiency in business," Mahathir said (*Bernama*, June 17 2000).¹¹

More on the NEP, Mahathir feels that improving the economic status of the Bumiputeras did not affect the progress of the other races (*Bernama*, June 17 2000).¹² While the Chinese were dissatisfied with the NEP, there are some Bumiputera communities which were dissatisfied, too, says Mahathir. With the NEP, he believes that if the Bumiputera is given a meaningful role, he would make a valuable contribution to the partnership. If this category of population progresses and becomes rich like the other races, the country's progress would be enhanced and the average Malaysian income would improve further.

With regard to the NEP, the 1970s saw the proliferation of public enterprises established to ensure that the restructuring objectives of the NEP were achieved. Subsequently, the government's involvement rose from 24 percent of GNP in the 1966-70 period, to 29 percent in 1971-75, 31 percent in the 1976-80 period and a drastic increase to 48 percent the following year (Leeds 1989:742). Leeds (1989) further observes that if there was a unique aspect of the NEP, it was on the full utilization of public enterprises to redress the ethnic imbalances in the corporate wealth of the country. Throughout the years of the NEP (1970 to 1990), the country saw the establishment of hundreds of public enterprises. Table 3-2 illustrates the number of public enterprises according to industry and year. As shown by the table, by 1992 there were 1,149 public

enterprises in comparison to only 22 in 1960. This aspect of the politicization of public enterprises to promote certain groups of population is common in other developing countries and has been briefly explained in Chapter 2.

Table 3-2: Number of Public Sector Enterprises

Industry	1960	1965	1970	1975	1980	1985	1992
Agriculture	4	5	10	38	83	127	146
Building and Construction	2	9	9	33	65	121	121
Extractive Industries	0	1	3	6	25	30	32
Finance	3	9	17	50	78	116	137
Manufacturing	5	11	40	132	212	289	315
Services	3	6	13	76	148	258	321
Transport	5	13	17	27	45	63	68
Others	0	0	0	0	0	6	9
TOTAL	22	54	109	362	656	1,014	1,149

Source: Adapted from Jomo K.S. (ed.) *Privatizing Malaysia: Rents, Rhetoric, Realities* (1995: 66)

As opposed to the earlier explanation given by Mahathir (1998), Leeds (1989: 743) sees the overt nature of the government in favor of the Bumiputera populations in the NEP, and this, according to him is evident from the official explanation of the role of public enterprises with regard to the economic lives of the Bumiputeras, which was documented in the Second Malaysia Plan:

- i. As “patron” of the Bumiputeras, providing necessary assistance to accelerate the latter’s participation in the commercial and industrial sector.
- ii. As “trustees” for the Bumiputeras, holding equity in various ventures until such time that these shares and equities can be transferred or sold off to the Bumiputeras themselves.

- iii. As “joint ventures” partners with the Bumiputeras themselves with the objectives of relinquishing their portion of the revenues (shares, control, management) to the Bumiputeras when the latter have proven themselves capable of taking over.
- iv. As “complements” to the efforts of the Bumiputeras in the commercial and industrial sectors by participating in and pioneering ventures that the Bumiputras are for the present unable to undertake due to various inadequacies.
- v. As “inducers” to set-up companies in regions for areas of the country where private sectors are reluctant to take their enterprises.

Milne’s (1986) observation of the establishment of public enterprises in Malaysia is in the same line with Leeds (1989). He states that in the initial stage of the NEP (the early 1970s) there was inadequate Malay capital to meet the set ownership target, furthermore there were insufficient Malay professionals, entrepreneurs or skilled labor to meet the employment targets. The public enterprises accommodate these inadequacies ‘on behalf’ of the Malays.¹³ With the establishment of the entities, there was progress made towards meeting the NEP targets, although by 1983 it became obvious that the targets would not all be reached by 1990, according to Milne (1986). However, Milne (1986:76) questions those gains that had been achieved and he is of the opinion that these had been achieved “not by individual Malays but by large institutions acting for them, which made the Malay contribution indirect and Malay identification somewhat tenuous.” To a certain extent, Milne is correct in his view considering that by 1990 there

was a switch of policy in providing a small group of Bumiputeras to be awarded contracts and to venture into huge privatization projects. This was in line with the Prime Minister's call for the development of small group of entrepreneurs who will then help stimulate growth for the Bumiputera in general. As shown later on, the ambiguity of the government's motives in its course of action was questioned during the financial and economic crises in 1997 (Jayasankaran 2001).

According to Toh (1990:245), these public enterprises comprise of financial public enterprises (FPEs), non-financial public enterprises (NFPEs), and the trust agencies.¹⁴ The government also ensured that there should be an increase in the Bumiputera share of corporate equity by establishing several trust agencies to own and hold shares in trust on behalf of the Malay community. Examples of these are the National Equity Corporation (PNB) and Amanah Saham Nasional (ASN). The NFPEs budgets are not reflected in the Federal and State governments' budgets, and this means that their activities are not controlled by the government. The central agencies such as Federal Treasury, the Economic Planning Unit, the Public Service Department, and the Implementation Co-ordination Unit are responsible for overall coordination of policies, resources, allocation, monitoring and evaluation of performance of the public enterprises (Rugayah 1995:68).

3.1.2. The 1980s And The Economic Decline

The early 1980s witnessed another major shift in the government's policy that now turned towards greater reliance on the private sector. Several reasons can be

identified with this change. By the 1980s, the government employed almost a quarter of the workforce and federal outlays were about 43 percent of Gross National Product. State bodies require heavy financial support from the government, but in the early 1980s, there was a squeeze for capital because of economic recession. As said earlier, the government was also convinced that the amount of Malay funds, which could be tapped for capital and the supply of Malay managers, had become substantially greater (Milne 1986). Perhaps most significant of all was the expressed concern over the performance of public enterprises.

The financial performances of public enterprises were deemed unsatisfactory with rampant cases of mismanagement of funds. Also, for enterprises largely responsible for the provision of services, maintenance of plant, equipment and premises, promptness, quality, and reliability of services have been problematic. The reasons for the unsatisfactory performance include: no clear objectives and the inevitable problems of overlapping of functions and objectives; ambiguity as to the criteria for the selection of programs and projects; poor and inexperienced management; and problems of coordination, regulation and control, especially financial control (Radin and Zainal 1985). There had also been suggestions of the performance of the public enterprises being affected by corruption and undesirable political intervention (Puthuchery 1979). The problem was compounded by the fact that the government's policy towards public enterprises has been confusing and at times contradictory, and the organization of the public sector was permitted to become so complex that it was now almost impossible to

determine how many enterprises the government held while it become even more difficult to estimate their real cost to society (Mallon 1982).

Commenting on the public enterprises, Gomez and Jomo (1997:76) hold the view that most public enterprises in Malaysia lacked a competitive entrepreneurial ethos, which impeded profitability. Heavily dependent on government funds and preferential access to business opportunities, these entities were at the same time immune to financial discipline and competitive market forces. While the authors acknowledge the administrative capability of the bureaucrats, they realize that this group of administrators was not prepared to tackle the massive intervention exercise that the NEP actually entailed, and at the same time they lacked the training in commercial strategies.

Not all scholars agree that public enterprises are unsuccessful entities. Rugayah (1995) holds that since public enterprises are expected to pursue social objectives,¹⁵ they are given the task to rectify market “failures” and also to overcome “failures” in the public sector. She says that while many public enterprises in Malaysia have incurred financial losses, such evaluation, which is based on the profitability criterion is misleading. Public enterprises are also committed to socio-economic objectives and therefore are expected to deviate from profit-maximization and cost-minimization objectives practiced by the private sectors. The performance of public-sector firms engaged in food manufacturing in Malaysia, according to Rugayah (1995), was found to be as efficient as its private sector counterpart. Based on a study done by Rugayah

(1995), she deduces that differences in relative efficiency of public and private firms are industry specific.

3.2. PRIVATIZATION EMERGES AS A POLICY

At the outset, the Malaysia Incorporated policy, which was introduced on February 25 1983, was seen as a prelude to Malaysia's privatization program (Rugayah 1995:70). This same understanding is made by Craig (1988:253) who argues that Malaysia Incorporated and privatization represent a rearrangement of ownership within already pre-existing power arrangements. Craig (1988:253) views the policy as the brainchild of the Prime Minister, Dr. Mahathir Mohamad, and he quoted the leader's statement on this policy:

“Malaysia Incorporated emphasizes co-operation between the government and the private sector for their mutual benefit which ultimately means the benefit of the nation. The private sector will form the commercial arm of the national enterprise so to speak, while the government provides the major policy framework, direction and the necessary back up services by going hand in hand in achieving our common goals we should be able to improve each other's performance in both commercial and administrative procedures. The Malaysia Incorporated concept therefore provides a conducive environment for the development of entrepreneurship (Mahathir 1985).”

Specifically, Mahathir (1984), who became Malaysia's Prime Minister in 1981, stresses that under the Malaysia Incorporated concept, the private and public sectors see themselves as sharing the same fate and destiny as partners, shareholders and workers within the same “corporation”, which in this case is the nation. In this context, there is no question of one sector having to do more while the other sector can sit back and relax.

This means that there exists mutual understanding, cooperation, trust, and confidence in each other.

Milne (1986:76), however, looks on this policy as specifically modeled on its Japanese equivalent, which stresses a symbiotic relationship between government and business. With this, even after functions have been privatized, the government will expect their direction to conform to national policies; this could be achieved by regular consultation between the public and private sectors. The alliance between the two sectors was aimed at intensifying growth through expansion of the private sector, which was identified as the main generator of future economic growth.

The mid-eighties, within a short period after the adoption of Malaysia Incorporated, then witnessed the Malaysian government's facing a crucial fiscal crisis. The country for the first time in 1985 experienced a deficit in its current account with operating expenditure exceeding revenue. This situation was a result of the huge development expenditure incurred by public enterprises, many of which had reported losses.¹⁶ The growth of public sector employees was partly blamed for the increase in expenditure. The public sector employment grew to an average of 5.5 percent in the 1970-75 period and increased to a high of 11 percent in 1976 (Rugayah 1995). To counter this situation the government had to put up with a huge public sector borrowing requirement (PSBR), which in turn led to the piling-up of the public sector debt, especially external debt.

By the end of 1986, Malaysia's outstanding external debt was RM50.99 billion, and of the amount one-third was incurred by public enterprises. Toh (1989:246) observes that by 1986, the national debt service ratio reached the high level of 18 percent, though this had dropped to 15.2 percent by 1987. However, the external debt service ratio of the public enterprises increased from 4.6 percent in 1985 to 5.8 percent in 1986.

Leeds (1989:743) mentions that as the international recession deepened in the 1980s, Malaysia at the same time suffered in terms of its export-oriented trade. According to him, after enjoying average growth rates of 5.4 percent annually during 1976-80 period, the downturn was precipitous. Previously in the 1976-79 period, the trade account and the current account saw healthy surpluses but from 1980 onwards the balance of payments on current account was negative (see Table 3-3).

The following reasons are quoted by Gomez and Jomo (1997:77-78) on the economic decline in the early 1980s in Malaysia: the declining trading conditions, growing protectionism in the West, declining terms of trade, capital flight of private investment, and the government's heavy industrialization strategy. The heavy industrialization program, heavily promoted by the prime minister himself, was faced with widespread criticism and protest, even from his own cabinet. As a result of this program, average annual public sector investment in commerce and industry increased drastically from RM0.3 billion in 1978-80 to RM0.9 billion in 1982 and RM1.5 billion in 1984; however, the performance of these programs was far from satisfactory, according to the two authors.

Table 3-3: Balance Of Payments, Selected Data 1979-82 (RM million)

	1979	1980	1981	1982
Merchandise account balance	+6,908	+5,328	-243	-1,758
Balance on goods and services	+2,050	-575	-5,555	-8,334
Balance on current account	+2,033	-620	-5,633	-8,409

Adapted from Leeds, R.S., *Malaysia: Genesis of a Privatization Transaction* (1989).

To solve Malaysia's domestic economic problems and the increasing pressure imposed on Malaysia from multilateral and bilateral institutions to institute economic reforms, Malaysia turned to privatization (Gomez and Jomo 1997). Much promotion of privatization by the then world leaders - Reagan and Thatcher - had influenced the Malaysian government to embark on privatization. Again, it should be noted that there was no external pressure imposed on Malaysia to adopt the policy, but rather it was a self-imposed policy by its leader, Dr. Mahathir himself. Through privatization, the government felt that the country would be able to obtain a boost in its revenue. There would be no more need to pump in additional financial resources to help prop up ailing public enterprises once they were privatized. Once these enterprises are privatized, they will be run as commercial enterprises for which the profit motive is primary and which will also lead to increased efficiency. Privatization would thus help to increase revenue, reduce expenditure, and therefore reduce PSBR (Toh 1989:246).

Dr. Mahathir's new government began in 1982 to focus on corrective measures, which signaled the beginning of the process to realign the balance between public and private sector responsibilities in the economy,¹⁷ where privatization became an important component of the new strategy (Leeds 1989:744). The Prime Minister, whilst prosecuting the official mid-term review of the Fourth Malaysian Plan, declared that: "Economic growth in the future will depend largely on private sector activity" (Wilson 1985).

Mahathir (1984:5-6) had this to say at the onset of privatization:

"Privatization is proposed because it is good for the nation, that is, for everyone...Privatization is not formulated for the benefit of any group or political party. Everyone should benefit from it, or at the very least should not lose by it... Privatization does not mean that the Government and the bureaucracy washes its hands clean of any responsibility after it is taken over by the private sector. The accountability for any public service or functions transferred to the private sector remains with the Government. The Government remains accountable to the public and must, therefore, continue to take the responsibility for seeing to it that privatization brings out all the advantages of such a move but with a minimum amount of disadvantages."

Mahathir (1984) listed the foreseeable disadvantages of this policy as a break in the continuity of the services concerned, undue or unfair rise in costs, and possible gaps in coverage at an early stage of privatization. As anticipated by him, these disadvantages did occur during the post-privatization stage and will be discussed in the latter chapters.

Gomez and Jomo (1997:79-80) observe that Mahathir adopts privatization as a crucial means of sponsoring the emergence and consolidation of Malay rentiers with the intention to transform this small group of population into an internationally competitive industrial community. The authors go further to insist that it is quite possible that even

without external pressure or the debt crisis of the mid-1980s, privatization may have been pursued by Mahathir as a policy tool for the promotion of Bumiputera capitalism. This raises the question as to whether the “emulation” of the industrialized economies in practicing privatization is the genuine intention of Mahathir. Could it be that the leader had all along intended to propagate privatization as the “right path” to the future economic development and growth of Malaysia?

Challenging the thinking of the two scholars, Mahathir (1998:98) maintains the view that privatization is an effective instrument for increasing Bumiputera participation in business. He goes on to claim that the non-Bumiputeras have also gained from this policy, for they too have come forward with privatization proposals. According to Mahathir, the participation of non-Bumiputeras is considered to be essential because the number of projects exceeds the number of Bumiputera entrepreneurs. Thus, these non-Bumiputeras have always upheld the NEP by having active participation of the Bumiputera partners in their projects.

3.3. THE PROGRAM

In 1983, the privatization policy was announced by the Prime Minister, Dr. Mahathir Mohamad, and two years later the approach began to take shape as listed below (Leeds 1989:745):

- i. public spending would be significantly reduced, as would the levels of government borrowing at home and abroad;

- ii. major public enterprises would be restructured to improve financial performance; others would become candidates for sale to private investors; and
- iii. regulations, policies and incentives would be adjusted to liberalize the Malaysian environment for private investments.

Leeds (1989:745) is of the view that the switch of development strategy approach in Malaysia in the early 1980s was the result of a combination of factors, the key ones being the rapidly deteriorating economic and financial climate at home and abroad, and perceived shortcomings of the burgeoning public enterprise sector. Leeds' view paralleled those stipulated in the objectives of privatization in Malaysia.

The official book *Guidelines on Privatization* (1985) identified the *five primary objectives* of privatization¹⁸ in Malaysia as follows:

- i. Relieve the financial and administrative burden of Government;
- ii. Improve efficiency and productivity;
- iii. Facilitate economic growth;
- iv. Reduce the size and presence of the public sector in the economy; and
- v. Help meet the national economic policy targets.

The following methods of privatization are to be adopted by the Government of Malaysia: sale of assets or equity; lease of assets, management contract; and "Build-

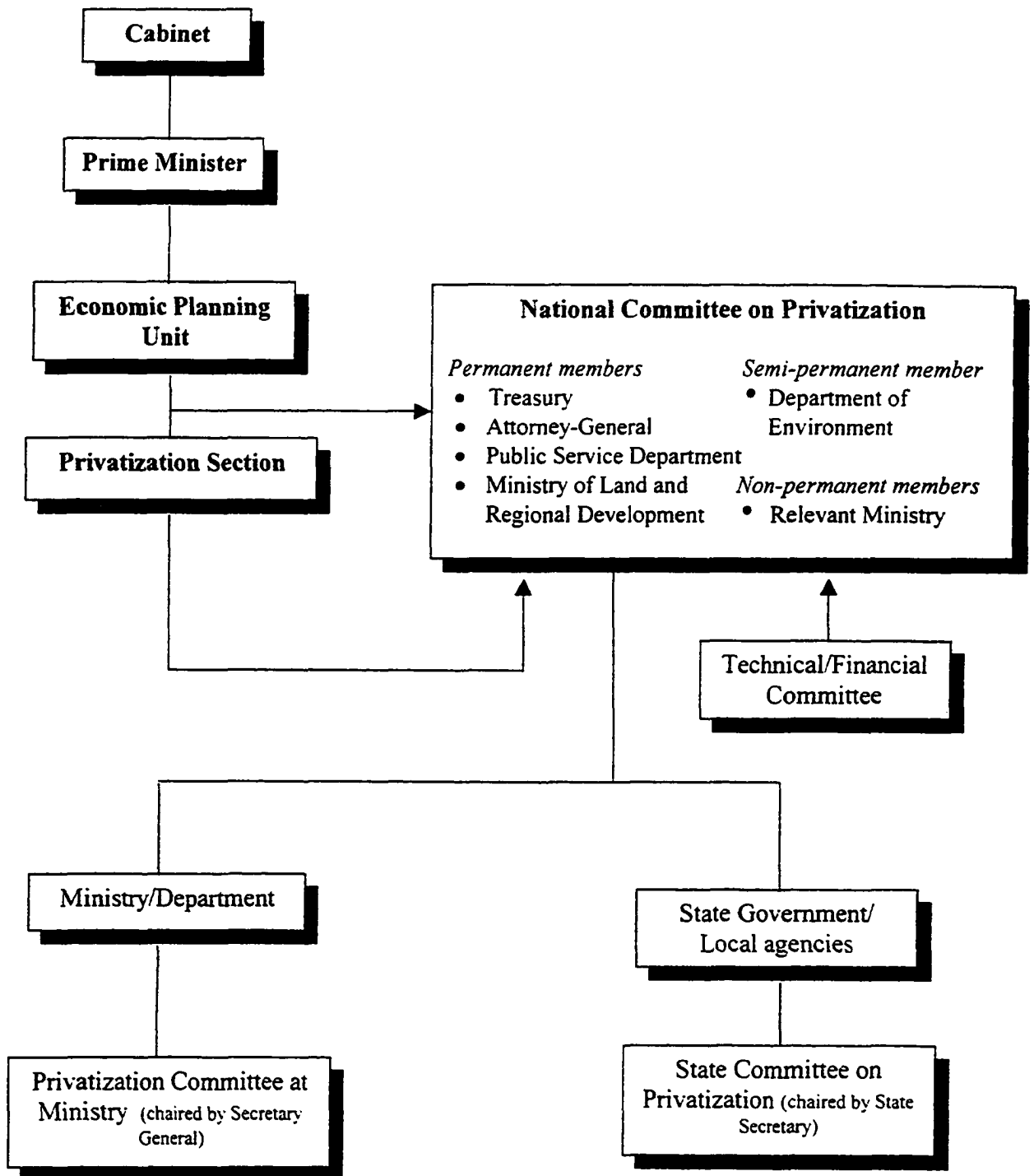
Operate-Transfer" (BOT) or "Build-Operate" (BO). The methods, though under different terms, have already been discussed and elaborated in Chapter 2.

With the launching of the privatization policy, the administrative machinery and procedures were simultaneously set and worked on (see Figure 1). The Inter-Departmental Committee on Privatization (IDC) or also known as The National Committee on Privatization acts as the overall coordinator of the privatization program. The IDC is supported by Technical Committees (TC) and/or a Financial Committee formed by the Secretariat and is also known as the Privatization Task Force (PTF).

The IDC is responsible for the following (Ismail and Lee 1990):

- i. the overall responsibility for planning, monitoring, coordinating and evaluating the implementation of the Federal Privatization Program;
- ii. making recommendations to the Cabinet regarding the privatization of public enterprises;
- iii. the TCs are ad hoc committees formed by the PTF to evaluate a particular privatization proposal or tender; and
- iv. the TCs monitor the implementation of approved projects to be privatized.

Figure 1: Procedural Structure



Source: Economic Planning Unit

The PTF, which was set up in 1985, acts as the Secretariat for the privatization program and holds the following responsibilities (Ismail and Lee 1990):

- i. monitoring the progress of detailed feasibility studies;
- ii. establishing and appointing members of TCs;
- iii. preparing and/or compiling papers for the TCs, IDC and Cabinet; and
- iv. coordinating the activities relating to the privatization of public enterprises.

There are three ways to initiate privatization in the context of Malaysia: *government initiated, PTF initiated, and private sector initiated.*

A *government initiated* privatization involves government action in studying the viability of the potential public entity to be privatized. Having done the study, the government prepares a tender and the public will make a bid on the tender.

The second type – *PTF initiated* – involves active involvement of TCs in the process of evaluating all privatization proposals and tenders. The proposal will be studied by the TCs and subsequently recommendations will be made to the IDC. After reviewing the TCs recommendations, the IDC submits its own recommendations to the Cabinet. Upon the approval of the Cabinet, the TCs and the top management of the public entity will negotiate with the private sector.

Finally, *private sector initiated* privatization requires the promoter of the private entity to register his interests in privatizing a public enterprise with the PTF. This is also known as the 'first come, first served' basis method. With this method, the first promoter of the private entity will submit a detailed feasibility study to the PTF. By this method, the private entity will have the right to negotiate with the government on the privatization of the enterprise. Since a feasibility study has been submitted, this means no other submissions on the enterprise will be entertained by the PTF (Ismail and Lee 1990). This method is not without its critics. Jomo (1995:57) criticizes this method saying that it does not require formalities of an open tender in awarding of contracts. In the final process, the beneficiaries are those who are politically well-connected. A case quoted by Jomo (1995) was the awarding of contract worth RM1.4 billion to a private company, Antah Biwater, for water supply projects involving 174 schemes. Jomo views this act as nothing more than awarding contracts to a foreign company and its local partner with irrelevant experience.

Obviously, what is missing here is the competition element, which is a key factor in the rationale of privatization. Even though a government initiated privatization involves bidding of tenders by the public, the awarding of contracts to certain bidders is still questionable because those who were awarded privatization contracts are those seen to be closely linked to the regime. Apparently, the three private sector organizations, which were awarded contracts of hospital support services were alleged to be in this category.

3.4. PRIVATIZATION MASTERPLAN

Since its implementation, the privatization program had been bogged down with constraints and problems. In 1987, the Government felt the need to address the approach and the implementation of privatization in a more systematic manner. Thus, in 1991 the *Privatization Masterplan* (PMP) was born out of the Government's desire to achieve better and more commendable results from the privatization policy. The aims of the Masterplan are (Ismail and Lee 1990)¹⁹:

- i. to define the privatization objectives and policy clearly;
- ii. to develop an overall strategy, consistent approach and criteria; and
- iii. to prepare an action plan so that privatization efforts become easier and less time-consuming.

The PMP identified six central requirements for an expanded, accelerated, and effective privatization program. The first two relate to the overall policy framework, and the other four relate to the actual implementation of the programs. These requirements are (Ismail and Lee 1990):

- i. incorporating privatization as part of a wider process of economic reform;
- ii. aligning privatization strategies to national objectives;
- iii. improving the implementation machinery;
- iv. ensuring that staff sensitivities are carefully managed;
- v. improving the legal framework; and
- vi. providing the supportive mechanism for the program.

During the initial stage, the government's efforts were diverted more towards policy planning, ensuring understanding of the policy and its implementation, but after the 1990s, the emphasis was towards the acceleration of the program and its evaluation, and hence, PMP was borne out of a conscious effort on the part of the government to expedite the implementation of the privatization program, says Hamid Shawal (1996:5). However, it was felt that during the early years of privatization, the government had not provided enough information and understanding of the policy to the public. The PMP was only to substantiate the fact that the government had entrenched the privatization policy in the country's policy system.

The Privatization Action Plan (PAP), which is based on a feasibility and desirability analysis of public enterprises, was also formulated as part of the *Privatization Masterplan*. As shown in Appendix A, the PAP consists of a two-year rolling plan detailing the entities to be privatized and those to be prepared for privatization. Reviewing would be done at the end of each year, taking into account the progress being made so as to determine the entities to be privatized in the next two years. Studies, which are undertaken by private consultants would then determine, both in terms of feasibility and desirability, entities to be privatized. According to the *Privatization Masterplan* (1991: 35), 424 public enterprises were reviewed and of these, a total of 246 entities were found to be suitable for privatization. A total of 69 entities were deemed privatizable within two years, 107 within two to five years and the remaining beyond five years (see Appendix B). Out of these studies, the government decided not to privatize several identified entities such as the Social Security Organization (SOCISO), Survey and

Mapping Department, the Factories and Machinery Department and the Registrar of Companies and the Registrar of Businesses. Other proposals like hospitals, educational institutions and financial institutions were the entities considered suitable for privatization.

The Malaysian government also ensured that other entities, which were not included in the list, would also be reconsidered for privatization. In ensuring the successful implementation of the PAP, several factors were considered, for example, it took into account the absorptive capacity of the domestic and capital market. This is also meant that the size of the program was designed in such a way that demand for capital to finance privatization would not crowd out demand for capital to finance other purposes.

Privatization projects, under this Masterplan, initiated by the private sector, are considered. The government also took into consideration new privatizable projects which have traditionally rested with the public sector. The privatizable entities were identified in the Sixth Malaysia Plan (1991-1995). Finally, the PAP takes into account the need to achieve a well-balanced program that is likely to command broad-based support and to develop its own momentum.

3.5. IMPLEMENTATION FRAMEWORK

Let us now delve further into the implementation framework of privatization policy in Malaysia. The following implementation framework has been discussed at great length in most literature of privatization in Malaysia as well as that in other

developing countries. Nevertheless, the implementation process does not necessarily result in the same outcomes - intended or unintended - of privatization policy being adopted in Malaysia or the rest of the developing world. In the case of Malaysia, the implementation framework that will be touched briefly covers capital markets, Bumiputera participation, foreign participation, valuation of assets or equities, changes in the laws, regulatory framework, and personnel. The description and explanation of the implementation framework are based on government documentation.

3.5.1. Capital Markets

Privatization, as confirmed by the *Privatization Masterplan* (1991), would exert pressure on private financial resources. This would call for an increased role for the various financial intermediaries and stock exchange in mobilizing debt and capital. On this issue, Radin and Zainal (1985:30) see the need to widen ownership of the assets of privatized enterprises, which would require new approaches to encourage the participation of smaller interests. In this context too, there should be sufficient absorptive capacity for the successful implementation of the policy. In this regard, the Malaysian government has publicized its intention of reviewing policies and measures to counter the negative outcomes of this aspect of the privatization policy. However, the economic slowdown experienced since 1997 has posed a problem to the accumulation of capital for the purpose of privatization.

3.5.2. Bumiputera Participation

The Prime Minister, Dr. Mahathir Mohamad, in his National Development Policy (NDP) Speech in June 1991 claimed that on corporate equity restructuring, the Bumiputera share in 1990 amounted to RM22, 298 billion, or 20.3 percent of the total (target is 30 percent).²⁰ This statement is well illustrated in the *Privatization Masterplan* (1991:27) stating that, the privatization policy forms an integral part of the Government's strategy in realizing active participation by the Bumiputera in the corporate sector since the policy encompasses also the transfer of government trust companies to the Bumiputera. In the same speech, the Prime Minister reinforced the strategic importance of privatization policy by emphasizing that privatization was to be used as a vehicle to accelerate Bumiputera participation in the private sector and to achieve the objective of equity restructuring.²¹ In line with this, the privatization of subsidiaries of trust agencies would be reserved only for Bumiputera. With this in mind and also to ensure active Bumiputera participation in the privatization policy, the Malaysian government has taken the initiatives of having collaborations between institutional investors such as Lembaga Urusan dan Tabung Haji (Pilgrimage Fund Board) and Lembaga Tabung Angkatan Tentera (Armed Forces Fund Board), individual entrepreneurs and companies where the entities are actually Bumiputera owned. Besides that, the government also introduced schemes for employees such as management buy-outs and employee share ownership plans. In these schemes, which normally involves privatization of government agencies, a mechanism was instituted to ensure that Bumiputera participation is sustained once a government entity is privatized.

3.5.3. Foreign Participation

The need for foreign participation in the privatization policy has been justified by the following (*Privatization Masterplan 1991:27*):

- i. where their expertise is needed to upgrade efficiency and such expertise is not available locally;
- ii. where their participation is necessary to promote the export market;
- iii. where the supply of local capital is insufficient to absorb the shares offered; and
- iv. where the nature of business requires global linkages and international exposure.

The Prime Minister in his 1991 NDP speech testified that with respect to corporate equity, foreigners owned \$27.5 billion or 25.1 percent; nominee companies owned \$9.22 billion or 8.4 percent; and others owned \$389.5 million or 0.3 percent.²² However, the Prime Minister was quick to remind his listeners that, “for reasons that are obvious, the Government will continue to foster the inflow of foreign investment...we will not abandon a winning strategy. But we will fine-tune it to ensure that Malaysia maximises the net profit from the inflow of foreign investment.”²³

In cases where the foreign investors are involved in projects of strategic and national importance, the government makes sure that foreign ownership will have to be widespread in nature so as to ensure that no one foreign party will have undue influence on the company.

3.5.4. Valuation Of Assets Or Equities

Radin and Zainal (1985:229) anticipate that the valuation of assets of the agencies to be privatized will take some time, owing to lack of expertise to value certain plant and equipment (for example, plant and machinery in the container terminal in Port Kelang). In determining the methods of valuation, the government would ensure that the methods used would take into account the future prospects of the entity, including its opportunities and constraints. By considering these factors, there may be cases where the value of the entity may not fully reflect the market value of its physical assets or vice versa. Potential earnings of the privatized entities will also be taken into account in determining the value of the physical assets to be disposed of or to be leased out.

3.5.5. Changes In The Laws

Some departments to be privatized function under their own specific legislation; for example the Department of Telecommunications operates under the Telecommunications Act 1950. Therefore, the laws that in the 1980s posed unintended obstacles to the privatization program were amended. Other laws that have undergone the amendment process are the Pensions Act 1980, Port Authorities Act 1963, and the Electricity Act 1949. Along this line the Government foresees that many other laws still need to be amended for the same purpose and is taking steps to review the relevant laws and will make the necessary amendments as and when the need arises.

3.5.6. Regulatory Framework

The government introduced economic reforms particularly by way of deregulation and lifting of barriers of entry in order to allow market forces to dictate economic activity and thereby improve efficiency and productivity. Natural monopolies were regulated to ensure that consumers' interests are protected especially in terms of price, quality, and availability of services. Although consumers' interests will be a focal point in developing the regulatory framework, the government will also ensure that the private monopolies enjoy the commercial freedom required to improve efficiency (*Privatization Masterplan* 1991:26).

3.5.7. Personnel

In this aspect, privatized entities are not allowed to retrench personnel within the first five years of privatization, except on disciplinary grounds. Also, if there is a case of staff redundancy, it should be overcome through normal attrition, redeployment and expansion of activities. To ensure that the personnel do not lose out in the privatization program, they are offered a package of no less favorable terms and conditions of service than those enjoyed by them while working with the government.

3.6. PROGRESS TO DATE

An earlier report on privatization of entities released by the Economic Planning Unit in 1990 showed that 37 projects had been privatized. Apart from these, 30

government companies have been divested to the National Trust and thereafter to trust holders and about 120 companies have been sold to private sector parties.

Table 3-4 shows the latest report and figures on the privatization program in Malaysia. Between its implementation in 1983 and 1998, a total of 435 projects were privatized. It has been documented and published in government reports and documents that the program has been successful in reducing the financial and administrative burden of the government. From the record, it was announced that since the policy was first adopted in 1983, the savings in capital expenditure from privatized projects amounted to RM129,130 million (see Table 3-5). The sale of assets and equity in the program amounted to RM21,520 million (see Table 3-5). A total of 105,825 employees were transferred to the private sector during the same period (see Table 3-5).

Table 3-4: Privatization Achievement (1993-1998)

Privatization Achievement	1983 - 1998
Total Projects Privatized:	435
Existing Projects	335
New Projects	100
Jobs eliminated from government payroll	105,825
Savings of:	
Yearly opening expenditure (RM bil)	7.5
Capital expenditure (RM bil)	129.1
Proceeds from sale of government equity (RM bil)	23.0
Market capitalization as at 31 March 1999 (RM bil)	89.0
% of total KLSE capitalization	28.0

Source: *The Malaysian Economy In Figures* (1999:24), The Prime Minister's Department, Malaysia.

Table 3-5: Proceeds, Savings and Reduction In Public Sector Employees

Item	1996-1998	1983-1998
Proceeds (RM million)		
Sale of Equity	2,510	21,520
Sale of Assets	660	19,130
Savings (RM million)		
Capital Expenditure	1,850	2,390
Number of Public Sector	53,130	129,130
Employees Transferred	9,781	105,825

Source: *The Mid-Term Review of the Seventh Malaysia Plan 1999-2000* p.149, The Government of Malaysia.

As shown in Table 3-6, and where the sectoral distribution is concerned, infrastructure and utilities (electricity, gas and water) amount to 54.4 percent, government sector, 19.1 percent, and finance, real estate and business services accounted for 10.3 percent. Based on the table too, the construction or infrastructure sector adopted the BOT (Build-Operate-Transfer) and sale of asset modes in the program. Altogether, this sector accounts for 44.1 percent of total projects being privatized. The government sector, on the other hand, accounts for 19.1 percent of the total privatized projects, and the most commonly used mode is management contract, and this is followed by lease of asset.

Table 3-6: Number of privatized projects by sector and mode (1996-1998)

Source	Mode of privatization									Total Projects	(%)	Savings in capital expenditure (RM million)
	SOE	BOT	SOA	BOO	COR	BT	MBO	LOA	MC			
Agriculture & Forestry	1	0	0	0	2	0	0	0	0	3	4.5	0
Mining & Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0
Construction/Infrastructure	0	13	13	0	0	4	0	0	0	30	44.1	18,827.7
Electricity, Gas & Water	0	0	0	7	0	0	0	0	0	7	10.3	28,131.0
Transport, Storage & Communications	1	2	0	0	0	0	0	1	0	4	5.9	5,449.0
Wholesale & Retail Trade, Hotels & Restaurants	1	0	1	0	0	0	0	0	0	2	2.9	0
Finance, Real Estate & Business Services	6	0	0	0	1	0	0	0	0	7	10.3	616.6
Government Services	0	0	2	0	1	1	0	1	8	13	19.1	106.1
Other Services	0	0	0	0	2	0	0	0	0	2	2.9	0
Total	9	15	16	7	6	5	0	2	8	68	100	53,130.4

Notes:

SOE = Sale of equity

BOT = Build-Operate-Transfer

SOA = Sale of Asset

BOO = Build-Operate Own

COR = Corporatization

BT = Build-Transfer

MBO = Management-Buy-Out

LOA = Lease of Asset

MC = Management Contract

Source: *The Mid-Term Review of the Seventh Malaysia Plan 1999-2000* p.149, The Government of Malaysia.

As seen from the *Seventh Malaysia Plan* then, emphasis has been given to the privatization policy. The policy is seen as vital and has been accorded an important role in facilitating economic recovery after the Asian financial crisis by focusing on the following strategies:

- i. strengthening the implementation process of the privatization program;
- ii. improving the monitoring system to ensure that privatized entities comply with their contractual obligations under the concession agreements;
- iii. prioritizing suitable projects for privatization to provide the necessary spin-offs for economic recovery;
- iv. strengthening the regulatory framework for more effective regulation of the privatized entities;
- v. increasing Bumiputera participation in the corporate sector; and
- vi. enhancing research and development (R&D) and the development of new technology.

From the above, *The Mid-Term Review of the Seventh Malaysia Plan* highlighted these strategies: intensification of the regulatory authority and system, Bumiputera participation, and R & D. Prior to this, the government had not sufficiently stressed these strategies in its previous plans. With regard to privatization, these strategies can help overcome the many problems in the implementation of the policy.

On *regulatory authority and system*, the *Seventh Malaysia Plan* recognizes the major role of the regulatory authority, especially in regulating the privatized entities, with

respect to pricing, standards and quality of service and to ensure adherence to terms and conditions stipulated in the privatization agreements. Among others, the integration of regulatory authorities on a sector-basis is regarded as crucial. The proposed sectors to be looked into are energy and gas; transportation including roads, highways and ports; communications including multimedia, post and broadcasting; and water, sewage and solid waste. Another measure that has been considered is the formulation of the legal framework to establish the various regulatory authorities for more effective regulation of the privatized entities. This action is deemed necessary to ensure that the public sector authorities develop appropriate mechanisms for effective monitoring and evaluating of economic and safety performance of privatized entities and revision of implementation procedures. Simultaneously, the regulatory authorities are to formulate and institute regulations and procedures in ensuring strict compliance of contractual obligations by privatized entities. The contractual obligations include matters pertaining to safety, charges, vendor development, technology transfer and other social obligations to the masses. And for the first time too, *The Mid-Term Review of the Seventh Malaysia Plan* (1999:161) seriously considers the need to impose penalties on privatized companies for non-compliance with regard to the terms and conditions as stipulated in the Concession Agreement.

While it is observed that the government of Malaysia does stress the presence of the regulatory authority, there is not much emphasis on the presence of a regulatory body or structure to regulate the “pre and post” privatization program in ensuring the progress of the program. There is no entity to ensure that exploitation and malpractice do not

occur. Besides, a regulator's role is also important in ensuring that consumers' interests are being taken care of and that a high standard of services is maintained. The Malaysian government should put greater emphasis on this aspect during the pre-period of privatization when the parties are negotiating and bargaining with the government, and also in the post-period to ensure that the agreements are carried out accordingly. More emphasis on the regulatory structure would ensure that social obligations of the masses would be taken care of by the body. As said in the much earlier paragraph, *The Mid-Term Review of the Seventh Malaysia Plan* does mention the need for a regulatory body in any privatized program, but as to how serious and to what extent the mechanisms are to be adopted by the IDC in looking into this matter is still questionable.

The *Bumiputera participation* factor has also been seriously considered in the re-study of the privatization program. This aspect of the privatization program, which is in line with the NDP, will continue to be a vehicle to help increase Bumiputera participation in the corporate sector. The privatized entities are strongly encouraged to spread out the benefits of privatization to small Bumiputera companies by offering sub-contracts. Other approaches, which will be simultaneously promoted, are management buy-out and employee share ownership plans (both approaches have been discussed in detail in Chapter 2). As shown in Table 3-7 on equity ownership, by the end of 1998 the government owned 43.3 percent, Bumiputera 28.5 percent, non-Bumiputera 17.2 percent, and foreigners 12.0 percent. From the table too, one can deduce that there is an increase in equity ownership after the implementation of privatization for all categories except the government. In the case of government ownership, there is a decrease of 35 percent. The

increase in proportion is by one-sixth for the Bumiputera, non-Bumiputeras by one-half, and a doubling for foreign. Back to the question as to whether the non-Bumiputeras or foreigners are losing in the privatization process, the figures given in the government documents have proven otherwise. However, Jomo's (1994) criticisms on the selection of entities that have been privatized could be reflected from Table 3-7. The scholar questions the success of the privatization policy in Malaysia and, based on the table one can deduce that these data are fairly representative of the whole privatization effort. The privatization policy is intertwined with the NEP, but by assessing the table there is only a slight increase in Bumiputera participation in comparison to the non-Bumiputeras, who stands to gain more in the process.

Table 3-7: Equity Ownership Of Selected Privatized Entities (Percentage)

Equity Ownership	Upon Privatization	December 1998
Government	58.3	43.3
Bumiputera	24.3	28.5
Non-Bumiputera	11.4	17.2
Foreign	6.1	12.0

Source: *The Mid-Term Review of the Seventh Malaysia Plan 1999-2000* p.150, The Government of Malaysia.

The government has emphasized the need to ensure that the indigenous companies will reap or acquire the gains from technology transfer and from *R & D* carried out by their foreign partner or counterpart. Thus, the role of the regulatory authorities is again seen to be important to ensure that privatized entities undertake *R &*

D to upgrade their performance and keep pace with new technology as well as transfer of technology to local companies. And in this respect, emphasis will be given to local materials in the project implementation because this will reduce dependence on imports, and consequently, will enhance the growth of small and medium sized industries.

Despite criticisms by scholars of privatization policy in Malaysia, the figures of the privatization program documented by the government seem to be impressive and have shown a significant increase in productivity and efficiency. As shown in Table 3-8 on selected privatized entities, there is a positive impact of privatization on the once-governmental entities. Take Johor Port Berhad, for example. The average container throughput (TEUs) per year was 128,556 prior to privatization as compared to 429,448 after being privatized; this is an increase of 234 percent. As for the average number of TEUs per vessel, it was 110 vessels prior to privatization and 170 vessels after privatization; this is an increase of 55 percent. Another example is Penang Port Sdn. Bhd. The average container throughput (TEUs) was 330,922 prior to privatization and 506,865 after privatization. Again, there is an increase of 53 percent. The average number of TEUs per vessel was 271 prior to privatization as compared to 384 after privatization, which shows an increase of 42 percent. In Chapter 6, the above post-privatization results of Johor Port Berhad and Penang Port Sdn. Bhd. are similarly reflected in the final findings of efficiency factor experienced by Klang Container Terminal, Klang Port Management, and Klang Multi Terminal.

Also as shown in Table 3-8, the other two privatized utility entities – Telekom Malaysia Berhad and Tenaga Nasional Berhad – have also recorded a positive impact on their efficiency and productivity. In the case of Telekom Malaysia Berhad, the revenue per subscriber was 1,227 before privatization and 1,609 after privatization. Again, we witness an increase of one third. The direct exchange lines per employee were 36 and it is 154 after privatization. There is an increase to 91.5 percent from 80 percent in terms of response to complaints. As for Tenaga Nasional Berhad, the revenue generated prior to privatization was RM3.3 billion as compared to RM10.3 billion after privatization. However, there is an increase in cost per unit per output from 16.6 cent/kWh to 23.1 cent/kWh, which amounted to 39 percent. The same goes with the cost to public per unit per output, which sees an increase of 19 percent from 18 cent/kWh to 22.2 cent/kWh. The explanation given to the increase is because of the energy purchase from Independent Power Producers as stated in Table 3-8.

The above analyses are based on the figures from government documented evidence and by looking into the figures one can always deduce that the performance of the privatized entities has improved after undergoing privatization. However, one has to be cautious when interpreting these figures, whereby the efficiency achieved on the part of the privatized entities has in fact resulted in an increase in consumer user charges as in the case of Tenaga Nasional Berhad. While the overall scenario of privatization depicted by government documents looks positive but that it is not true if one is to examine the impact on the charges made to the consumers. In this context, maybe another study looking into this specific issue is viable for other researchers.

Table 3-8: Efficiency and Productivity indicator of selected privatized entities

Indicator	Before Corporatization/ Privatization	After Corporatization/ Privatization
Johor Port Berhad ¹		
Return on Assets (%)	6.6	8.6
Operation Cost Per Ton- Freight Weight (RM)	8.3	7.1
Gross Profit Yearly (RM million)	29.1	65.8
Operating Revenue Per Employee (RM)	110,000	260,000 ⁸
Average Container Throughput (TEUs)	128,556	429,448
Average Number of TEUs Per Vessel	110	170
Average handling Rate Per Ship Hour	28	52
Crane Handling Rate Per Hour (TEUs)	28	26 ⁵
Telekom Malaysia Berhad ²		
Return on Assets (%)	4.0	7.6
Revenue Per Subscriber (RM)	1227	1,609
Production Per Employee (RM)	34,372	219,641
Direct Exchange Lines Per Employee	36	154
Response to Complaints within 24 Hours (%)	80	91.5
Tenaga Nasional Berhad ³		
Revenue Generated (RM billion)	3.3.	10.3
Cost Per Unit Per Output (cent/kWh)	16.6	23.1 ⁶
Access to The Public (number of service centers)	100	142
Cost to Public Per Unit Per Output (cent/kWh)	18	22.2 ⁶
Penang Port Sdn. Bhd ⁴		
Return on Assets (%)	11	12
Operation Cost Per Ton-Freight Weight (RM)	6.9	7.0 ⁷
Gross Profit Yearly (RM million)	30.7	45.2
Operating Revenue Per Employee (RM)	58,253	82,548 ⁸
Average Container Throughput (TEUs)	330,922	506,863
Average Number of TEUs Per Vessel	271	384
Average Handling Rate Per Ship Hour	23.4	24.6
Crane Handling Rate Per Hour (TEUs)	21.5	24.6
Notes:		
¹ Privatized in 1995		
² Privatized in 1990		
³ Privatized in 1991		
⁴ Corporatized in 1994		
⁵ Reduction due to changes in criteria used as denominator for calculation of average crane handling rate per hour.		
⁶ Due to energy purchase from Independent Power Producers (IPPs)		
⁷ Due to increases in operation and management costs.		
⁸ Total operating revenue divided by total number of staff.		

Source: *The Mid-Term Review of the Seventh Malaysia Plan 1999-2000*, The Government of Malaysia.

On personnel, Table 3-9 shows the number of personnel from 1982 (prior to privatization) to August 1999. There is only a 2.4 percent increase of personnel from 1982 to August 1999. The trend that can be deduced from the table is that the highest increase in terms of percentage is 4.9 percent that is on the very year privatization policy was implemented. After that, there was a downward trend and 2.6 percent in 1984 is the highest recorded increase in percentage of employees after the implementation of the privatization program.

As evidence from the effects of privatization on public sector personnel would be to note that over the long haul from 1982 to 1999 the Federal Civil Service generally increased by 12 percent, and the State Civil Service rose slightly for a short period and receded by 4 percent in the later years. The overall civil service change was a 9 percent increase. By contrast, the Federal Statutory Bodies declined by 30 percent, the State Statutory Bodies increased by 24 percent, and the Local State Authorities by 10 percent. The overall Statutory Bodies declined by 16 percent. The decrease of the employees of Statutory Bodies could be the result of privatization and administrative reform in the form of restructuring. The overall number of government employees (civil service and statutory bodies) according to year (from 1982 to 1999) is illustrated in Figure 2. This can be interpreted as a positive result of privatization even though the increase in employees has been small.

Table 3-9: Number of Personnel According to Agencies and Year

Year	FCS	SCS	FSB	SSB	LSA	Total	% change of personnel from preceding year
1982	396,601	79,831	116,907	14,269	40,367	647,975	-
1983	408,144	85,084	124,090	15,622	46,926	679,866	4.9
1984	417,871	86,586	126,992	17,054	49,186	697,689	2.6
1985	422,835	88,159	139,291	17,733	50,166	709,184	1.6
1986	429,113	88,363	133,068	16,406	50,074	717,024	1.1
1987	411,811	88,986	132,798	16,703	50,629	700,927	-2.2
1988	414,508	89,028	134,151	16,698	50,432	704,817	0.6
1989	420,327	88,199	135,720	16,478	49,959	710,683	0.8
1990	429,451	87,597	112,930	17,697	50,747	698,422	-1.7
1991	438,382	87,158	114,994	17,681	50,803	709,018	1.5
1992	429,020	85,975	105,607	18,783	50,629	690,014	-2.7
1993	421,887	83,554	98,305	17,491	48,680	669,917	-2.9
1994	442,322	82,607	87,955	19,468	45,042	677,394	1.1
1995	441,523	78,168	87,416	18,848	44,985	670,940	-1.0
1996	443,612	77,131	84,667	19,303	44,823	669,536	-0.2
1997	443,976	75,905	83,400	18,665	44,493	666,439	-0.5
1998	442,784	76,554	81,993	18,584	44,673	664,588	-0.3
August 1999	443,079	76,386	81,488	17,752	44,556	663,261	-0.2
% change of personnel from 1982 to 1999 in Agencies (%)	12	-4	-30	24	10	2.4	-
% of Civil Service and % of Statutory Bodies from 1982 to 1999	9		-16			4.9	-

Key:

FCS: Federal Civil Service

SSB: State Statutory Bodies

SCS: State Civil Service

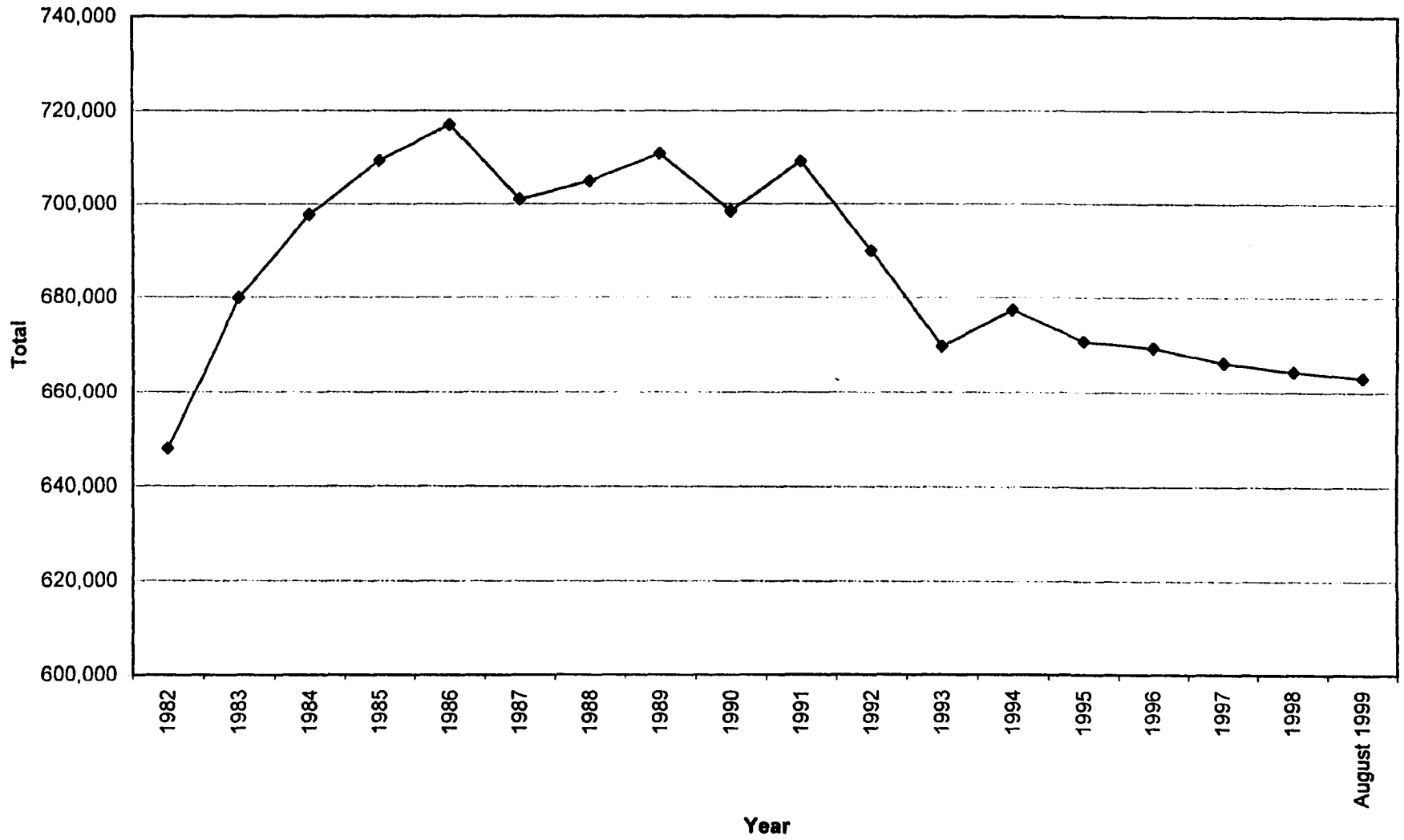
LSB: Local Statutory Bodies

FSB: Federal Statutory Bodies

Note: Police and Military Services are not included

Source: Computed from figures provided by the Public Service Department, Malaysia (1999).

Figure 2: Government Employees According to Year



3.7. CRITIQUES OF PRIVATIZATION POLICY IN MALAYSIA

What do the scholars or writers on privatization, besides Gomez and Jomo, have to say about privatization in Malaysia? It is wrong to assume that all critiques are negative. Looking back on Malaysia's progress on the policy, Toh (1989:247) is of the opinion that Malaysia's experience at privatization thus far can only be described as limited. He states that information on the list of projects already privatized is, however, difficult to compile due to the lack of published material. Enterprises or services that have already been privatized (either fully or partially) include the national airline (MAS), the national shipping carrier (MISC), the construction of the North-South Highway, cargo handling at the country's premier port, Port Kelang, Sports Toto, TV3, the rural water supply scheme, Sistem Telekom Malaysia Berhad, and the postal department. In the case of Perwaja Terengganu Sdn. Bhd. (a state-owned steel mill) and Perusahaan Otomobil Nasional (Proton), the company responsible for producing the country's national car, personnel from the private sector were brought in to restructure management organization capable of developing efficient, profit-making bodies. According to Toh (1989:247), rationalization through greater private sector participation is also being considered for the state-owned cement industry while feasibility studies conducted by the World Bank have recommended part privatization of the Sabah Gas Utilization Project.

Privatization in the developing countries is not smooth sailing and free of problems, and the same is true about Malaysia. Many observers (Cook and Kirkpatrick 1988, Ramanadham 1989) are of the opinion that implementation problems seem to be the core factor contributing to failure in the privatization policy in most

developing countries. Several issues relating to the implementation aspects – financial, economic, administrative/technical, political and social – are crucial as part of the policy process with regard to the policy.

In terms of *capital markets and financial institutions*, the Government of Malaysia committed itself to a massive program of privatization announced through the Finance Minister, Daim Zainuddin, that as far as possible the Malaysian government prefers the privatized bodies to be owned by Malaysians. However, only when there is inadequate capital locally, will the government then consider tapping foreign capital market (Pirie 1988). Adam, Cavendish and Mistry (1992:261) view Malaysia as unique amongst developing countries because it has a large and well-developed equity market, which is regarded as one of the more dynamic emerging stock markets in the world. Sheriff (1989:12) however feels that the Malaysian equity market may be relatively well-developed by regional standards, but suffers from shortage of liquidity, limited sectoral coverage and limited participation by institutions.²⁴

The privatization process, through public share issues, has only accounted for a relatively modest transfer of equity ownership to the private sector. On this, Adam, Cavendish and Mistry (1992:265) state, “In no case has there been a significant dilution of the public sector control through privatization... it seems as if public share issues have done nothing to transfer ownership and control to the private sector.” The authors observe that there has been a contraction in the number of individual shareholders through the realization of capital gains, and a concentration of equity in the hands of Bumiputera and

non-Bumiputera institutions. Milne (1986:22-23) says that even with the increase in Malay capital in the last decade, it is still quite insufficient to cope with the buying-out of big government entities. He also mentions that the Malaysian Chinese at present are unprepared to play a major role in this program. Hence, it is inevitable that foreign capital will play a big role.

Adam, Cavendish and Mistry (1992), however, are of the opinion that the favorable Malaysian economy, with its open trade and capital orientation has the potential to provide a structurally competitive environment within which the gains from privatization can be realized. Of this, the authors say (1992:265), "The private sector is relatively competitive, both domestically and internationally, the supply of skilled labor is good, and the macroeconomic regime is conducive to strong economic performance... there exist a high level of savings and a sophisticated financial sector capable of mobilizing these savings into risk capital."

Where *professional expertise and merchant bankers* are concerned, Radin and Zainal (1985:233) see this aspect as a crucial factor in the preparation for privatization. The expertise of professional people and merchant bankers with experience are needed in handling a massive privatization program. Adam, Cavendish and Mistry (1992:256) hold the view that it is because of this factor that the Malaysian government has commissioned a Privatization Masterplan, which was jointly undertaken by Consultant J. Schroder Wagg of London and Arab Malaysian Merchant Bank. The Consultant deduced that in Malaysia there exists capacity to manage its privatization program professionally (Adam,

Cavendish and Mistry 1992: 269). Cook however is puzzled by the fact that while the United Kingdom privatization program does not provide a blue-print model to be emulated by other countries, ironically the above Consultant had been propagating the United Kingdom model to Malaysia and other developing countries.²⁵

On *administrative constraints*, it is a known fact that Malaysia does not have an abundant supply of efficient managers. This was mentioned by the Prime Minister, Dr. Mahathir, when he said (Toh 1989:253): “Management is not one of Malaysia’s strong points... we do not have enough managers. Of the ones we have, a good number are unfortunately mediocre. Some we have seen are downright dishonest. If privatization is going to remedy the ills of nationalization, then we must have good managers.”

While the above statement may hold some truth when it was first made, whether the same statement applies to the present situation is debatable. Most probably, after almost 20 years of following the policy, the administrative and management aspects of privatization have already been resolved or at least improved from when the policy was first launched. Whether the present crop of managers in the public sector are considered able to revitalize the public entities is another interesting area to probe by other researchers.

On bureaucracy, the privatization policy may involve more public administration, supervision, and regulation (Toh 1989:252). Hence, there might be a risk that the civil servants may not have the capacity to effectively monitor the whole process. Toh made

an observation where the employees of the country's National Electricity Board (NEB) had organized demonstrations questioning the secrecy surrounding the terms and conditions of privatization of the NEB. This action could be related to the dissatisfaction of the employees on the less than transparent decision made by the government surrounding the process of privatization.

On *trade unions/employees*, the Malaysian government adopted special guidelines in ensuring that as a result of privatization the employees will not lose the benefits they held and be absorbed into divested firms under the terms "no less favorable" than those they enjoyed while working for the government (Nankani 1990:45). On this matter also, Toh (1989: 255) criticizes the policy process saying that if the policy was properly adhered to, there would not be any retrenchment of employees for a stipulated period after privatization, and they would not lose any benefits that they had a right to expect in the government service. At the same time, Toh (1989:255-256) says that "the Malaysian Trade Union Congress (MTUC) and the Congress of Unions of Employees in the Public and Civil Service (CUEPACS) remain wary - citing the possibility that employers can still retrench workers under 'certain circumstances' and the replacement of serving employees with lower paid casual worker is a source of concern." This anticipated problem has its basis when it is discussed in Chapter 6 (privatization of hospital support services).

On *legal constraints*, many of the earlier laws (relating to land, personnel and taxation) have provided unintended obstacles for they were drafted without privatization

in mind. However, some of the laws have undergone amendments: for instance legal obstacles on land matters have been removed through the amendments made to Articles 83, 85 and 86 of the Constitution in 1987. With regard to personnel, the amendments have been made to the Pensions Act, 1980 and the Statutory and Local Authorities Pensions Act, 1980. Sheriff (1989:13-14) states that the transfer of functions in the privatization process would involve legal constraints, amendments to remove which would be time consuming. For a fact, these matters are considered to be an ongoing process that have or are being looked into by the Privatization Task Force every time there is an entity to be privatized.

Where *political commitment* is concerned, Malaysia, according to Nankani (1990: 43), is very committed to the program. She states: "Perhaps the most striking aspect of Malaysia's experience is the high level of political commitment (emanating from the Prime Minister). In fact, political will, translated into a defined institutional structure to enhance privatization, has had an important influence." The same observation is made by Adam, Cavendish and Mistry (1992:269) stating that "the program seems relatively firmly entrenched in the policy matrix of the government, and, if implemented, the Privatization Masterplan may indeed involve a radical shift towards the private sector."

However, there is a problem of *clarity and clarification of concept* of the program in Malaysia. The Ministry of Public Enterprises (1989:230) in its report states that the progress of privatization has been slow as a result of the ad hoc implementation – problems cited are "lack of clear and precise information and understanding, within and

outside the policy circles, on the concepts, modalities, roles and implementation procedures.” The same observation is again made by Adam, Cavendish and Mistry (1992:256) in which the authors see that during the first seven years the privatization policy proceeded on an ad hoc basis as a result of which candidates emerged through the “first-come first-served” basis. On the part of the EPU, there is a lack of apparent guidance towards the understanding of the process. This can be attributed to less or negligible transparency of the process being made known or publicized to the public. This, too, has been the ire of the public lately, demanding more transparency and more participation of the public in the policymaking process.

Where *basic services and the lower income group* are concerned, again Jomo (1990:212) is vocal in stating the view that the changes made through privatization will not necessarily benefit the public on the whole. The reason he cites is that a large number of activities to be privatized are public monopolies. The privatization of public enterprises would burden the people who cannot afford the more expensive privatized services. According to Jomo (1990:212), “...privatization in Malaysia will primarily enrich the few with strong, political connections who will secure these profitable opportunities, while the people’s interests become increasingly vulnerable to the power and interests of private capitalists.”

A hardened critic of privatization, Jomo (1994), on the *Privatization Masterplan*, describes it as a dubious document. There are many aspects or proposals in it that have not been implemented or taken seriously after the release of the document. The following

are some of the examples given by Jomo (1994:74-75). First, the PMP proposed the establishment of a special fund to finance related expenses such as feasibility studies, preparing candidates for privatization, and disbursing compensation, but after three years nothing had yet come of this suggestion. And second, the PMP recommendations on employee share ownership have not benefited poorer employees very much, while loyalty and commitment to the company may have been undermined by subsequent sale of shares.

Further, Jomo (1994:25) questions the reliability of the PAP study on the government-owned entities (GOEs). According to him, the study states that some of the 246 privatizable GOEs are not suitable for privatization and yet the government is considering other GOEs not covered by the study for possible privatization. Jomo (1994) insists that such government-initiated privatizations are supposed to be subject to competitive bidding rather than awarding contracts to certain quarters and hence depriving the people of transparency of the process.

The documented evidence of privatization has been portrayed as less than honest by the advocates of privatization in Malaysia, says Jomo (1994:77). Only successful claims have been highlighted in the PMP and this directly implies that the Malaysian experience has been a successful one. Negative consequences have hardly been exposed for others to learn the weaknesses of the policy and to avoid recurrences. "While the policymakers or those in charge presumably know better, the Privatization Masterplan's failure to consider them publicly has ominous implications about how the policy has been

formulated, adopted and implemented. While the Privatization Masterplan undoubtedly represented an advance, at least on paper, over some of the most blatant uses of early Malaysian privatizations, especially the 'first come, first served' policy, it offers little ground for comfort about the future of privatization in Malaysia, especially in light of what has taken place," says Jomo (1994).

Subsequent privatizations since early 1991 have not proceeded according to the Privatization Masterplan's schedule, thus, rendering it quite irrelevant as a guide to the government's intentions for privatization. Consistent share underpricing and increasing government allocation of new privatized shares (not only to Bumiputeras) have encouraged the belief that privatization is primarily a means for rent capture under government auspices and patronage (Jomo 1994:77).

Jomo's criticism has its answer in Ismail and Lee's earlier work (1990). The authors specifically verify that the Masterplan is not meant to be a rigid document where some additions and deletions of projects from the proposed privatization program is only to be expected as situations may change in light of the desirability as well as the feasibility of a privatization candidate. For them, the Masterplan is meant to provide an indicative Action Plan for the government and to serve as a set of procedures for solving problems raised by the privatization process. In other words, the Masterplan presents a map for the privatization program, not a single path. Thus, in the long run the Masterplan should be treated as a living and practical document and should be adapted and updated as experience is gained.

On the critiques, at least Malaysia, in comparison to the other developing countries has much stronger economic fundamentals to undergo a more successful privatization policy. The build-up of the modern infrastructure and its cohesive institutions have made the policy more penetrable in Malaysia. The privatization projects from the mid-1980's to the mid-1990s have not encountered open criticisms until the economic downturn of 1997. Several reasons can account for this and among them are public protests in neighboring countries during the financial crisis, for example, in Indonesia and Thailand, and the political leadership crisis between the premier and his deputy, Anwar Ibrahim. These events have changed the docile political culture of Malaysians. In contrast to its neighbors, for example, Indonesia and Thailand, whose people are normally much more expressive and vocal which leads to protesting on the streets, Malaysians were known to be more submissive to the political authority and experienced a much "controlled" political culture.

3.8. THE POLITICAL CHANGE OF PRIVATIZATION IN THE LATE 1990s

The story of privatization in Malaysia would not be complete without mentioning the 'political twist' that had taken place immediately after the United Malays National Organization (UMNO) General Assembly, in June 1998.²⁶ While the Assembly could be considered the point of departure of public protests against the privatization policy, in reality, dissatisfaction had occurred earlier but the repressive environment of the political system of the country did not allow the situation to come to light.

3.8.1. Cronyism

During the respective UMNO General Assembly Zahid Zabidi, the UMNO Youth Leader, voiced dissatisfaction by accusing the regime leaders of practising cronyism, nepotism, and corruption. Whilst the statement was made in general, it was obvious the target was aimed at the leadership of the Prime Minister, Dr. Mahathir Mohamad. Among others, Zahid questioned the awarding of contracts to a small group of business elites who had prospered by the privatization program. These elites, who are also dubbed as the “super-Bumiputeras”, are alleged to be the cronies and proxies to the present regime. Furthermore, he stated that this situation has resulted in a deprivation of the interests of the Malays in general.

Suddenly, the term “cronyism and nepotism” became the buzzwords after the UMNO General Assembly. However, these terms are not new to Gomez and Jomo, who had discussed them in great length in their work *Political Economy of Malaysia: Politics and Patronage* (1997). Gomez and Jomo (1997:81) hit out on the privatization policy saying that:

“Given the highly politicised access to business opportunities for Malaysia’s corporate sector since the 1980s with UMNO’s enhanced political hegemony, the privatization policy was bound to have an impact on politics. Some claimed that since the private sector - and not public enterprises - was now the main vehicle for economic development, political influence on the economy through public enterprises, especially for patronage, would be checked. This argument, however, is flawed. Substantial corporate stock had been captured through political patronage and was controlled by an elite few connected with the UMNO leadership by the late 1980s; this often also ensured privileged and continued access to patronage, especially with privatization, thereby reinforcing their positions in the party and in business. Politicians who had exploited their political influence to help businessmen expand their corporate interests and those who had cultivated close ties with members of the business community found that they had an

advantage over other aspiring politicians, especially during elections. As Craig (1988:257) has noted, given its rather unique 'political/bureaucratic/business complex', privatization in Malaysia is unlikely to be more than a rearrangement of economic and political power."

Mahathir is not at loss of words when he counters the views of the two authors.

On "cronyism" in the awarding of privatization contracts, Mahathir (1998:28-29) defends the action by stating the following:

"The strategy has so far worked very well. The companies which have been sold off to the Bumiputeras have not only given better returns, but also been more innovatively managed, and have expanded accordingly. In the process, a number of leading Bumiputera businessmen have emerged and are running conglomerates which are comparable to the large non-Bumiputera corporations. Thus another aspect of the elimination of the identification of race with economic function has been achieved.

However, this approach is quite risky. The Bumiputera candidates must be well selected. Their track records must be carefully examined and evaluated. Their experience and the time they have been in business must be such as to reflect true ability and seriousness of purpose. They must not be the kind of people who would sell their shares for quick gains. They must not be 'Ali Babas'!

This is not the kind of opportunity to be given on the basis of favoritism, or to enrich a 'crony' as has often been suggested. The stakes are too high, in terms of both the Government's objectives and its credibility. A majority of the Bumiputeras who come forward with proposals, for the purchase of shares or companies belonging to the unit trusts or to the Government, do not get their proposals approved. Their unhappiness and criticism of the Government are understandable. At the risk of being accused of favoritism, the Government will continue to be highly selective. More Bumiputeras will get their chance, but certainly not all or even the majority."

Muzahet (1997) has also pointed out Mahathir's ideas in his work. According to Muzahet (1997), Mahathir is clear in his statement that only a selected number of Bumiputeras will be picked and only these few, will be involved in the awarding of contracts as a result of the NEP. These people are the selected few who are seen to be capable and efficient entrepreneurs. On Ali-Babaism, Muzahet (1997) feels that the Chinese ethics in business is entrenched in their community and thus, their capability in

convincing their 'sleeping partner' (the Malays) of this beneficial relationship to both of them. Nevertheless, it is only natural in the Ali-Babaism pact that the Malays are to gain in monetary terms in providing the networking with the bureaucracy and politicians, plus the awarding of the partnership. As said in the above paragraph, Mahathir has tried to eliminate the Ali-Baba pact, and it is on this ground, too, that a selected few Bumiputera businessmen are awarded contracts. It is hoped that under the flagships of these Bumiputera, the trickle-down effect will take place and the Bumiputera masses will benefit from it.

Not refuting the claim that the Bumiputeras are the ones benefiting from privatization, Gomez and Jomo (1997:99-100) reaffirm that the most influential and wealthy businessmen by the early 1990s were those closely associated with the top political leaders. And this, according to them, suggests that the creation and disbursement of these rents are vital in ensuring continual political hegemony as "rent-financed patron-client" relations continue to be emphasized in Malaysian politics. The non-Bumiputeras have benefited from privatization, but the "Chinese business access to state rents still depends largely on their capacity to establish mutually beneficial links with powerful UMNO leaders who appear to be in control of Malaysia's privatization process and are able to determine the prime beneficiaries of privatization," say the authors (Gomez and Jomo 1997: 99).

3.8.2. Bailouts of privatized entities

The financial crisis of July 1997 witnessed the Malaysian government's bailing-out private companies, which had been awarded the privatization projects. On the bailing out of companies, Jomo (1998:187) considers the post-cabinet meeting announcement on 3 September 1997 of a special RM60 billion fund for selected Malaysians as a cornerstone to more future bailing out of companies to save 'cronies' from disaster. In the act of 'saving' the private companies, Jomo (1998) believes that public entities like Employees Provident Fund (EPF) and other government-controlled institutions have been instructed to buy certain stocks in an effort to prop them up. Jomo (1998:187) further claims that a *Singapore Business Times* (8 September 1997) report brought out in the open the issue of vested interests in the bailouts. It claimed that of Malaysia's billionaires, Mahathir's oldest son was the most adversely affected in percentage terms by the stock market collapse, having lost more than 69 percent of the value of his stock (Jomo 1998:87).

*The International Herald Tribune's*²⁷ (May 19 2000) report echoed Jomo. The aftermath of the financial crisis saw a number of the privatized entities "... turning back to the government, hands outstretched and balance sheets dripping red." *The IHT* also recognizes the fact that for the past ten years, "control over big infrastructure projects and national assets has been shifted from the government to a small group of potentially connected businessmen." This group of businessmen was awarded contracts building highways, mass-transit systems, and sewage systems. Ironically, the *IHT* observed that

even as the economy surges out of recession, the respective companies still remain mired in debt. The report further questions the situation these companies are in. Not only that, the fact that these companies do not bounce back while other sectors are booming casts doubts as to whether privatization is the right way of building infrastructure, especially where this could have damaging implications for future government finances.

Jayasankaran (*Far Eastern Economic Review*, January 2001) says that the government of Malaysia pledged to do things differently in the aftermath of the economic crisis, and yet it continues to award lucrative projects to companies with strong political links but with little related experiences. Looking back, he observes that the privatization policy has got off on the wrong foot because of this issue and without competitive bidding. The Asian crisis witnessed several troubled high-profile privatization projects being renationalized at a cost of billions of ringgit to taxpayers. Furthermore, says Jayasankaran, rescuing the projects for moral and social reasons will add to the soaring potential costs of privatization. This action will not do much good for the government's balance sheet. Commenting on the latest bailouts, Jayasankaran says that the cost of saving Malaysia Airlines and the two light-rail transit systems is almost 8 percent of the federal government's 2001 budget. Jayasankaran believes that Malaysians and foreigners are increasingly critical of the privatization policy and contract awards of the government of Malaysia.

Viewing the bailouts by the Government, the Executive Director of the Malaysian Institute of Economic Research (MIER) Mohammed Ariff states that the government

may have to renationalize projects where private debt will become public debt (*IHT*, May 18 2000). This statement can be interpreted as the failure of the private companies, which were awarded privatization contracts, to fulfil their part of the bargain, and turning to the government for assistance. Commenting on this scenario, the *IHT* reports that these private companies were too politically connected to be turned down in their appeals for financial help.

The Cabinet's endorsement of the RM60 billion to save selected few businessmen by utilizing the Employees Provident Fund, Petronas, and Khazanah was criticized by Jomo (1998:189). Jomo (1998) claims that the government has not practiced some transparency and accountability in the deployment of the facility. The action of the government in considering and condoning the bailouts has shaken public confidence in the government.

Furthermore, the government's threat to use the notorious Internal Security Act (ISA) and other repressive measures against financial analysts and other commentators reporting about the Malaysian economy strengthened the impression of the government's secret motive and fear of exposure. In particular, sections 22(1), 32 (1), and 35 (1) of the ISA 'bestowed' the power to the Home Affairs Minister to curtail the individual freedom of any citizen. The ISA is considered to be one of the most draconian pieces of legislation in Malaysia and its victims are detained without trial under an unspecified period, according to Wan Manan (1999). Besides the ISA, says Wan Manan, other laws that limit the exercise of human rights are: Official Secrets Act (OSA), the Police Act, the Printing

Presses and Publications Act, the Societies Act, the Sedition Act, the Essential Regulations Act (ESCAR), the Trade Unions Act, and the Universities and University College Act (UUCA).

On the bailouts, the UEM-Renong group is considered the most damaging bailout project. It was so heavily indebted in which the government had to inject RM2.3 billion in order to save the company (*IHT*, May 18 2000; Jomo1998:188). The government had to help extend debt repayment periods or begin buying back assets. The bailouts are also seen as a way to 'help' the deeply indebted individuals who are said to be strongly connected to the political regime. For example, the Chairman of Renong, Halim Saad was said to be reputedly heavily deep in debt. Another businessman was Tajuddin Ramli, who announced a plan to reschedule a RM2.75 billion debt involving the biggest mobile phone company and that company's parent company, Malaysia Airlines.²⁸ In this case, repayment periods were extended up to five years under a deal brokered with help from the government (*IHT*, May 18, 2000).

As observed by Jomo (2001:15) the bailing-out of UEM-Renong at RM2.34 billion gravely undermined public confidence in the Malaysian investment environment as stock market rules were flaunted at the expense of minority shareholders. However, this example, too, is subject to other interpretations by different stakeholders. Some quarters may feel that through the bailouts, the government was trying to ensure that the economic crisis would not have resulted in retrenchment and consequently, an increase in unemployment. Shareholders, however felt that this was an act against their interest and

therefore are critical about it. This criticism does not fall far from what had been exposed by Gunasegaram in *The New Straits Times* (February 4, 2001) in which he coined the term 'reverse privatization' for these bailouts. The action of the regime in reacquiring the private companies is motivated by the latter's inability, unwillingness or incapability to continue running the privatized projects. He criticizes this action and said that this can only be done if there is a strong element of penalty for failure and these private companies should not be allowed to walk unhurt from the wreckage of the enterprises that they took over or set up.²⁹ Jayasankaran (2001) is quick to remind that privatization awards and alleged rescues of cronies were a popular issue highlighted by the opposition in the 1999 general elections.

The *Asian Wall Street Journal* (February 21, 2000) also gave a detailed report on the bailing out of Indah Water Konsortium (IWK), the operator of Malaysia's ailing sewerage system. Quoting the financial executives and government officials, the AWSJ reported that the take-over would solve the company's RM700 million (USD184.2 million) debt. When the project was first privatized in 1993, IWK inherited outdated treatment plants and was confronted by a public reluctant to pay service fees. The take over is looked upon as a compensation by the government and "not as if it was re-nationalizing the sewerage project," according to the *AWSJ* news report. The report envisaged the takeover of IWK would mark the first about-face in the government's beleaguered privatization program and this action could be followed by others. Other privatization projects that are quoted by the *AWSJ* for future bailouts are Intrakota (a bus company) and light-rail transit, both being transportation projects in the capital city.

The big question from the bailouts is whether the respective private companies involved are willing to restructure their management after obtaining assistance from the government. Some might question the credibility and motive of the bailouts, and moreover, it is still doubtful and unclear whether the reshuffling of assets will help make them profitable and able to pay back their newly restructured loans.

3.8.3. Political patronage

On political patronage that sees the dependence of political powers to gain from the privatization process, Jomo (1998:58) says, "In the increasingly authoritarian and centralized Malaysian polity, with public accountability and governmental transparency considerably diminished deliberately by those in power, the strengthening of private business interests, especially of those who are politically well connected, is very likely to transform, and even increase, rather than eliminate the opportunities for rent appropriation." Jomo goes on to stress that enhanced public accountability, governmental transparency and other democratic safeguards are crucial for reducing rents - which can be productively deployed - and, more importantly, rent seeking behavior in the context of privatization.

Jomo (1998) further elaborates his view by stating that the Malaysian privatization's experience suggests that the government-revenue-generating, government-deficit-reducing, private-sector-control-increasing and capital-market-deepening official objectives of Malaysian privatization have largely been subordinated to the ostensibly

Malay-wealth-enhancing objective through rent redeployment, particularly to the politically well-connected. Consequently, this situation reflects a consistent bias for the purposes of political patronage and personal aggrandizement at the expense of the other objectives of privatization, ostensibly in the national interest.

Based on the assessments of privatized projects and the correlation between politicians and the beneficiaries of privatization, Gomez and Jomo (1997:100) firmly reiterate their belief that there is evidence of further concentration of wealth, which in turn exacerbates economic inequality. There is a similarity between the privatization policy and the NEP in at least one sense: the efforts to centralize corporate ownership in the hands of new Bumiputera rentiers who enjoy close ties with influential politicians.

Gomez and Jomo's (1997) position seems to be in line with the Finance Minister, Daim Zainuddin. Ironically, Daim is the same individual that Gomez and Jomo (1998) had quoted as the one introducing the cronyism culture in Malaysia. Nevertheless, Daim was adamant when he told off the Bumiputera business entrepreneurs: "To do business, forget political connections" (*Asia Pulse*, April 5, 2000).³⁰ The Finance Minister stresses that Malaysia must get rid of the present business culture which is too dependent on political influence. He goes on to say that businessmen should not look upon their participation in political parties as "a stepping stone to acquiring wealth but instead strive to be successful through the right way of "tears and sacrifices." He says: "They should stop asking things like "Who can we contact? Which minister can help us? Or which assemblyman can give us the contact? (*The Star*, May 7 2000:5)."

Speaking at a seminar on *Malay Economy in the year 2000*, Daim warned against “political patronage dependence” syndrome, which would ruin the Malay business community. Daim said it would be pointless to make use of political connections to lobby for contracts only to “sell” them to a third party for quick gains. “Bumiputera businessmen should not be agents and act as a camouflage for non-Malay businessmen. They should use their abilities and ensure the viability of their company by asking what they can achieve,” he said (*The Star*, May 7, 2000).³¹ Daim criticizes contractors who bicker among themselves, but instead to get on with the job of completing projects. He added that one of the reasons why some Members of Parliament lost in the recent general election, which was held in November 1999, was because the people were not happy with the progress of the projects being carried out.

3.8.4. A Review?

Thillainathan (*Ekonomika* 2001:12) has the following comments about the Malaysian privatization policy, “A strong case can be made for a review of the government’s approach to privatization. Over-reliance on privatization and leveraged buy-outs to achieve a distributional goal has undermined efficiency and increased macroeconomic vulnerabilities. There is therefore a need for a rethinking of the extent to which the government should rely on privatization and leveraged buy-outs to achieve its distributional goal.” He insisted that where a project demands public support or subsidy because of price control it is best to subject the award of project to a competitive bidding process so as to ensure that these are arms length exercise and are market driven.

Ramon Navaratnam, a former Secretary-General of Ministry of Finance, and now an Economic Advisor to a private company, strongly feels that privatization practices in the country need to be fine-tuned to enhance transparency and better competition so that past failures would not be repeated (*Asia Pulse*, April 5, 2000).³² In his words, privatization efforts should be fine-tuned so that they can continue to be effective, efficient, and acceptable to the public, and subsequently, this entails fair pricing and good quality of services. On the other hand, he says, what is happening is that in many privatization exercises, the pricing is high but the quality is low, and thus, people question the rationale of the program.

Navaratnam does not deny the importance of privatization stating that the policy remains very important and necessary to facilitate economic growth. Nevertheless, in the process of implementation, monopoly should not be allowed. "Where possible, there should be two or three privatized entities in the same field," he reaffirms (*Asia Pulse*, April 5, 2000). Commenting more on the implementation aspect, he pointed out that in the past, certain privatization exercises ended up not workable as sufficient conditions were not given out to certain contracts and that ineffective privatization programs will cause hardship to the people. Like other critics of the methodology of privatization, Navaratnam stresses the need to have more transparency or "open tendering" procedures for the contracts to be awarded to individuals/companies. This, he said, would be less prone to perceptions of undue influence. In order to do this, the government has to devise a strategy or a formula whereby it is fair for the owners or privatized licensees, concessionaires, and consumers. On the awarding of contracts, Navaratnam suggested

that joint-ethnic enterprises between Bumiputera and non-Bumiputera should be encouraged. This action would promote business cooperation in the spirit of smart partnership, which would consequently promote national unity. "This would also help to minimize the perceptions of narrow political preferences," he said. He added that another consideration to be looked into by the government is a privatization management board that should also be established to regulate and supervise standards, quality and pricing of all privatized enterprises (*Asia Pulse*, April 5, 2000).

3.9. CONCLUSION

The New Economic Policy of Malaysia is considered to be the landmark of its economic as well as its political heritage. When approaching the subject of political economy in Malaysia, it is essential that the NEP should not be left out in the discussions. This is because all aspects of activities in the various sectors in the economy of the country have the NEP elements tagged on them.

As detailed in the chapter, the racial riot of 1969 or otherwise known as May 13 tragedy had borne this affirmative policy with its two pronged strategies – eradication of poverty and restructuring of society. Launched in 1971, the NEP had set itself twenty years target to achieve the two mentioned objectives. In enhancing the Malay economic status, the NEP had successfully eradicated poverty among the Malays. Even though the NEP ended in 1990 and subsequently, its replacement, the New Development Policy

(NDP) was adopted in 1991, but the strategies and elements of the NEP were passed on and structured into the NDP.

In the process of the implementation of the NEP, the Bumiputeras, perceived to be the victimized group as a result of the segregation of economic activities during the colonial period, stood to gain from the affirmative policy. Hence special economic privileges were accorded to them to ensure that their economic status could be enhanced relative to the Chinese, especially. However, the benefits supposedly to be gained from the NEP and the NDP strategies for the Bumiputeras most of the time was instead abused by them.

Privatization policy, which was first adopted by the government of Malaysia in 1983, was one of the devised strategies or means to prop up the economic status of the Bumiputera Malays with the objective of increasing their corporate wealth. The Bumiputeras lagged behind the Chinese in the economic field, and as in any other political system, this could endanger the political status of the Malays. To ensure that this unwarranted event did not take place, the privatization policy acts as a catalyst to boost the economic status of the Bumiputeras.

As discussed in length by the scholars/writers in this chapter, the implementation process of this policy lacks transparency and accountability and thus this has inspired criticisms. In the mid-1980s when the privatization policy was newly launched, it was not heavily scrutinized by the people. The economic crisis of 1997 and the following

leadership crisis in 1998 provided the departure point for the public to begin questioning the government's action and motives on the awarding of contracts to the few selected Bumiputeras who were close to the political power. Cronyism and nepotism are said to be the negative side-effects of this policy whereby a few selected businessmen – Malays and a few Chinese - were alleged to have benefited from the policy. However, the economic downturn had seen the government bailing-out the ailing companies owned by the regime's cronies. This action of the government was debated and gave rise to intense criticisms of the privatization policy. The bailing out of private companies involved in government's mega projects was alleged as an act to save the "friends" of the regime. The issue of bailouts is still hotly debated. Whether the government will take over other projects that were earlier awarded to the selected few Bumiputera entrepreneurs (and Chinese) is yet to be known.

In conclusion, to say that the Malay Bumiputeras were the overall gainers of the privatization policy in Malaysia is not accurate. As shown by the statistics and analysis made on equity ownership (Table 3-8) earlier on in this chapter, the ratio of Bumiputera to non-Bumiputera local equity ownership of selected privatized entities shows a decline. This situation can be interpreted as "unaligned" to the NEP objectives, which was specifically established to enhance the economic status and subsequently, further established the political powers of the Malays.

NOTES

¹ Data from the Statistics Department (1999).

² The term “Bumiputera” is a Malay word which means “son of the soil” or indigenous race of the country. The Malays are considered to be the indigenous group of Peninsular Malaysia because they had lived there long before the Chinese and Indians came to settle in the country. The indigenous groups of East Malaysia (Sabah and Sarawak), for example, Kadazans, Ibans, Bidayuh and Melanau are also considered to be “Bumiputera”.

³ Other indigenous groups in East Malaysia, besides the Malays.

⁴ The Government of Malaysia, *Mid-Term Review of the Seventh Malaysia Plan, 1996-2000*.

⁵ World Bank Report, *World Development Report*, 1991.

⁶ According to Jesudason (1989), during the May 1969 general elections, Malay and Chinese support for the UMNO and MCA parties weakened and there was riot immediately following the elections. For the next two years, Malaysia was governed by emergency rule and it was during this time the UMNO’s leadership became nationalistic.

⁷ The NEP has been replaced in 1991 by the National Development Policy (NDP), which retains its predecessor’s doctrine but carries no deadline and no explicit emphasis on target quotas for ownership of corporate sector by any particular race. The defunct NEP set a target of 30 percent Malay corporate ownership by 1990.

⁸ The 2.4 percent is quoted from the book *The Way Forward* by Dr. Mahathir Mohamad, whereas Table 3-1 states 4 percent, a figure derived from the Second Malaysia Plan.

⁹ The term “Ali Baba” is a local expression insinuating on business partnership between the Malays and other races, especially the Chinese, whereby the Malays become an inactive or ‘sleeping’ partner. In other words, it is an act of using the Malay ‘partner’ to secure government contracts.

¹⁰ *AFP*, June 17, 2000, “A non-Malay can be Malaysian premier in future, says Mahathir.”

¹¹ *Bernama*, June 17 2000, “A non-Malay can become PM in future: Mahathir.”

¹² *Ibid.*

¹³ Among these bodies were PERNAS (the state trading company) and MARA (a body which helps small Malay agriculturalists and businessmen), and the State Economic Development Corporations.

¹⁴ Examples of FPEs given by Toh are Bank Bumiputra Malaysia, the Development Bank, the Agricultural Bank and the People's Bank. NFPEs are made up of utilities set up to accelerate the rate of socio-economic development and those set up to participate directly in commerce and industry like Petronas (National Oil Corporation), Malaysian Airline System (MAS) and the Heavy Industries Corporation of Malaysia (HICOM).

¹⁵ Rogayah (1995) quotes examples of social objectives as in income redistribution, employment creation, price stability, infrastructure provision, industrial development and economic growth.

¹⁶ According to the *Economic Report 1988-89*, the total accumulated losses of the public enterprises came to about RM2.3 billion by end of 1987.

¹⁷ According to Leeds (1989), one category of reforms aimed at structural problems, concentrating on the unsatisfactory performance of the public enterprises and rigidities in wage and pricing policies. The second set initiated a fundamental assessment of the public sector's role with the aim of reducing public spending.

¹⁸ The objectives are, "First, (privatization) is aimed at relieving the financial and administrative burden of the Government in undertaking and maintaining a vast and constantly expanding network of services and investments in infrastructure. Second, privatization is expected to promote competition, improve efficiency, and increase the productivity of services. Third, privatization by stimulating private entrepreneurship and investment, is expected to accelerate the rate of growth of the economy. Fourth, privatization is expected to assist in reducing the size and presence of the public sector with its monopolistic tendencies and bureaucratic support, in the economy. Fifth, privatization is also expected to contribute towards meeting the objectives of the New Economic Policy (NEP), especially as Bumiputera entrepreneurship and presence has improved greatly since the early days of the NEP and they are therefore capable of taking up their share of the privatized services."

¹⁹ The Privatization Masterplan during this time (1990) had already been drawn up and was waiting for Cabinet approval; it was approved in 1991.

²⁰ *The New Straits Times*, "New Development Policy Special Report," June 18, 1991, p.4.

²¹ Ibid.

²² Ibid.

²³ *The New Straits Times*, "A Fully Developed Country by the year 2020," March 2, 1991, p.10.

²⁴ Sheriff (1989) states that the average annual flow of funds into the equity market in recent years has been around RM1 billion.

²⁵ This statement was made by Paul Cook, the Director of the Center for Regulation and Competition, University of Manchester, U.K., in his talk on “Privatization and Deregulation: the U.K. experience” in a workshop on Public Management and Poverty Reduction in a Market Economy attended by participants of the developing countries at the Institute of Development Studies, University of Sussex, U.K., on May 11, 2001.

²⁶ UMNO is the main Malay political party, which formed the coalition with the other political parties to form the present regime under the banner of Barisan Nasional or the National Front.

²⁷ *International Herald Tribune*, May 18, 2000, “In Malaysia, the sting of privatization”. The newspaper report does not contest the infrastructural success that Malaysia has through its rigorous privatization: highways crisscross the country; a mass-transit in Kuala Lumpur, the capital city; modern sports stadiums; and a world-class airport. The awarding of mega-projects to the few businessmen was questionable in the process of privatization.

²⁸ Malaysian Airlines (MAS) was bailed-out by the regime in early 2001 and this action by the regime had become an issue.

²⁹ Gunasegaram, P., *The New Straits Times* (February 4, 2001) “Questionmark: Ensure reverse privatized entities don’t become bottomless pits.”

³⁰ *The Star*, May 7, 2000, “Daim: Businessmen must stop depending on politicians.”

³¹ During the seminar, Daim said it was difficult to ensure that government projects did not go to businessmen who opposed the government. He said the various state Malay Chambers of Commerce had a say in the awarding of contracts and the ministry would refer to UMNO to identify the “opposition” contractors.

³² *Asia Pulse*, April 5, 2000, “Malaysia urged to fine tune privatization practices.” Ramon Navaratnam was speaking in a seminar on Challenges for Sustained Recovery and Growth: The Malaysian Economy in the Dawn of the new millennium, organized by the Faculty of Economics and Administration, University of Malaya.

CHAPTER FOUR

CASE STUDY ONE: PRIVATIZATION OF PORT KELANG

4. BACKGROUND

The importance of ports in contributing to Malaysia's trade and economic growth can be traced to the historical Malacca Sultanate in the 15th century. Malacca is located between India and China. Because of its strategic location it became a legendary trading emporium attracting traders from China, India and the Middle East. Historically, the glory of the Malacca Sultanate was attributed partly to its efficient port management.

While Malacca port has now diminished in importance, its legacy still remains. Post-colonial Malaysia, looking back at history, considered ports as pivotal contributors to economic growth. Present day Malaysia has altogether 10 ports in Peninsular and East Malaysia. Among them, Port Kelang is the biggest and the most important to the Malaysian economy. Its strategic location and modern technology has made it well known to the outside world. The privatization of Port Kelang ushered in the era of privatization in Malaysia. It would not be wrong therefore to begin the study of privatization in Malaysia from this watershed experience.

4.1. POLICY PROCESS (PRE-PRIVATIZATION)

4.1.1. Agenda-setting

As said earlier on in Chapter Two, the privatization of ports is in line with the free market orientation adopted by the present regime lead by Dr. Mahathir Mohamad. This has also been stated in the five objectives of the *Guidelines of Privatization* (1985) and *Privatization Masterplan* (1991) (see page 97). In the case of ports in Malaysia, the following reasons are often cited in support of the privatization of ports:

a. to enhance the port status or rank

Having examined international trading patterns as well as world shipping, the government of Malaysia decided that ports and their future prospects would have to undergo tremendous changes in order to compete with other established and modern ports around the world (Rajasingam 1993). The intensity of competition among these ports is due to the change in trade as well as the changing trends in shipping. Consequently, port facilities would have to be upgraded in order to provide the best services.

Furthermore, Malaysia's main competitor, its neighbor Singapore, is well noted for being one of the most efficient and best run ports in the world. This is one of the main reasons that motivated Malaysia to invest heavily to upgrade its ports. The country did not want to be left out in the competitive shipping world. This, too, is one of the contributory factors leading to the privatization of ports in Malaysia. To date, Malaysia's vigorous efforts have not been in vain because Port Kelang is the 14th busiest port in the

world in 1999, an impressive improvement from its previous 26th position in 1996 (*Business Times*, January 17, 2001).

In addition to the above, the government of Malaysia has also been concerned with the need for improving the trade environment. In an effort to encourage more exports and to ensure a competitive edge in the world market, only possible via a cost-effective transport sector, the government is anxious that the maritime sector especially its ports become more commercially oriented (Rajasingam 1993).

b. to upgrade facilities of port

It was realized that Malaysia needed state-of-the-art technological facilities in order to compete and be on par with the ports of other countries. The facilities of Malaysian ports were found to be outdated. In order to reach this objective, heavy capital investments were needed in the strenuous endeavor of upgrading the ports.

Direct shipping services ensure that the country is served by regular shipping networks whereby goods can be exported not only at competitive prices but with greater speed. Developments in container load center ports and feeder ports have changed the shipping network system significantly. It is therefore vital, given the volume of Malaysia's trade that major ports be able to attract direct container services. Thus Malaysian ports have to be sensitive to the external environment and respond quickly to changing conditions, not only to safeguard port business, but also ensure that national

objectives are achieved. This means that Malaysian ports must be commercially oriented, efficient and capable of responding to external as well as internal competition (Rajasingam 1993).

Subsequently, major changes in the shipping industry resulting in the need for speedy turnaround time at ports and the synchronization between mother and feeder vessels have added pressure for the improvement of services. In order to achieve this, ports needed to undergo improvements in speed and communication, to better the coordination of shipping transportation and port facilities. Due to this factor, the following changes were required:

- i. to incur high capital investment to accommodate the changing technology in the shipping industry;
- ii. to attract shipping lines to ports and adopt a more commercial approach; and
- iii. to create a conducive environment for shipping as well as trade.

c. to introduce organizational reforms

A progressive and new management culture had to be invoked and inculcated among management and personnel of entities. Bureaucracy and red-tape are seen as hindrances to the progress and growth of ports. Delays resulting from mundane and outdated procedures, had led to the backwardness of Malaysian ports. Reforms that are profit- and private-sector oriented were considered to be the only way for the ports to move forward.

d. to promote growth

Undeniably, the external pressure exerted by the changing economic and global business environment was one of the principal reasons behind the privatization of Port Kelang (Rajasingam 1993). The turnaround of Malaysia's economic orientation from agriculture after independence to heavy industrialization and manufacturing in the early 1980s contributed to the rapid development of Malaysian ports. The country's heavier involvement in exports and imports resulted in the need for ports to be given priority, thus ensuring that import-export activities were not jeopardized.

The economic recession that set in during the mid-1980s was a turning point and provided a "jump start" to the privatization of infrastructure. The negative outlook of the economy then prompted the government to launch an austerity drive with the intention of curbing and controlling government expenditure on most development projects. The scenario thus demanded a response by the private sector to replace the role formerly borne by the public sector. Malaysia Incorporated, a milestone in public-private sector cooperation, finally came into being in 1983 and this policy speeded up the process of the private sector as the engine of growth.

4.2. IMPLEMENTATION OF THE PRIVATIZATION OF PORT KELANG

As in other future privatization programs, the Economic Planning Unit was the main actor in the privatization of ports. Agenda-setting and planning at the initial stage were done at the Economic Planning Unit. Officials of the Ministry of Transport, the

other main entity involved, were also role players in the process. The Kelang Port Authority, the government body previously running the port, was directly involved in the initial stages. Besides the aforementioned agencies, other agencies, which also participated in the planning were the Attorney-General's Office, the Public Service Department, the Ministry of Finance, and the Ministry of Land and Regional Development. The Economic Planning Unit was however given the full responsibility of handling the overall process of the privatization of Port Kelang.

4.2.1. Role of Kelang Port Authority

Before privatization, the Kelang Port Authority was fully responsible for the management of Port Kelang. Kelang Port Authority was in charge of the container terminals, personnel, regulations, procedures, and relationships with other organizations, for example, the Customs and Excise Department, Harbor Masters, Marine Department, Immigration Port Health and other related agencies.

Upon privatization, Kelang Port Authority transferred all the above responsibilities to the private firm and secured a different role for itself. It now acts as a regulator of the private companies and also the management of the ports, without having to invest for the management of it. It is deemed necessary for the Kelang Port Authority to act as a regulator for the reason that the land is leased to the private companies and not sold to them. The sales involved only ports assets like cranes.

The need for continued regulation of Port Kelang by Kelang Port Authority is vital for the purpose of trade facilitation and in creating a conducive commercial environment to encourage greater utilization of the port. Towards this effort, the Kelang Port Authority is responsible for the following (Rajasingam 1993):

- i. planning and developing the port and ensuring supply driven facilities in the present growing environment to meet the demands for additional capacity as a result of the double-digit growth in tonnage through the port in tandem with the buoyant national economy;
- ii. as the regulator, emphasizing to a large extent safety, maintenance of channels and safe navigation within the port limit and vessel traffic movement;
- iii. responsible for property management to encourage the development of port related industries;
- iv. to ensure that port tariff and port cost are regulated carefully to remain competitive;
- v. it will emphasize on projecting Port Kelang as a whole and to cooperate with the private and public sectors in fulfilling its role as a major gateway;
and
- vi. adopt a leadership role as trade facilitator and as a reformer of institutional and procedural practices.

The relationship between Kelang Port Authority and the private port operators can be described as follows:

- i. Regulator
- ii. Licensor and licensee
- iii. Lessor and lessee

For the purpose of regulating the above responsibilities, the following laws have been adopted by Kelang Port Authority and the three terminal operators:

- i. The Port Authorities Act 1963 (Act 488)
- ii. The Port Privatization Act 1990 (Act 422)
- iii. The concession agreements entered between the Government of Malaysia, the Authority, and the particular port operator.
- iv. The National Land Code
- v. Other relevant laws

4.3. OUTCOME OF THE PROGRAM

Before looking into the outcome of the program, it is only appropriate that one gets a clear view of the definitions of public and private shareholders of the privatization of Port Kelang. In this scenario, the term “public” is explained into three categories:

- a. Direct government organizations, for example, Ministry of Finance, which has the golden share in all the privatized port terminal entities, and the Selangor State Government.

- b. Organizations that are formed by the government by the Act of Parliament, or by government agencies and ministry. These entities are fully-owned and controlled by the government, for example, Port Kelang Authority, which has an equity interest in Kelang Containter Terminal, Pilgrim Board (LUTH), and Selangor State Development Corporation.
- c. Private companies that are initiated and controlled by the government including the subsidiaries of these companies, for example, Kontena Nasional, Konnas Terminal Kelang, and Malaysian International Shipping Corporation.

The primary distinction is these entities are either directly or indirectly controlled by the government. "Private" company is incorporated under the Companies Act and Registrar of Companies without any government bodies or government controlled entities as equity shareholders. It is worthwhile to note that in the early stage of its privatization, a foreign owned company, P & O Australia, had a 10 percent share in Konnas Terminal Kelang, but it sold its share to Kontena Nasional in 1995.

4.3.1. Kelang Container Terminal

Kelang Container Terminal was involved in the privatization exercise on 17 March 1986 and it created history for being the country's pioneer privatization project. The methods adopted in this exercise were sale and lease. The lease period is for 21 years and the amount paid to the government was RM111 million (see Table 4-1). Kelang Container Terminal is a container terminal cargo operator located in the North Port. A

total of 801 employees of Kelang Port Authority were absorbed into Kelang Container Terminal.

Table 4-1: Payments received by the Government from the privatization of Port Kelang

Year	Company	Method	Lease Period	Amount Received
1986	Kelang Container Terminal	Sale – Lease of assets	21 years	RM111 million
1992	Kelang Port Management	Sale – Lease of assets	21 years	RM361 million
1994	Kelang Multi Terminal	Sale – Lease of assets	33 years	RM110 million
TOTAL:				RM582 million

Source: Data provided by Finance Division, Kelang Port Authority, 1999.

During the process of privatization, four interested parties bid for the tenders, and Kelang Container Terminal was found to be the most appropriate candidate. Besides the RM111 million sale of business and moveable assets, the government also received RM16.9 million as annual lease rent to be increased by 10 percent every three years. Other conditions stipulated in the agreement were that Kelang Port Authority could have 49 percent equity and that they should go public after two years. In the process, the Kelang Port Authority will grant Kelang Container Terminal an exclusive license to operate, manage, and control the said business for the concession period with a specified fixed annual fee.

4.3.2. Kelang Port Management

Kelang Port Management took over the operations and services at North Port and South Port, which were formerly provided by the Kelang Port Authority in December 1992 (Little and Nik Saghir 1995). The equity holders in Kelang Port Management are Kontena Nasional (52.5 percent), Malaysian International Shipping Corporation (25 percent), Selangor State (12.5 percent) and Pilgrim's Fund Board (10 percent) (*Business Times* June 1998 and see Table 4-2). The condition stipulated in the Agreement was that Kelang Port Management will have a 21 year concession to operate 22 berths at North Port and South Port. For this, too, Kelang Port Management paid a lump sum of RM361 million to the government (see Table 4-1). Besides that, the government also receives revenue in the form of taxes from Kelang Port Management.

Upon privatization, Kelang Port Management undertook the following activities: container terminal operations, dry bulk cargo handling, liquid bulk cargo handling, break bulk cargo handling, fire fighting and prevention services, security services, tug operations, marine services and ship pilotage. During the exercise, too, almost 7,000 employees from Kelang Port Authority opted for the privatized entity (Little and Nik Saghir 1995). There is ambiguity here as the figure given by Kelang Port Authority is 4026 as shown in Table 4-13.

Table 4-2: Concessionaires of the privatized Port Kelang

Companies	Year Privatized	Shareholders	Location	Area	Main Services
Kelang Container Terminal (KCT)	1986	51% Konnas Terminal Kelang (PB) 49% Kelang Port Authority (PB)	North Port	215 acres	Container and terminal handling
Kelang Port Management (KPM)	1992	52.5% Kontena Nasional (PB) 25.0% MISC (PB) 12.5% Selangor State (SEDC) (PB) 10.0% Pilgrim Board (PB)	North and South Port	102 HA	a. Container b. Dry bulk c. Liquid bulk d. General cargo e. Passengers
Kelang Multi Terminal (KMT)	1994	40% Syarikat Pembinaan Redzai (PB) 30% Advance Synergy (P) 10% Selangor State (SEDC) (PB) 10% Pilgrim Board (PB) 10% Semalin Ajaib (P)	West Port	1255 acres	a. Container terminal operation b. Dry bulk c. Liquid bulk d. Conventional cargo e. Break bulk cargo f. Fire fighting & prevention services g. Security services h. Tug operation, marine services

Key: (PB) - Public
(P) - Private

Source: Compiled from data provided by Administration Division, Kelang Port Authority, 1999

4.3.3. Kelang Multi Terminal

West Port was privatized to Kelang Multi Terminal in 1994. The shareholders of this entity are Syarikat Pembinaan Redzai (40 percent), Advance Synergy (30 percent), Selangor Economic Development Corporation (10 percent), Pilgrim's Fund Board (10 percent) and Semalin Ajaib (10 percent). The method adopted in this exercise was similar to that of Kelang Container Terminal and Kelang Port Management. However, the lease period accorded to this private entity is 33 years in comparison to only 21 years given to the other private container terminal operators.

From the above, one can construe that one of the reasons why the government decided to license more than one container terminal was to introduce an element of competition in its privatized ports. As a result of this, the three private terminal operators have to devise strategies and make adjustments in dealing with the market. The combined efforts and strategies of the three operators has transformed Port Kelang into a transshipment port of considerable standing besides being the key gateway port of Malaysia, servicing more than 55 percent of the total containerized trade of the country (*Business Times* June 1998:12).

The total installed capacity of the three terminal operators stands at 3.5 million TEUs (twenty-equivalent units) per year and Kelang Container Terminal itself has an installed capacity of 1.25 million TEUs. Table 4-3 shows the total volume of TEUs and the percentages of the ports in Malaysia in 1997. As shown in 1997, the TEUs handled by Port Kelang was 1,684,508 TEUs. Table 4-4 gives a breakdown of cargo type that was

handled in Port Kelang from 1990 to 1997. Of the four types of cargo – liquid bulk, dry bulk, break bulk and containerized – the latter accounted for the most cargo formed the most cargo type handled (31,429,203 TEUs) for the year 1998. The least cargo type handled was liquid bulk.

Table 4-3: Containerized Trade in 1997

Port	Total volume (TEUs)	Percentage (%)
Port Kelang	1,684,508	55.92
Penang	506,863	16.83
Johor	429,448	14.26
Kuantan	54,855	1.82
Ports of Sabah	154,693	5.13
Ports of Sarawak	181,817	6.04

Source: Adapted from *Business Times*, June 1998 p. 12.

4.4. ASSESSMENT OF THE PROGRAM

In an analysis of any privatized entity, the financial factor during pre- and post-privatization periods can provide a good overview of the financial standing of the entities. This financial analysis will reflect whether the privatized entities are making profits or otherwise.

Table 4-4: Types of cargo handled in Port Kelang from 1990 to 1998 (TEUs)

Cargo type	1990	1991	1992	1993	1994	1995	1996	1997	1998
Liquid bulk	3,783,177	3,977,323	4,187,151	4,541,548	4,405,610	4,352,822	5,085,231	5,577,508	5,489,699
Dry bulk	3,944,012	4,182,714	4,505,149	5,528,413	5,422,920	6,383,759	8,380,987	9,568,399	6,201,632
Breakbulk	5,241,484	5,961,667	5,791,074	6,099,251	6,051,706	7,557,946	8,542,367	8,702,761	4,221,315
Containerized	9,136,751	12,175,235	13,919,437	14,599,064	17,977,689	21,739,580	27,016,396	31,917,981	31,429,203
Total	22,105,424	26,296,939	28,402,811	30,768,276	33,857,925	40,034,107	49,024,981	55,766,649	47,341,349

Source: Adapted from *Business Times*, June 1998 p. 12.

Besides looking into the financial aspect of the organization, the output and productivity factors also reflect the efficiency of the organization. In the context of Port Kelang, it is felt that the five objectives as stipulated in the *Privatization Masterplan* (1991) can be used as guidance to test the efficiency of the entity. This then, could be linked to finance, output, and productivity factors of the entity. With this in mind, the above factors are analyzed and in doing so, the financial aspects (capital, operating, revenue, profit, and loss), personnel, TEUs and ships handled are examined. Time series tables were tabulated showing the performance of the entities throughout the period of study as reflected in the percentage column.

4.4.1. Financial

Below is an assessment of the financial status of Kelang Container Terminal, Kelang Port Management, Kelang Multi Terminal, and Kelang Port Authority. The figures are derived from various sources. These include information from the three private terminal operators, Annual Reports and Annual Budget Reports, among others. In this section, *capital expenditure* is defined as expenditure for improving the quality of port services and for the purchase of additional equipment and upgrading requirements, plus building infrastructure. *Operating expenditure* includes salaries, utilities, and payments made for the operations of the entity.

a. Capital expenditure, operating expenditure, revenue, and profit

Based on Table 4-5 column H, Kelang Container Terminal has been making pre-tax profits since it began operations in 1986. However in 1993, there is a decrease of 8.1 percent from the preceding year. Subsequently, there was a further decrease of 13.7 percent in 1997, followed by a conspicuous decrease of 52.2 percent in 1998. Profits plunged again by 10.9 percent in 1999. It has to be reemphasized that Kelang Container Terminal has never been in the "red" since undergoing privatization. The consecutive decrease in pre-tax profit in 1997, 1998 and 1999 is attributed mainly to the Asian economic crisis which began in 1997.

In terms of its operating cost (see Table 4-5 column D), there is a marked increase in the case of Kelang Container Terminal during the first six years of operations (1986 to 1991). This could well be that the entity was at the initial stage of operations and needed to make big infrastructural investments in order to set up its organization. As shown in the same table, after the sixth year, operating cost had stabilized.

Where capital expenditure is concerned (see Table 4-5 column B), there is no set trend in capital development spending. For example, in 1990, the capital expenditure of Kelang Container Terminal is RM5,656 million, but the following year, it reached RM41,432 million or an increase of 164.6 percent. Likewise, Kelang Container Terminal's capital expenditure in 1995 was RM50,153 million but the following year this was reduced to RM27,162 million or a decrease of 45.8 percent.

Table 4-5: Kelang Container Terminal: Capital expenditure, operating cost, revenue, and profit from 1986 to 1999

Year	Capital Expenditure (RM million)	Percentage change of capital expenditure from preceding year	Operating Expenditure (RM million)	Percentage change of operating expenditure from preceding year	Revenue (RM million)	Percentage change of revenue from preceding year	**** Profit Before Tax (RM Million)	Percentage change of profit before tax from preceding year
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1986 **	18,957	-	37.868	-	53.062	-	15,195	-
1987	3,379	-82.2	49.599	31.0	75.185	41.7	25,586	68.4
1988	11,573	242.5	54.718	10.3	91.089	21.2	36,371	42.2
1989	19,703	70.2	69.135	26.3	107.756	18.3	38,621	6.2
1990	15,656	-20.5	88.070	27.4	127.221	18.1	38,151	1.4
1991	41,432	164.6	110.099	25.0	151,370	19.0	41,271	5.4
1992	69,716	68.3	112.361	2.1	160,839	6.3	48,478	17.5
1993	30,575	-56.1	127.079	13.1	171,640	6.7	44,561	-8.1
1994	45,906	50.1	133.783	5.3	181,551	5.8	47,768	7.2
1995	50,153	9.3	116.442	-13.0	189,272	4.3	72,830	52.3
1996	27,162	-45.8	118.596	1.8	191,897	1.4	73,301	0.6
1997	53,314	96.3	125.816	6.1	189,071	-1.5	63,255	-13.7
1998	41,518	-22.1	112.465	-10.6	142,700	-24.5	30,235	-52.2
1999	61,037 ***	47.0	91.488 *	-18.7	118,441 *	-17	26,953 *	-10.9
Total	490,081	-	1,347,519	-	1,951,094	-	603,575	-

* up to September

** 1986 is for nine and a half months

***1999 is based on annual budget figure

****Column F minus column D

Source: Computed from data provided by Finance Division, Kelang Container Terminal (1999)

In terms of revenue (see Table 4-5 column F), the trend has been positive from 1986 to 1996. In its first year of operations, the revenue of Kelang Container Terminal was RM53,062 and in 1987, this increased to RM75,185 or 41.7 percent from the preceding year. When the Asian economic crisis struck in 1997, Kelang Container Terminal experienced a fall in revenue from RM191,897 million in 1996 to RM189,071 (a decrease of 1.5 percent) in 1997. Subsequently, there were further decreases of 24.5 percent in 1998 and 17 percent in 1999 respectively.

Like Kelang Container Terminal, Kelang Port Management has not been in the “red” since its operation in 1992 where pre-tax profit is concerned (see Table 4-6 column H and I). In its second year of operations, in 1993, the entity made a profit of RM42,464,048, or an incredible increase of 2,249 percent from the preceding year. However, Kelang Port Management had not been spared during the Asian economic crisis in 1997. It experienced a decrease in pre-tax profits of 11.6 percent in 1997 and a much larger decrease of 46 percent in 1998.

With regard to the fall in revenue of Kelang Container Terminal, the General Manager of Kelang Port Authority, Mr. V. Balakrishnan, stated that there is a transfer of container business to Kelang Multi Terminal and that transfer is responsible for the reduction of Kelang Container Terminal’s revenue. The crossover of shipping lines to another entity also reveals that there is active competition among the private terminal operators in Port Klang, added Mr.V. Balakrishnan.

Also, like Kelang Container Terminal, Kelang Port Management's operating cost increased during the initial stages of operations (see Table 4-6 column D and E). Kelang Port Management spent RM123,680,027 in its second year, which is equivalent to 1,084.6 percent increase from the previous year. Following that, there was a gradual increase throughout the years until 1998 when operations costs decreased 12.9 percent.

Again, in its second year of operation, the capital expenditure of Kelang Port Management (see Table 4-6 column B and C) increased to RM92,035,957 from RM989,952 in 1992. This is a rise of 9,197 percent, but the following year there was a drastic swing accounting to a 71.8 percent reduction in capital expenditure. Little and Nik Saghir (1995) in their report state that a total of RM79 million was spent on improving the service quality of the port with the purchase of additional equipment and upgrading requirements for the Marine Services and Cargo Services Division. Basically, there is no specific trend in the capital expenditure adopted by this entity. This expenditure was verified by the General Manager of Kelang Port Authority, Mr. V. Balakrishnan. According to him, profits of Kelang Port Management are not steady because the terminal operator makes heavy capital equipment purchases and this type of expenditure is considered to be periodic. Mr. V. Balakrishnan said that inflation alone is not responsible for the increase of expenditure.¹

Table 4-6: Kelang Port Management: Capital expenditure, operating cost, revenue and profit from 1992 to 1999

Year (A)	Capital Expenditure (RM) (B)	Percentage change of capital expenditure from preceding year (%) (C)	Operating Cost (RM) (D)	Percentage change of operating expenditure from preceding year (%) (E)	Revenue (RM) (F)	Percentage change of revenue from preceding year (%) (G)	* Profit before tax (RM) (H)	Percentage change of profit from preceding year (%) (I)
1992	989,952	-	10,440,906	-	12,248,584	-	1,807,678	-
1993	92,035,957	9,197	123,680,027	1,084.6	166,144,075	1,256	42,464,048	2,249.1
1994	25,964,505	-71.8	148,783,801	20.3	207,842,503	25.1	59,058,702	39.1
1995	63,613,114	145	159,712,932	7.3	263,818,140	26.9	104,105,208	76.3
1996	43,014,000	-32.4	181,946,980	13.9	291,243,515	10.4	109,296,535	5.0
1997	124,517,418	189.5	197,763,865	8.7	294,428,091	1.1	96,664,226	-11.6
1998	55,613,795	-55.3	172,263,715	-12.9	224,542,760	-23.7	52,279,045	-46
1999	NA	-	NA	-	NA	-	NA	-
Total	405,748,742	-	994,592,226	-	1,460,267,668	-	465,675,442	-

* Column F minus column D
Operating expenditure excludes financial costs and amortisation.

Source: Computed from data provided by Finance Division, Kelang Port Management (1999).

Where revenue is concerned (see Table 4-6, column F and G), Kelang Port Management seems to do better than Kelang Container Terminal. This can be deduced from the revenue figures of the two entities (see Table 4-5 column F for Kelang Container Terminal and Table 4-6 column F for Kelang Port Management). The aftermath of the Asian economic crisis again saw a fall in revenue of Kelang Port Management from RM294,428,091 in 1997 to RM224,542,760 in 1997, which accounted to a decrease of 23.7 percent (see Table 4-6).

Unlike the other two privatized entities discussed earlier, Kelang Multi Terminal did not succeed in making pre-tax profits in the first year of its operation (see Table 4-7 column H and I). Also, unlike Kelang Container Terminal and Kelang Port Management, Kelang Multi Terminal did not enjoy the benefits of having an established infrastructure when it began operations. Instead its new location required the private entity to inject large capital investments to improve its infrastructure. This had resulted in a deficit of RM908,748 in 1994 (column H). However, in the following year (1995) Kelang Multi Terminal managed to pull itself together and succeeded in making a profit of RM3,627,755, which is an increase of 299 percent from the previous year. The year 1996 also witnessed Kelang Multi Terminal making another spectacular increase of 688 percent profits or RM28,580,733. The same performance was repeated in 1997 when it again made 233 percent more profit than the previous year. Only in 1998, because of the economic crisis, was there a decrease of 16.7 percent in profits. However, in 1999, Kelang Multi Terminal made a recovery and managed to make 47.8 percent profit from the preceding year.

In terms of operating expenditure (see Table 4-7 column D and E), there was a general trend of increase in expenditure every year reaching the peak of RM20,562,797 or 491.7 percent in 1995 from RM3,475,431 in 1994. Kelang Multi Terminal also invested in infrastructure and this can be seen from the capital expenditure (see Table 4-7 column B and C) of RM1,524,714 in 1994 and this increased to RM190,613,293 or 12,402 percent the following year. The biggest decrease in capital spending was in 1999, which saw contraction of 6.3 percent.

Where revenue is concerned (see Table 4-7 column F and G), the highest increase in revenue occurred in 1995, that is an increase of 842.5 percent from RM2,566,683 to RM24,190,552. The economic crisis witnessed a fall in revenue from RM151,548,910 in 1997 to RM143,535,679 in 1998, or a decrease of 5.3 percent. That is the only year that Kelang Multi Terminal suffered a drop in its revenues; the following year the figures recorded a 40 percent increase.

After going through the financial implications in terms of capital expenditure, operating expenditure, revenue, and profit of Kelang Container Terminal, Kelang Port Management, and Kelang Multi Terminal, we can see that there is no huge loss made by the three privatized entities and that they have never been in the “red” on a constant basis. The Asian economic crisis of 1997 did have a negative financial impact on the three entities in terms of a decrease in percentage of profit during the crisis years. For example, in the case of Kelang Multi Terminal, there is a 5.3 percent decrease in profits in 1998 (see Table 4-7 column G) but it quickly recovered, recording an increase of 40 percent profits in 1999.

Table 4-7: Kelang Multi Terminal: Capital expenditure, operating cost, revenue, and profit from 1994 to 1999

Year	Capital Expenditure (RM)	Percentage change of capital expenditure from preceding year (%)	Operating Expenditure (RM)	Percentage change of operating cost from preceding year (%)	Revenue (RM)	Percentage change of revenue from preceding year (%)	Profit Before Tax (RM)	Percentage change of profit from preceding year (%)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1994	1,524,714	-	3,475,431	-	2,566,683	-	(908,748)	-
1995	190,613,293	12,402	20,562,797	491.7	24,190,552	842.5	3,627,755	299
1996	462,064,121	142	40,783,454	98.3	69,364,187	186.7	28,580,733	688
1997	119,509,538	-0.7	56,302,292	38.1	151,548,910	118.5	95,246,618	233
1998	(121,470,715)	1.6	64,162,650	14	143,535,679	-5.3	79,373,029	-16.7
1999	113,800,582	-6.3	83,663,322	30.4	200,961,487	40	117,298,165	47.8
Total	766,041,533	-	268,949,946	-	592,167,498	-	323,217,552	-

Capital Expenditure: Net of addition & Disposal/Transfer

Operating Expenditure: Total Operating Cost excluding Depreciation & Finance costs

Revenue: Represents invoiced value of the services render in respect of port operation and rental/other income.

Profit: Represents Operating Profit/(Loss) before Depreciation & Finance costs.

The year 1999: Represents the actual data up to October & forecasting data for November & December.

Source: Computed from data provided by Finance Division, Kelang Multi Terminal (1999)

b. Profit and loss

Most critics of the existing literature on Port Kelang (Winnie and Jomo 1995, Adam and Cavendish 1992, Jones and Fadil 1993) view Port Kelang as a “gold mine” that would not encounter political or organizational problems in its privatization experience. As shown and proven in Table 4-8 column F, from 1980 until 1985, that was prior to the awarding of privatization contract to Kelang Container Terminal in 1986, Kelang Port Authority had all the while been making profits and had never suffered any losses in its operation. However, this situation could be viewed from a different perspective. Maybe what the critics fail to analyze is the fact that the percentage change of profits from preceding years have actually deteriorated (see Table 4-8 column G). For example, there is a decrease of 5.8 percent of profit in 1981 from the previous year. There is a further decrease of 16.2 percent profits in 1982. In 1983, there appears to be an increase in profit by 23 percent from the preceding year. However, the two subsequent years again saw a decrease in profit 0.03 percent (1984) and a further reduction of 21.7 percent (1985).

A comparison of net profits made by Kelang Port Authority (see Table 4-8, column F and G) to Kelang Container Terminal (see Table 4-9 column F and G) provides a better overview of the actual situation of both entities.² As shown in Table 4-9, Kelang Container Terminal had been making net profits throughout the years and in terms of value figures (see column F), it makes more profit than Kelang Port Authority (see Table 4-8 column F) during its operation at the same container terminal vicinity.

Table 4-8: Profit and loss of Kelang Port Authority before privatization from 1980 to 1985

Year	Turnover (RM million)	% change from preceding year	Expenditure (RM million)	% change from preceding year	Net Profit (RM million)	% change from preceding year
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1980	175,241	-	148,063	-	27,148	-
1981	179,728	2.6	154,155	4.1	25,573	-5.8
1982	183,635	2.2	162,198	5.2	21,437	-16.2
1983	204,093	11.1	177,732	9.6	26,361	23
1984	211,948	3.8	185,596	4.4	26,352	-0.03
1985	203,953	-3.8	183,316	-1.2	20,637	-21.7
Total	1,158,598	-	1,011,090	-	147,508	-

Source: Computed from data provided by Finance Division, Kelang Port Authority, 1999.

Table 4-9: Profit and loss of Kelang Container Terminal from 1986 to 1999

Year	Turnover (RM million)	Percentage change of turnover from preceding year (%)	Expenditure (RM million)	Percentage change of expenditure from preceding year (%)	Pre-Tax Profit (RM million)	Percentage change of net profit from preceding year (%)
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1986 ***	58,062	-	37,868	-	15,194	-
1987	75,185	41.7	49,599	31.0	25,586	68.4
1988	91,089	21.2	54,718	10.3	36,371	42.2
1989	107,756	18.3	69,135	26.3	38,621	6.2
1990	127,221	18.1	89,070	28.8	38,151	-1.2
1991	151,370	19.0	110,099	23.6	41,271	8.2
1992	160,839	6.3	112,361	2.1	48,478	17.5
1993	171,640	6.7	127,079	13.1	44,561	-8.1
1994	181,551	5.8	133,783	5.3	47,768	7.2
1995	189,272	4.3	116,442	-13.0	72,830	52.5
1996	191,897	1.4	118,596	1.8	73,301	0.6
1997	189,071	-1.5	125,816	6.1	63,255	-13.7
1998	142,700	-24.6	112,465	-10.6	30,235	-52.2
1999 *	118,441	-17	91,488	-18.7	26,953	-10.9
Total	1,951,094	-	1,348,519	-	602,575	-

* up to September

*** Covering period from March 17 1986 to December 31 1986

Source: Computed from data provided by Finance Division, Klang Container Terminal (1999)

On the other hand, a comparison of net profits made by Kelang Port Authority (see Table 4-8, column F) and Kelang Port Management (see Table 4-10 column F) does not reflect the same situation of Kelang Container Terminal. Kelang Port Management suffered losses in the first two years of its operations. As observed by Little and Nik Saghir (1995), in 1993, Kelang Port Management incurred losses of RM6 million. However, in 1994, Kelang Port Management achieved a net profit of almost RM5 million. According to them, in the case of this entity, profitability was achieved through efficiency gains and without having to increase tariffs which remained unchanged over the last 30 years.

Let us now go to a more detailed analysis of the net profit and loss of Kelang Port Management and Kelang Multi Terminal. As shown in Table 4-10, Kelang Port Management incurred losses in its first two years of operation and its net profit was only achieved in 1994 amounting to RM4,841,739 (see column F). The following year saw a spectacular increase of 900.9 percent or RM48,460, 127 in net profits (see column F and G). Again, the Asian economic crisis had a negative financial impact on the entity, whereby net profits decreased by 17.1 percent from RM52,454,974 in 1996 to RM43,473,533 in 1997 (see column F and G). In 1998, Kelang Port Management suffered another 77.5 percent contraction in profits and only managed to achieve a net profit of RM9,794,196 (see column F and G).

Table 4-10: Profit and loss of Kelang Port Management from 1992 to 1999

Year	Turnover	<i>Change of turnover from preceding year (%)</i>	Expenditure	<i>Change of expenditure from preceding year (%)</i>	Net Profit	<i>Change of net profit from preceding year (%)</i>
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1992	12,248,584	-	13,411,235	-	(1,162,651)	-
1993	166,669,407	1.236	169,859,214	1.167	(6,189,807)	-432
1994	205,677,745	25.7	200,836,006	18.2	4,841,739	178
1995	258,966,640	25.9	210,506,513	4.8	48,460,127	900.9
1996	285,166,729	10.1	232,711,755	10.5	52,454,974	8.2
1997	290,852,322	2	247,378,789	6.3	43,473,533	-17.1
1998	220,167,738	-24.3	210,373,542	-15	9,794,196	-77.5
1999	NA	-	NA	-	NA	-
Total	1,436,749,165	-	1,285,077,054	-	151,672,111	-

Expenditure includes taxation, finance costs and amortisation.

Source: Computed from data provided by Finance Division, Kelang Container Terminal (1999)

Kelang Multi Terminal, too, had incurred losses in its first year of operations in 1994 (see Table 4-11). The expenditure for that year is RM13,570,765 (see column D), but the turnover is only RM2,566,683 (see column B). This is a deficit of RM11,004,082 (see column F). The entity was making net profits of RM610,037 in 1995, RM4,845,571 in 1996 (a further increase of 694 percent over the previous year), and RM12,985,622 in 1997 (an increase of 168 percent over the previous year) (see column F and G). However,

the entity suffered a loss in 1998 whereby it experienced a deficit of RM46,236,928 or a decrease of 256 percent from the preceding year. In 1999, Kelang Multi Terminal managed to make a net profit of RM7,445,212, which is an increase of 116 percent from the preceding year.

Table 4-11: Profit and loss of Kelang Multi Terminal From 1994 to 1999

Year (A)	Turnover (B)	<i>Change of turnover from preceding year (%)</i> (C)	Expenditure (D)	<i>Change of expenditure from preceding year (%)</i> (E)	Net Profit (F)	<i>Change of net profit from preceding year (%)</i> (G)
1994	2,566,683	-	13,570,765	-	(11,004,082)	-
1995	24,190,552	842.5	23,580,515	73.8	610,037	105.5
1996	69,364,187	186.7	64,518,616	173.6	4,845,571	694
1997	151,548,910	118	138,563,288	114.8	12,985,622	168
1998	143,535,679	-5.3	189,772,607	37	(46,236,928)	-256
1999	200,961,487	40	193,516,275	2	7,445,212	116
Total	592,167,498	-	623,522,066	-	(31,354,568)	

Source: Computed from data provided by Finance Division, Kelang Multi Terminal (1999)

Based on all the financial aspects discussed above, it is obvious that the three concessionaires – Kelang Container Terminal, Kelang Port Management, and Kelang Multi Terminal – are profitable privatized entities. The same question often asked by critics (Winnie and Jomo 1995, Naidu 1995) is whether without undergoing privatization, would the Kelang Port Authority be capable of achieving the same level of success as the

three privatized entities. This is based on the fact that Kelang Port Authority had been making profits prior to its privatization. For example, Naidu (1995) questions the viability of an “outsider” in securing only a small stake in ownership in Kelang Container Terminal and its individuals holding high posts like the Chief Executive Officer in Kelang Container Terminal. For him, foreign equity and foreign debt funding are additional, but both of these sources have not been significant in the privatization of infrastructure in Malaysia. It is just as well that the government hires them as consultants rather than having them as equity holders. These individuals could be beefing up or restructuring the organization to ensure its efficiency. On the question raised by Winnie and Jomo (1995), whereby they strongly feel that since Kelang Port Authority had never suffered from any losses while operating the container terminal earlier on, organizational reforms and restructuring could be the answer to enhance the performance of the entity not privatization. While both Naidu (1995) and Winnie and Jomo (1995) have made interesting observations, it must be acknowledged that a “private sector” environment has been created in the privatized organizations, reducing government red-tape. No doubt, organizational reforms and corporatization without the intention of privatization could enhance the effectiveness of a non-performance organization. However, transforming would be a major task for the management. On whether Kelang Port Authority could be as successful without undergoing privatization, this will be discussed further in the concluding section of this chapter.

4.4.2. Personnel

The formula, which was formulated and adopted in the transfer of personnel during the first phase of privatization of Kelang Port Authority, has also been adopted elsewhere in other privatization programs in Malaysia. This transfer formula – the result of collaborative efforts by various government agencies, specifically the Public Service Department, the Attorney-General Department, the Ministry of Transport, and the Ministry of Finance was well received by the workers involved. The agencies had taken the extra precaution in detailing the transfer formula for the reason that the privatization of Kelang Container Terminal was the first in the country and a blunder or mistake on their part would have serious implications for the program.

The following criteria were adopted in the formulation of the transfer of government employees to the privatized entities. On all accounts, it was agreed that the workers involved were to receive a much better scheme of service than before (in the government service). The new scheme of service for the newly privatized entity has the following criteria: job security (no retrenchment) for five years and a clause ensuring a service no less favorable than that previously enjoyed while with the government (Kuppusamy 1995).

The Malaysian privatization program as stipulated in the *Privatization Masterplan* (1991) incorporates the National Development Policy in its implementation process. The involvement of Bumiputera, the allotted quotas to be given to the Bumiputera, and Bumiputera participation in the privatized entity has been adhered to closely in every

program. Thus, the same goes with the privatization of Port Kelang. Bumiputera participation in the privatized entities of Port Kelang is revealed via a study of the trend of Bumiputera personnel prior to and after privatization (1986 until 1999). The main reason for studying the tabulated figures below is to have an understanding of the position of the Bumiputera vis a vis the non-Bumiputera in the privatized entities.

As noted earlier, it was stipulated in the Seventh Malaysia Plan that the position of Bumiputeras was specifically mentioned, designed and to be enhanced in the privatization process. This same observation is made by Naidu (1995) who sees an entrenched element of the New Economic Policy in the privatization of infrastructure in Malaysia. So much so, according to him, there are conflicts among the objectives contained in the *Guidelines on Privatization* (1985) and, consequently, the trade-offs appear to have compromised the efficiency objective in favor of the New Economic Policy goal. "The prioritization of the New Economic Policy objectives has been a major factor undermining the achievement of the other aims of the privatization policy, including relegating the pursuit of efficiency to something less than an overriding objective of the privatization policy in the infrastructure sector," concludes Naidu (1995:215).

Before going into the details of the number of personnel involved in the privatization process and their position at the present, attention should be focused on Table 4 –12 and a study of the number of employees in Kelang Port Authority from 1984 to 1999. As shown in the respective table, there were 6,455 employees in 1984, 6,227

employees in 1985, 5,267 employees in 1986, 5,142 employees in 1987, 5,016 employees in 1988, 4,860 employees in 1989 and 4,722 in 1990, and 4521 employees in 1991. After 1991, there is a sharp decrease of personnel from 4521 to 74, which is equivalent to 98.4 percent decrease. Throughout the period from 1984 to 1996, there was an obvious decrease in employees in this government entity. This decrease could be linked to transfers due to the privatization exercise where employees from the Kelang Port Authority opted to join the two privatized entities - Kelang Container Terminal and Kelang Multi Terminal. As said earlier, the option papers were distributed to the employees and they were given a choice and a deadline to submit them. The workers union of the Kelang Port Authority played a crucial role in providing information on the policy, and had played its role well judging by the influx of the Kelang Port Authority employees into the privatized entities. In fact, Jones and Fadil (1992) attribute the success of the privatization of Port Kelang to the strong workers union which publicized the benefits of opting for the private terminal operators.

Table 4-12: Personnel/staff of Kelang Port Authority (KPA)

Group/Category	1984	1985	1986	1987	1988	1989	1990	1991
Management	136	135	123	123	117	122	124	122
Technical	156	150	125	121	117	111	106	109
Administration	1,546	1,501	1,242	1,221	1,213	1,208	1,218	1,216
Labor	4,617	4,441	3,777	3,677	3,569	3,419	3,274	3,074
Total	6,455	6,227	5,267	5,142	5,016	4,860	4,722	4,521

Group/Category	1992	1993	1994	1995	1996	1997	1998	1999
Managerial	26	27	31	33	29	40	36	39
Technical	7	7	10	10	10	15	15	16
Administration	24	30	32	33	33	30	32	27
Labor	17	25	21	20	17	20	22	18
Total	74	89	94	96	89	105	105	100

Source: Computed from data provided by Service Division, Kelang Port Authority (1999).

As shown in Table 4-13, there is a decrease of 960 employees when the container terminal was privatized to Kelang Container Terminal in 1986. The figure represents a decrease of 18 per cent. It was also quoted that only 788³ employees were transferred to Kelang Container Terminal and the remainder of the decrease could be attributed to retirement or resignations (see Table 4-13). Nevertheless, the trend that can be seen from the Table 4-12 is that there is a gradual decrease in number of personnel until 1991 when about 4026 'migrated' to Kelang Port Management during the second phase of privatization of Port Kelang in 1992 (see Table 4-13). As a result of privatization, in 1999, Kelang Port Authority has only 100 employees which comprised 39 personnel in managerial, 16 in technical, 27 in administration and 18 in the labor group (see Table 4-12 and Figure 3).

Table 4-13: Kelang Port Authority Personnel Transferred to the Private Sector Due to Privatization of Port Kelang

Group/Category	Kelang Container Terminal (1986)	Kelang Port Management (1992)
Management	10	na
Technical	20	na
Administration	254	na
Labor	504	na
Total	788	4026

Source: Compiled from data provided by Service Division, Kelang Port Authority (1999).

Based on the statement of objectives of the privatization policy as listed in the *Guidelines on Privatization* (1985) and *Privatization Masterplan* (1992) documents, Bumiputera personnel participation at all categories will be analyzed in Table 4-19(A).

The trend of personnel movement in terms of races, specifically Bumiputera and non-Bumiputera, of Kelang Container Terminal is shown in Table 4-14 and Table 4-15. When it was first privatized in 1986, there were 806 employees and by 1999 there were 768 employees. This is 4.9 percent decrease in personnel from 1986 until 1999.

Figure 3 : Personnel of Klang Port Authority (KPA) according to job category and year

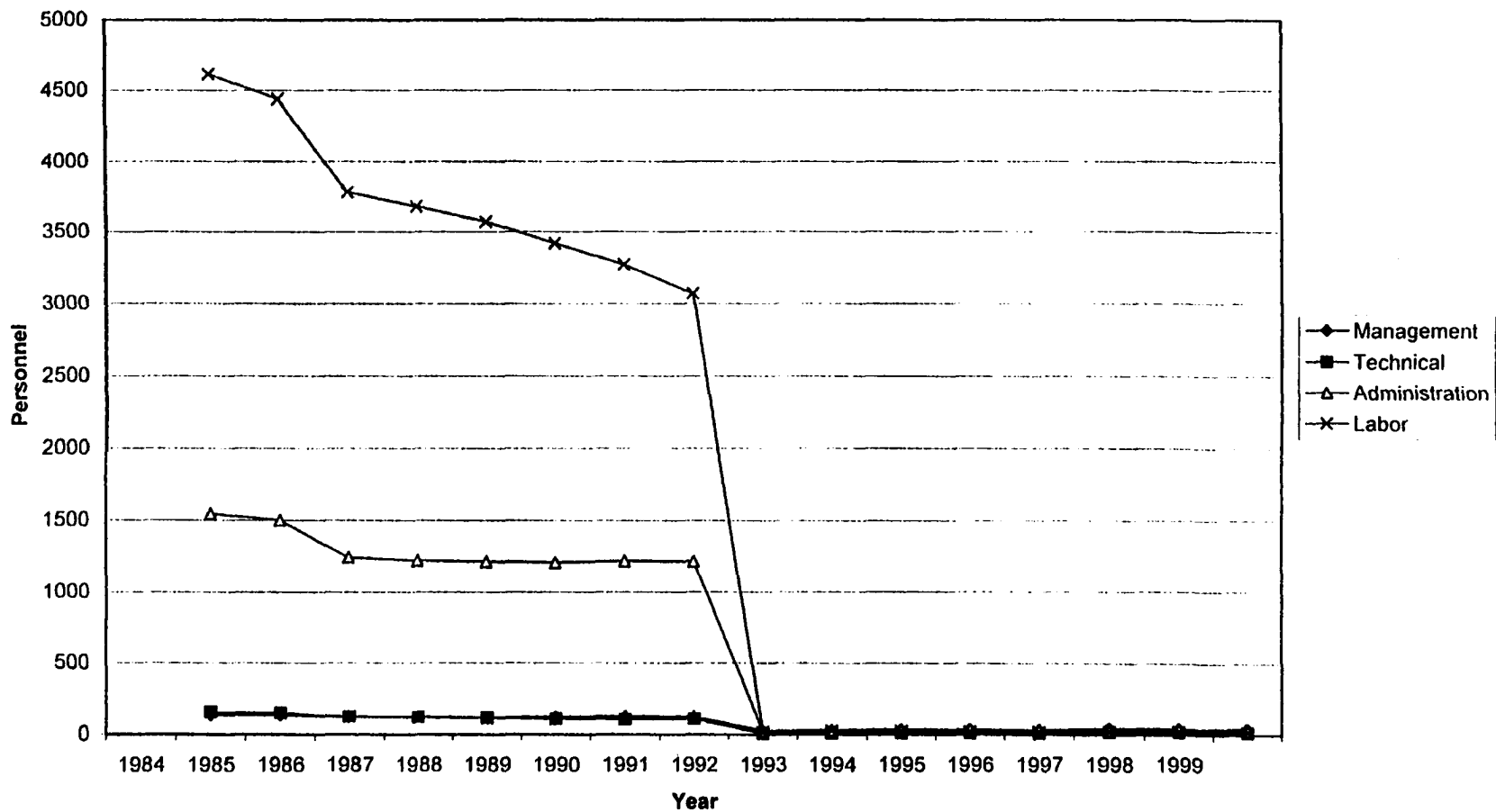


Table 4-14: Personnel/staff of Kelang Container Terminal (privatized in 1986)

Category/ Group	1986	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Management											
Bumiputera	24	30	32	38	40	39	42	40	39	39	35
Non-Bumiputera	22	30	26	26	27	32	30	34	38	37	42
Technical											
Bumiputera	100	124	122	112	111	107	100	98	101	94	90
Non-Bumiputera	26	34	32	34	35	32	32	30	28	27	26
Administrative											
Bumiputera	196	201	199	195	192	200	198	193	197	190	191
Non-Bumiputera	54	57	55	52	52	49	45	46	44	37	37
Labor											
Bumiputera	250	229	227	227	237	265	266	287	294	271	264
Non-Bumiputera	134	115	114	115	116	121	129	125	113	93	83
Total	806	820	807	799	810	845	842	853	854	783	768

Source: Computed from data provided by the Human Resource Division, Kelang Container Terminal (1999).

In terms of Bumiputera participation in the privatized entities, Kelang Container Terminal saw an increase in the number of Bumiputera management group from 24 in 1986 to 35 in 1999 (see Table 4-15 and Figure 4). This is an increase of 45.8 percent. At the same time, the non-Bumiputera management group also increased by 91 percent. The Bumiputera technical group saw a reduction of 10 percent and the administration group by 2.6 percent. However, there is an increase of 5.6 percent for the Bumiputera labor group.

Table 4-15: Personnel/staff of Kelang Container Terminal (percentage of change)

Category/Group	1986	1999	Percentage of change in personnel from 1986
Management			
Bumiputera	24	35	45.8
Non-Bumiputera	22	42	91
Technical			
Bumiputera	100	90	-10
Non-Bumiputera	26	26	0
Administration			
Bumiputera	196	191	-2.6
Non-Bumiputera	54	37	-31
Labor			
Bumiputera	250	264	5.6
Non-Bumiputera	134	83	-38.1
Total	806	768	-4.7

Source: Computed from data provided by the Human Resource Division, Kelang Container Terminal (1999).

The following analysis is made from Table 4-15 and Figure 4. In relation to non-Bumiputera, there is a big increase of 91 percent in the management group. The non-Bumiputera group experienced no change in terms of percentage technical group and a decrease of 31 percent for the administration group. The non-Bumiputera labor group of Kelang Container Terminal decreased by 38.1 percent. From 1986 to 1999, there is an overall decrease of 4.7 percent of employees in Kelang Container Terminal (see Table 4-15).

Figure 4: Personnel of Klang Container Terminal (privatized in 1986) according to job category, race, and year

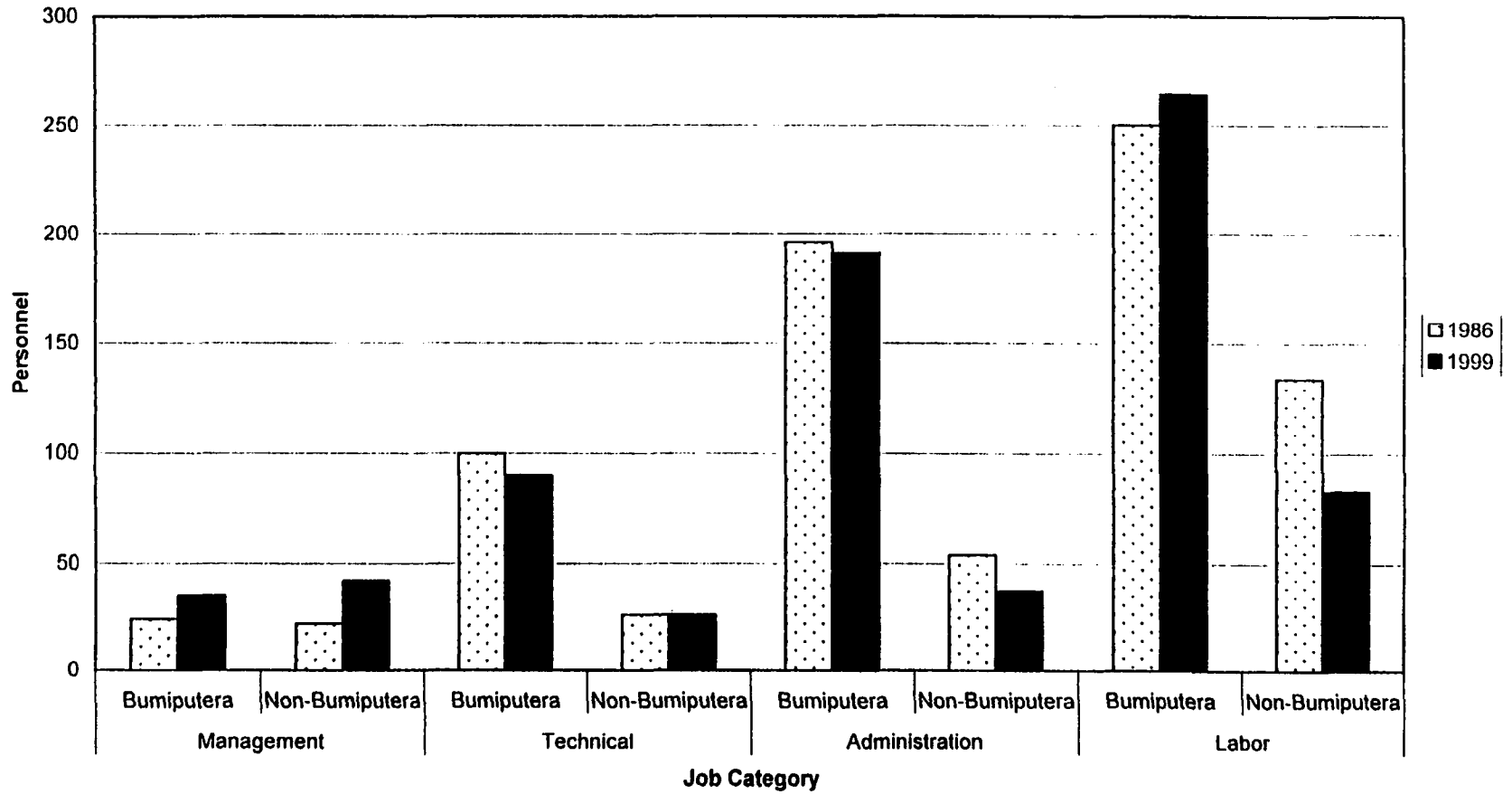


Table 4-16 reflects the general trends of the number of employee movement of Kelang Port Management from 1992 to 1999. The overall total number of employees decreased from 4,028 in 1992 to 3,148 in 1999 (see Table 4-17 and Figure 5). This reflects a contraction of 21.8 percent of employees in seven years.

Table 4-16: Personnel/staff of Kelang Port Management (privatized in 1992)

Category/Group	1992	1993	1994	1995	1996	1997	1998	1999
Management								
Bumiputera	126	145	149	173	190	209	206	206
Non-Bumiputera	57	69	60	71	67	66	52	52
Technical								
Bumiputera	208	275	265	260	264	268	250	250
Non-Bumiputera	19	22	18	18	20	23	27	25
Administration								
Bumiputera	905	888	871	861	1033	899	845	833
Non-Bumiputera	140	125	115	110	89	80	75	75
Labor								
Bumiputera	1646	1560	1425	1350	1131	1247	1147	1100
Non-Bumiputera	855	785	730	740	720	693	633	607
Total	4,028	3869	3633	3583	3514	3485	3238	3148

Source: Compiled from data provided by the Human Resource Division, Kelang Port Management (1999).

In terms of Bumiputera participation in management, there is an increase of 63.5 percent in comparison to a decrease of 8.8 percent among the non-Bumiputera. As observed by Little and Nik Saghir (1995), Bumiputeras constitute 66 percent of the total employees of Kelang Port Management in 1995 and of the 47 managerial positions, Bumiputeras held 70 percent in 1995. In 1993, Bumiputeras held only 63 percent of the managerial positions.

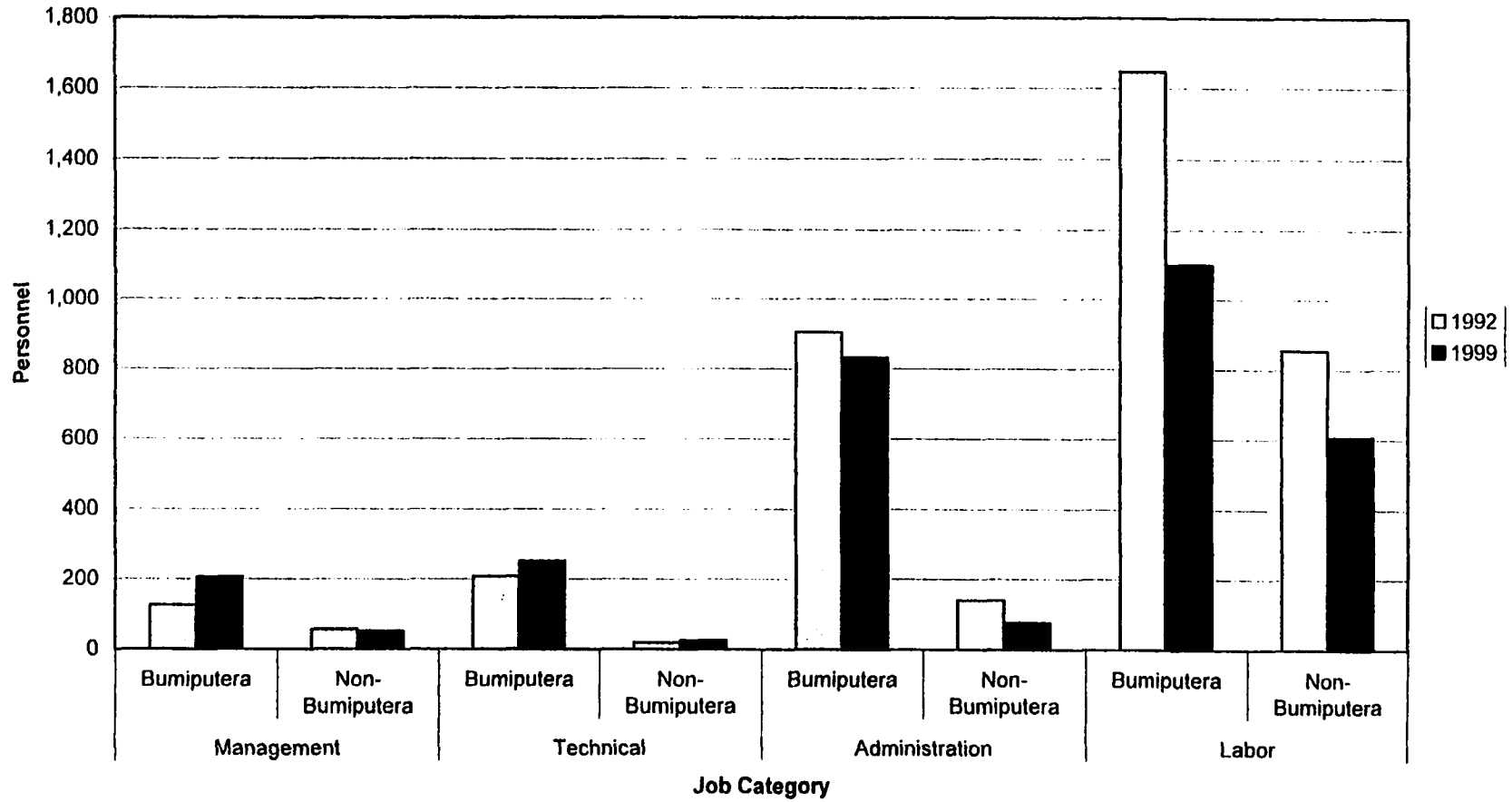
Table 4-17: Personnel/staff of Kelang Port Management (percentage of change)

Category/Group	1992	1999	Change of personnel from 1992 (%)
Management			
Bumiputera	126	206	63.5
Non-Bumiputera	57	52	-8.8
Technical			
Bumiputera	208	250	20.2
Non-Bumiputera	19	25	31.6
Administration			
Bumiputera	905	833	-8
Non-Bumiputera	140	75	-46.4
Labor			
Bumiputera	1,646	1,100	-33.2
Non-Bumiputera	855	607	-29
Total	4,028	3,148	-21.8

Source: Computed from data provided by the Human Resource Division, Kelang Port Management (1999).

In the technical category, in 1999 there is an increase of Bumiputera personnel from 208 to 250. This is an increase of 20.2 percent. For the same year, the non-Bumiputera personnel increased by 31.6 percent in the same category. There is a big reduction of 46.4 percent in the administration category for the non-Bumiputera, while the reduction for Bumiputera is 8 percent. The labor category also saw a big reduction of 33.2 percent from 1992 to 1999 for the Bumiputera category and a decrease of 29 percent in the non-Bumiputera category. From 1992 to 1999, there is an overall decrease of 21.8 percent in the number of employees of Kelang Port Management (see Table 4-17).

Figure 5 : Personnel of Klang Port Management (privatized in 1992) according to job category, race, and year



In the privatization program, Kelang Multi Terminal has a totally different experience compared to that of Kelang Container Terminal and Kelang Multi Terminal. This resulted from the fact that Kelang Multi Terminal had to reinforce its organization with new intake of employees, that is, without resorting or transferring staff from the Kelang Port Authority.

Table 4-18 reflects the general trend of staffing in Kelang Multi Terminal from 1995 (figures for the year 1994 is unavailable) to 1999. The general trend in the table is an increase of employees, in most instances for all categories. To provide further analysis of the situation, Table 4-19 depicts the percentage change of personnel from 1995 (see Figure 6). There is a decrease of 5.8 percent of Bumiputera in the management category from 1995 to 1999. However, there is a big increase of 65.5 percent of non-Bumiputera in the same category. The technical category experienced a huge increase (1833 percent) of Bumiputeras, while there is an increase of 520 percent of the non-Bumiputera. In the administration group, there is an increase of 108 percent for Bumiputera employees and 61.1 percent for non-Bumiputera. The labor category also witnessed a huge increase of 1511.5 percent of Bumiputera in comparison to 328.9 percent for non-Bumiputera.

Table 4-18: Personnel/staff of Kelang Multi Terminal (privatized in 1994)

Group/Category	1994	1995	1996	1997	1998	1999
Management						
Bumiputera	na	52	41	37	44	49
Non-Bumiputera	na	58	76	79	98	96
Technical						
Bumiputera	na	3	7	16	42	58
Non-Bumiputera	na	5	5	7	40	31
Administration						
Bumiputera	na	25	26	30	43	52
Non-Bumiputera	na	36	30	36	40	58
Labor						
Bumiputera	na	26	223	241	375	419
Non-Bumiputera	na	38	113	111	121	163
Total	NA	243	521	557	803	926

Source: Computed from data provided by Human Resource Division, Kelang Multi Terminal (1999).

The overall total increase of employees in all groups of Kelang Multi Terminal from 1985 to 1999 is 281.1 percent (see Table 4-19).

Figure 6 : Personnel of Klang Multi Terminal (privatized in 1994) according to job category, race, and year

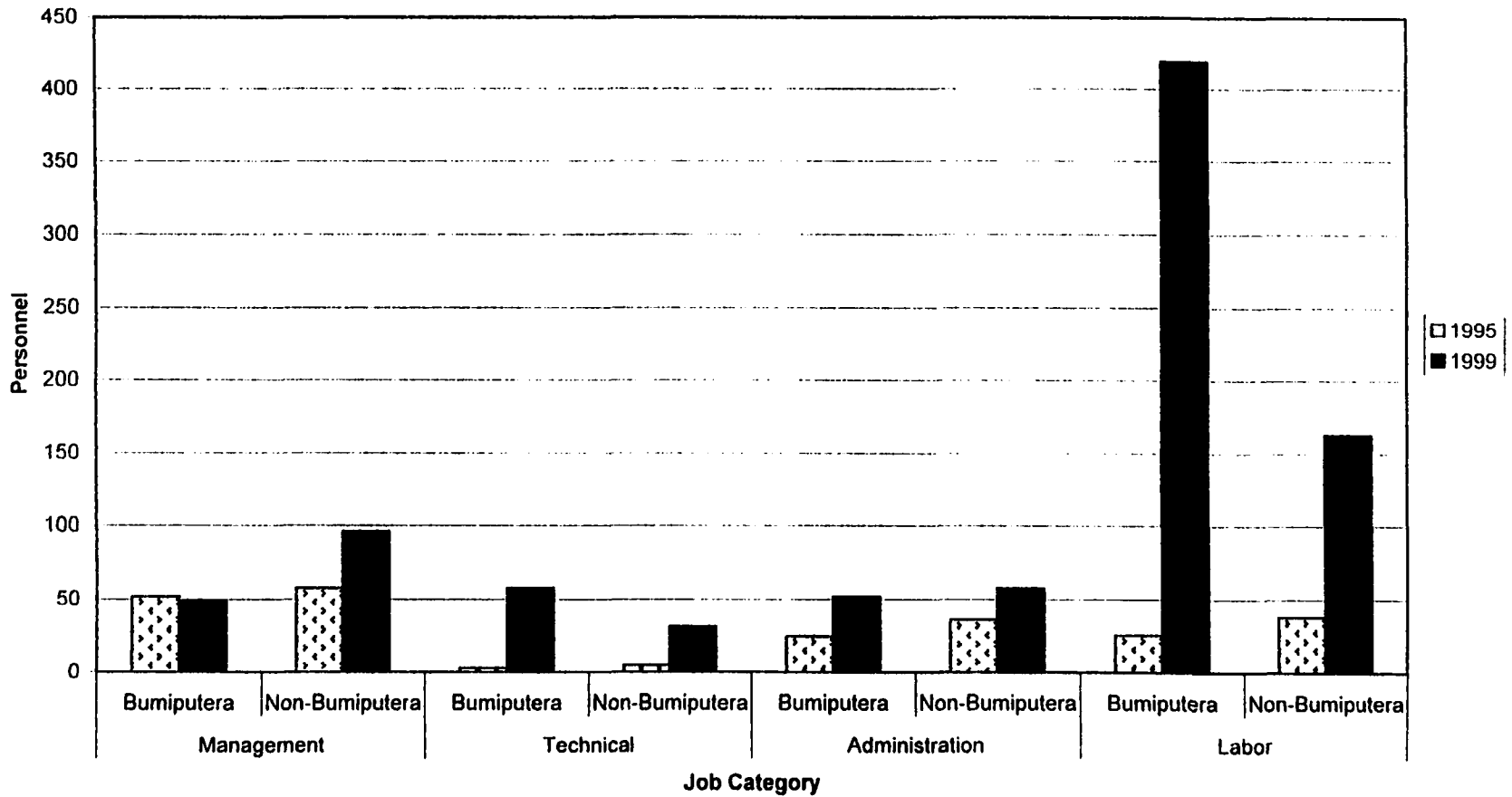


Table 4-19: Personnel/staff of Kelang Multi Terminal (percentage of change)

Category/Group	1995	1999	Change in personnel from 1994 (%)
Management			
Bumiputera	52	49	-5.8
Non-Bumiputera	58	96	65.5
Technical			
Bumiputera	3	58	1833
Non-Bumiputera	5	31	520
Administration			
Bumiputera	25	52	108
Non-Bumiputera	36	58	61.1
Labor			
Bumiputera	26	419	1511.5
Non-Bumiputera	38	163	328.9
Total	243	926	281.1

Source: Computed from data provided by Human Resource Division, Kelang Multi Terminal (1999).

Based on the personnel tables of Kelang Container Terminal, Kelang Port Management, and Kelang Multi Terminal, one can make a conclusion of the incorporation of the element of Bumiputera participation in the privatization policy in Port Kelang. The Bumiputera personnel figures can be clearly seen in Table 4-20 and it includes all categories or level of personnel. The earlier tables depicting the non-Bumiputera personnel has shown that they have not been left out in the process of privatization due to the gradual increase of this group of race in the managerial level especially. However, a more detail analysis can be derived from the Bumiputeras' presence in the three privatized entities. From the Table 4-20, one can see an increase in Bumiputera at managerial level at KCT to 46 percent after privatization and 63 percent at KPM. However, the same cannot be said about KMT whereby there is a decrease of

percentage to 6 percent after privatization. Where the technical level is concerned, KCT experienced a decrease of 10 percent after privatization while KPM and KMT see an increase in percentage in this category. In terms of the overall total number of personnel during the pre and post privatization period, there is a slight decrease of 0.7 percent of employees. To an extent, the above statistics have demonstrated mixed results – positive and negative - where the NEP is concerned. Therefore, it is not totally correct to say that it is wholly positive and aligned to the stipulated effects of the much publicized NEP in enhancing Bumiputera participation in privatization.

Table 4-20: A Summary of Pre and Post Privatization: Total Number of Bumiputera Employees at KCT, KPM and KMT

Group	KCT		KPM		KMT		Total	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Managerial	24	35	126	206	52	49	202	290
Technical	100	90	208	250	3	58	311	398
Administration	196	191	905	833	25	52	1,126	1,076
Labor	250	264	1,646	1,100	26	419	1,922	1,783
Total	570	580	2,885	2,389	106	578	3,571	3,547

Source: Computed from data provided by KCT, KPM and KMT (1999).

Nevertheless, the positive impact viewed through the government's perspective described above is not without its critics. Winnie and Jomo (1995) question the transfer formula of the government personnel to the privatized entities. For the authors, the clause stipulating that the employees will not be retrenched within five years after joining the entities is considered to be a short-term welfare gain. In a way, the observation made by

these authors is justifiable since there is no guarantee of lifetime employment whereby an economic crisis, for example, could lead to retrenchment. However, it is not known how many employees have been retrenched ever since the privatization of Port Kelang. If there are data on this aspect, it would be interesting to study the worker/employer factor in the organization.

4.4.3. EFFICIENCY

a. Number of Ships handled

As shown in Table 4-21, since its privatization, Kelang Container Terminal experienced an increase in terms of the number of ships handled. However, in 1993, there is a decrease from 2,581 ships to 2,529, which is a negative 2.0 percent change. This negative factor could be attributed to the second phase of privatization of Port Kelang which diverted some of the ships to the Kelang Port Management location. Furthermore, there is a huge reduction in the number of ships handled in 1994 which saw another 23.4 percent decrease from the previous year. This huge decrease can be attributed to the presence of Kelang Port Management as a competitor to Kelang Container Terminal.

Table 4-21: Number of ships handled by Kelang Container Terminal (1986 to 1999)

Year	Number of ships handled	Change in ships handled from preceding year (%)
1986	1,202	-
1987	1,257	4.6
1988	1,446	15.0
1989	1,680	16.2
1990	1,884	12.1
1991	2,159	14.6
1992	2,581	19.5
1993	2,529	-2.0
1994	1,937	-23.4
1995	1,955	0.9
1996	2,503	28.0
1997	2,463	-1.6
1998	2,348	-4.7
1999	1,582	-32.6
Total	27,526	-

Source: Computed based on data provided by Kelang Container Terminal (1999).

Again, as shown in Table 4-21, there has been a reduction in the number of ships handled by Kelang Container Terminal from 1997 (-1.6 percent) to 1999 (-32.6 percent). The Asian economic crisis was the main reason for the decline of ships handled by the Kelang Container Terminal during that period. Another reason that contributed to this reduction is the presence of a third private terminal operator, Kelang Multi Terminal, which started handling ships in 1994.

In 1993, that was after a year being a private terminal operator in Port Kelang, Kelang Port Management handled 4,066 ships, and the following year, there was a marked increase of 25.2 percent (see Table 4-22). As observed by Little and Nik Saghir (1995), Kelang Port Management, being the largest of the three ports, handles about 60 percent of the ships docking at Port Kelang. According to the authors, the number of ships handled has increased to 45 percent within 1992 to 1995. The year 1995 saw a gradual increase of 5.184 ships handled or 1.8 percent from the previous year. In 1996 the increase is 3.1 percent and 19.6 percent increase in 1997. However, there is a decrease of 14.4 percent of ships handled by Kelang Port Management in 1998 because of the economic crisis. The following year saw another drastic decrease of 22.8 percent of total number of ships handled by Kelang Port Management. One factor that could have contributed to this is the presence of another new concessionaire, Kelang Multi Terminal, operating in Port Kelang.

Table 4-22: Number of ships handled by Kelang Port Management (1992 to 1999)

Year	Number of ships handled	Change in ships handled from preceding year (%)
1992	3,507	-
1993	4,066	16
1994	5,090	25.2
1995	5,184	1.8
1996	5,345	3.1
1997	6,394	19.6
1998	5,476	-14.4
1999 (Jan-Sept.)	4,227	-22.8
Total	35,782	-

Source: Computed from data provided by Kelang Port Management (1999).

In its first year of operation in 1994 commencing from November-December, Kelang Multi Terminal handled only 8 ships, but the following year, it handled 416 ships, which is an increase of 5,100 percent (see Table 4-23). The subsequent years saw an increase in the number of ships handled by this concessionaire. Despite the economic crisis in 1997, the performance of this private entity was robust because it did not suffer setbacks in luring more ships into its vicinity. Based on Table 4-23, one can also deduce that the increase in the number of ships handled by Kelang Multi Terminal could be ships that were diverted from Kelang Container Terminal and Kelang Port Management dockyards.

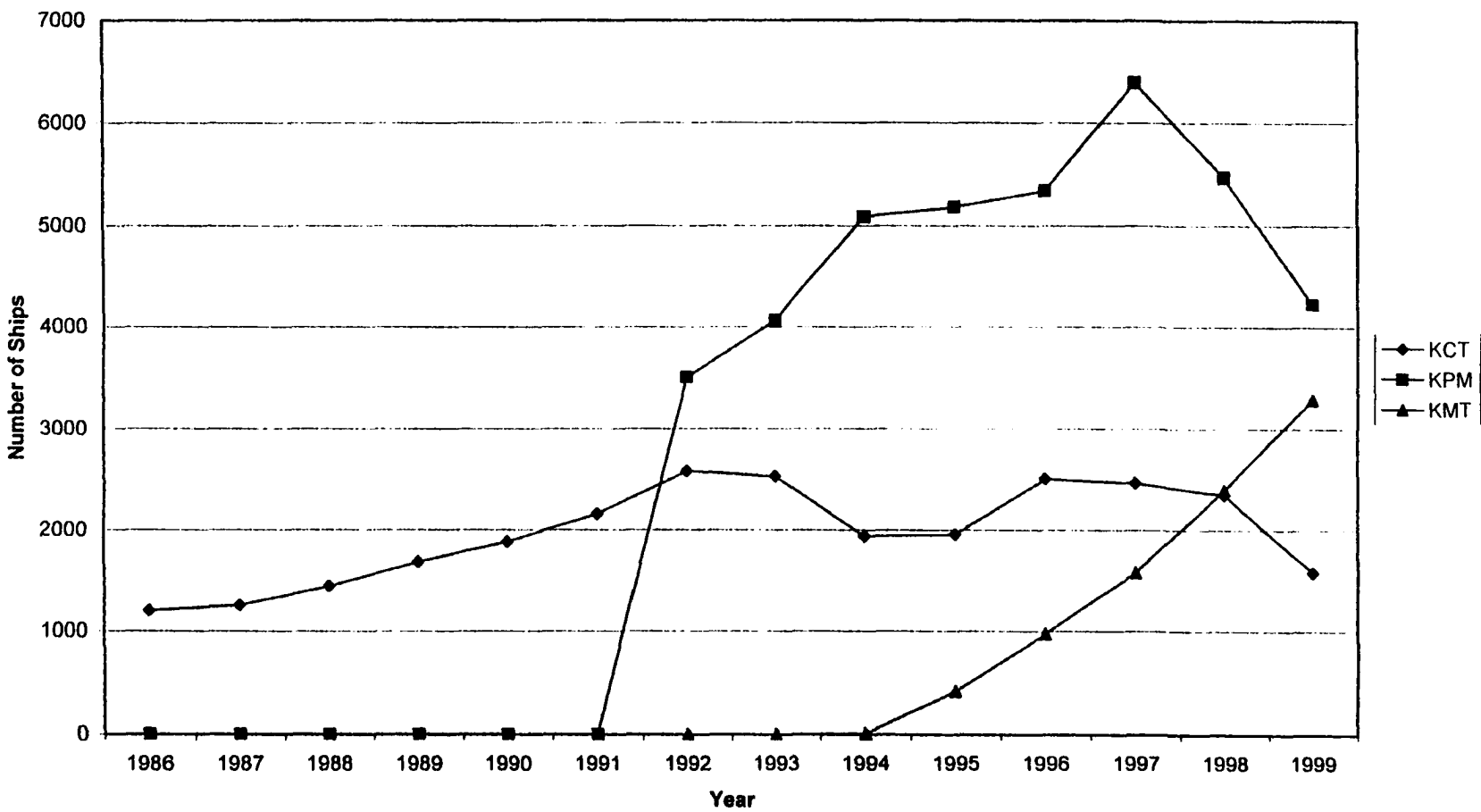
Table 4-23: Number of ships handled by Kelang Multi Terminal (1994 to 1999)

Year	Number of ships handled	Change in ships handled from preceding year (%)
1994	8	-
1995	416	5,100
1996	974	134
1997	1,582	62.4
1998	2,394	51.3
1999 (Jan-Oct.)	3,292	37.5
Total	8,666	-

Source: Computed from data provided by Kelang Multi Terminal (1999).

Based on the figures given on the performance of the three privatized entities with regard to ships handled, all three show an indisputable positive performance. The Asian economic crisis however threatened to overshadow this encouraging performance, but as shown, the three private terminal operators were able to overcome the negative impact of the economic crisis. The overall performance of the three terminal operators with regard to the number of ships handled is reflected in Figure 7.

Figure 7 : Number of ships handled by KCT, KPM, and KMT according to year



b. Number of TEUs

Table 4-24: Number of TEUs handled by Kelang Container Terminal (1986 to 1999)

Year	Number of TEUs handled	Change in TEUs handled from preceding year (%)
1986	241,186	-
1987	273,335	13.3
1988	319,557	16.9
1989	393,954	23.3
1990	494,978	25.6
1991	603,257	21.9
1992	672,642	11.5
1993	759,251	12.9
1994	804,455	5.95
1995	863,870	7.39
1996	946,788	9.6
1997	992,995	4.9
1998	788,703	-20.6
1999*	671,952	-14.8
Total	8,826,923	-

*up to September

Source: Computed from data provided by Kelang Container Terminal (1999).

Since its privatization in 1986, Kelang Container Terminal has successfully increased the number of twenty-equivalent units (TEUs) year on year (see Table 4-24). The first year, in 1986, Kelang Container Terminal handled 241,186 and the following year there was an increase of 13.3 percent of the number of TEUs handled. Subsequently, the positive trend of the number of TEUs handled by Kelang Container Terminal continued until the Asian economic crisis in 1997. In 1998, for the first time, Kelang Container Terminal experienced a decrease of 20.6 percent in the number of TEUs handled. In 1999, the negative impact of the economic crisis was still felt and thus Kelang Container Terminal suffered another 14.8 percent decrease from the preceding year. Another reason is the crossover of shipping lines to Kelang Multi Terminal, which has more facilities than Kelang Container Terminal. This trend reflects the strategy envisaged in the development of West Port whereby the additional increase of traffic volume will move to West Port.⁴

Like Kelang Container Terminal, Kelang Port Management also experienced a positive change in the number of TEUs handled (see Table 4-25) from 1992. In 1993, for example, it handled 19, 867 TEUs and in 1994 there was an increase from the previous year of 594 percent to 137,937 TEUs. Subsequently, there was an increase of 95.7 percent or 269,941 TEUs handled from the preceding year in 1995. The number of TEUs handled by Kelang Port Management kept on increasing until 1998, when there was a decrease of 1.3 percent from 578,627 in 1997 to 570,916 in 1998. This could be attributed to the consequences of the economic crisis in 1997. Nevertheless, Kelang Port Management managed to stabilize its situation and in 1999 saw the highest number of

TEUs, that is 583,168 TEUs, being recorded reached. As analyzed by Little and Nik Saghir (1995), Kelang Port Management has also been expanding the container handling segment and TEUs by more than 8.5 times since privatization.

Table 4-25: Number of TEUs handled by Kelang Port Management (1992 to 1999)

Year	Number of TEUs handled	Change in TEUs handled from preceding year (%)
1992	NA	-
1993	19,867	-
1994	137,937	59.4
1995	269,941	95.7
1996	443,656	64.4
1997	578,627	30.4
1998	570,916	-1.3
1999 (Jan-Sept.)	583,168	2.1
Total	2,604,112	-

Source: Computed from data provided by Kelang Port Management (1999).

Kelang Multi Terminal's performance has been spectacular in comparison to Kelang Container Terminal and Kelang Port Management. The main reason for this is the crossover of shipping lines due to expanded facilities in comparison to limited facilities in the case of the other two ports. Kelang Multi Terminal handled international shipping lines, for example, Maersk, Sealand, Hanjin, Evergreen and Iranian Shipping Lines. Based on figures in Table 4-26, Kelang Multi Terminal handled 21,421 TEUs in 1996

and the following year there was an increase of 445 per cent or 116,772 TEUs. In 1998, Kelang Multi Terminal handled 470,849 TEUs. an increase of 303 percent from the preceding year. In 1999, there was a further 79.1 percent increase of TEUs handled.

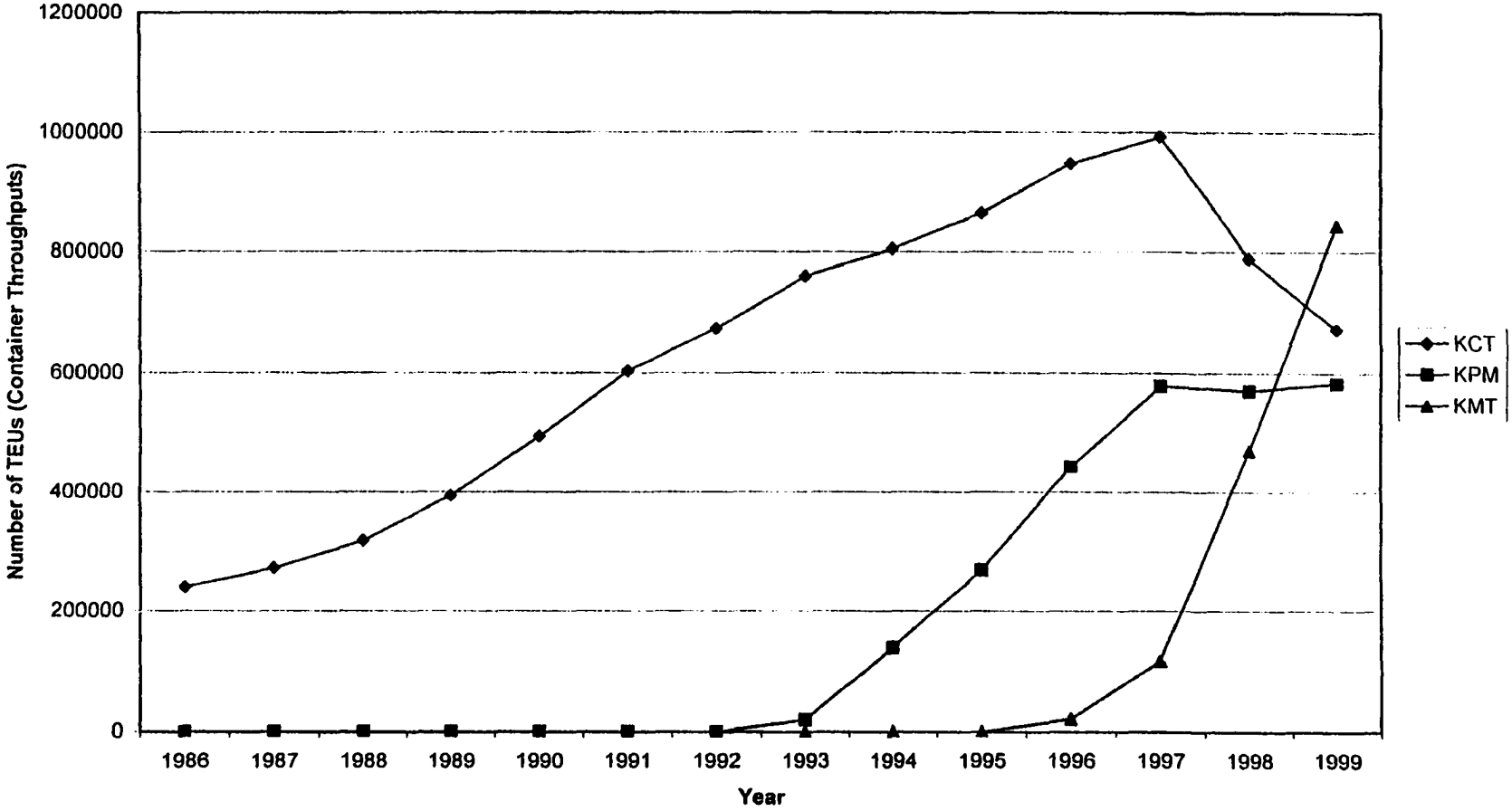
Table 4-26: Number of TEUs handled by Kelang Multi Terminal (1994 to 1999)

Year	Number of TEUs handled	Change of TEUs handled from preceding year
1994	na	na
1995	na	na
1996	21,421	-
1997	116,772	445
1998	470,849	303
1999	843,102	79.1
Total	1,452,144	-

Source: Computed from data provided by Kelang Multi Terminal (1999).

Figure 8 shows the number of TEUs handled by Kelang Container Terminal, Kelang Port Management, and Kelang Multi Terminal according to year.

Figure 8: Number of TEUs handled by KCT, KPM, and KMT according to year



4.5. COMPETITION AND PERFORMANCE

The performance of Port Kelang based on the detailed explanation above is indeed very impressive. It can be said that the objectives of privatization in Malaysia as stipulated in the *Privatization Masterplan* have been met. For instance, the element of Bumiputera participation in terms of equity holders has been adopted in the privatized entities. Also, there is an increase in Bumiputera participation at the lower levels (administration and labor) and not really happening at the top management and technical level. The financial success can be attributed to the efficiency of the privatized entities. Added by the fact that there is a marked increase in productivity in terms of number of ships and TEUs handled. The earlier detailed analyses positively shows that privatization of Port Kelang is successful.

However, as mentioned earlier by Winnie and Jomo (1995), the motive of privatization of Port Kelang was questionable since the entity had not shown “red” in its entire existence. This view is supported by Jones and Fadil (1992) when they commented that the privatization of Port Kelang is akin to selling a goldmine. Jones and Fadil (1992) do not refute the government’s motive as “playing it safe” and ensuring that the first exercise program did not fall short. Different interpretations can also be made of the government’s action. Among others, it can be said that by privatizing a successful entity it would then result in a less cumbersome exercise and the people would be convinced that the privatization ideology could indeed benefit the country. Consequently, there was no unfavorable publicity after the privatization of Port Kelang. Should a less successful

or failed entity be privatized and problems arise, adverse publicity could have derailed the entire policy. To avoid such untoward criticisms from the public, the government's "calculated" move was deemed necessary in its first privatization policy.

To ensure that there would be no criticism of its pioneer privatization project, Winnie and Jomo (1995) claimed that the Government had intentionally selected Port Kelang as the most suitable candidate. Port Kelang was seen to be less sensitive since it is categorized as "hard service" and also by the fact that it had a record of profitability.

The success of Port Kelang could be made into a strong case as the pioneer project in the privatization policy. To an extent, Winnie and Jomo (1995) agree that the Kelang Port Authority terminal was then functioning at low level of efficiency by international standards and that the inefficiencies were the result of red-tape or bureaucratic controls. By undergoing privatization, the entity would have the freedom and flexibility to manage and operate facilities on a more commercial basis. Performance would undoubtedly improve.

The impressive tabulated figures of the private terminal operators could be misleading, say Winnie and Jomo (1995:160). Analyzing the 20 percent growth of throughput (TEUs) since 1987, and from 1989 to 1991 (see Table 4-24), they strongly feel that one has to be careful and not to attribute this increase only to improved efficiency due to privatization. According to the authors, after the 1985 to 1986 recession, the Malaysian economy picked up from late 1986, with export-led industrialization using

imported components and equipment. From 1987 to 1990, annual growth of exports and imports was in excess of 20 percent. Winnie and Jomo (1995) conclude that Kelang Container Terminal's increased turnover may be due to the growth in international trade, and may therefore wrongly be attributed to privatization. At the same time, they criticize Jones and Fadil (1992), who view the growth of output of Port Kelang as the result of efficiency gained from privatization.

While Winnie and Jomo (1995) could be right about this aspect of growth, there could be another factor that also contributed to the output growth in Port Kelang. One can also reach the conclusion that Kelang Container Terminal's performance is better than Kelang Port Authority because the "private terminal operator" upgraded the facilities and infrastructure in North Port. With heavy capital investment on modern and latest equipment, it is not surprising that Kelang Container Terminal's financial and efficiency performance is better than Kelang Port Authority. As said earlier, privatization has reduced the bureaucratic redtape contributing to the enhanced status of the port.

The Malaysian government is positive about the performance of Port Kelang and strongly believes that it has the potential of being a world class port. The Malaysian Transport Minister, Dr. Ling Liong Sik, was even reported to say that the new millennium belongs to Malaysian ports, whereby Port Kelang's position in terms of containers handled has improved greatly from the 26th position in 1996 to the 14th in 1999 (*Business Times*, January 17, 2001).⁵

The latest figures on the performance of Port Kelang indicate that in the year 2000, Port Kelang's container handling jumped 25.5 percent to hit an all-time high of 3.2 million TEUs from the 2.55 million TEUs throughput a year ago (*Business Times*, January 17 2001). This was a 120 percent increase over the 1.4 million TEUs handled by Port Kelang five years ago. What was more spectacular about Port Kelang's performance was that for the first time all three private terminals at Port Kelang – Kelang Container Terminal, Kelang Port Management, and Kelang Multi Terminal – achieved the one million TEUs target in the same year. One of the main contributing factors to this strong growth in Port Kelang was the 27 percent increase in transshipment boxes from 966,090 TEUs recorded in 1999 to 1.22 million TEUs in 2000. The Minister said the Government, aware of the challenges posed by globalization and liberalization, has initiated several measures to encourage foreign investments in all sectors, especially the port sector.

Furthermore, a strategic alliance between Kelang Multi Terminal and Hutchinson International Terminal (HIT) promises to bring other benefits in terms of expertise, experience and larger markets in the future. Dr. Ling believes that West Port's performance will be enhanced in the future with the arrival of HIT. Dr. Ling reiterated that the Government's load centring policy initiated in 1995 has been very successful in making Port Kelang one of the premier ports in the world.⁶ Various means have been implemented and adopted to improve on the services of Port Kelang, for example, red-tape in procedures, legislations, and rules have been eliminated to ensure smooth and speedy decision-making and processes.

Having noted the “successful” performance of the privatization of Port Kelang, one might construe the existence of competition among the “private terminal operators” in this situation. In reality, and as explained under Section 4.3, the majority shareholders of the concessionaires in the Port Kelang case are public investors. This can be confusing when one relates to the fact that the contracts of operating Port Kelang had actually been awarded to public agencies or corporations, and yet the term “privatization” is adopted in this context. The question arises: Is it appropriate to adopt the term “privatization” in the case of Port Kelang, whereby the substantial shareholders are public owned? Consequently, this can be interpreted that the real financial investors in upgrading and enhancing the status of Port Kelang are the public themselves. This understanding can further question the credibility of “real competition” existing among the concessionaires of Port Kelang. Free-market mechanisms might not even be tested in these circumstances. With this understanding, it is strongly felt that the case of Port Kelang is more akin to a change of management rather than ownership.

4.6. REGULATORY AUTHORITY

Another subject that has not been taken seriously is the important role of a regulatory authority in privatization programs. The importance of a regulatory authority in relation to the privatization of infrastructure, like Port Kelang, cannot be underestimated. This subject needs a detailed explanation, and in his analysis of private operators, Naidu (1995) gives a good critical review on regulatory authority in relation to privatization in Malaysia. Naidu sees that this aspect has been given low priority in the privatization era.

Privatization would result in a reallocation by the government in the distribution of power between the private and public sectors. For this reason, and contrary to popular perception, the government's role in implementation phase will still be significant and the government, undeniably, has an important supervisory or regulatory role to play. The following reasons are given by Naidu (1995) as to why the private operators have to be regulated:

- i. the privatized infrastructure facilities will continue to assume a strategic or pivotal role in the economy because of their strong links to growth, poverty and environment;
- ii. the privatized infrastructure facilities possess considerable market power and provide their services in non-contestable markets⁷,
- iii. social obligations on the part of the privatized entities and therefore, some regulatory mechanism is needed to ensure the performance of such social functions; and
- iv to ensure strict compliance with the conditions of the concession agreements and operating licences.⁸

Looking at the regulatory system in Malaysia, in most cases, the regulatory authorities are the government departments or statutory bodies that were previously administrators of the services now privatized. For example, Kelang Port Authority is the regulatory agency over the three private companies at the port.

The scope of regulatory action in Malaysia is fairly rudimentary, says Naidu (1995). Naidu states the following examples:

- i. no clear link exists between the functions of the regulatory agencies and the creation of incentives to achieve efficiency on the part of the privatized suppliers of infrastructure services; and
- ii. even with the existence of regulatory agencies, the respective ministers still appear to have considerable influence over the policies of the privatized suppliers.⁹

“More transparency in the privatization of infrastructure facilities, a greater effort at improving the performance of privatized infrastructure facilities and, at the same time, affording effective protection to consumers and a place for “voice” might not only eliminate much of the scepticism associated with the policy, but may also enhance the positive impact of the policy,” says Naidu (1995) when stressing the importance of a regulatory authority.

4.7. CONCLUSION

The privatization of Port Kelang has come a long way since 1986 and there are positive and negative outcomes from the program. Despite criticism, the positive results from privatization are hard to ignore. As shown from the tabulated tables, not only did the government gain in monetary terms when it leased the port to the various “private” companies, the capital investments made by the companies have transformed the port into

a modern site with state-of-the-art technology. Although it is most likely that the government could have achieved this without privatization, the heavy investments by the companies ensured the port achieved its impressive 14th position among the ports of the world. The bureaucratic red-tape would have impeded the transformation of the port.

However, the big question in the case of the privatization of Port Kelang is the issue of shareholders. As explained earlier, the majority of equity of companies in this case is owned by the government itself. In this situation, it is difficult to deduce that privatization per se has actually taken place or free-market mechanism is workable in this privatization program. One can make an assumption that Port Kelang is actually attuned more to a change of management rather than a change of ownership. The ambiguous relationship between management and ownership in this case can further undermine the advantages of privatization. Thus one can also reach a conclusion that a change of management through reforms can result into efficiency, and not necessarily one that entails a change of ownership.

This study of Port Kelang is however devoted to looking at the loss and gains made by the government and the three terminal operators. It has not specifically delved into matters in relation to social obligations, for example, the welfare of employees, the forwarding agencies, and other stakeholders (factors that will be highlighted in the following chapter). There might be issues and grievances experienced by the stakeholders in the process of the implementation of the privatization of Port Kelang which have not been captured adequately in this chapter.

The privatization of Port Kelang is a much easier process than the privatization of hospital support services, examined in the next chapter. The most obvious reason is that port services can be categorized as 'hard services', which means that there is less or no 'humanistic' element involved in the process. In other words, the population in general are not directly involved in the implementation process of this type of services. In contrast, the privatization of hospital support services deals directly with the human needs of society and thus encounters more obstacles in its implementation. This type of service, which is categorized as 'soft services', engenders many different actors from the government sector, the privatized entities, and cuts across the general population. Because of the 'humanistic' nature of the program, there is a tendency to suffer setbacks in terms of implementation and criticism from stake-holders.

Suffice it to conclude here that the privatization of Port Kelang gave new confidence for other privatization projects. Unfortunately, its 'success' could not be replicated as it failed to live-up to its reputation as a successful blueprint of privatization. This will be highlighted in the next two chapters where the privatization of hospital support services, an area of privatization not analyzed before, is given scrutiny.

NOTES

¹ An interview with the General Manager of Kelang Port Authority, Mr. V. Balakrishnan at National Institute of Public Administration (INTAN) on April 13 2001.

² The figures in Table 6-9 are tabulated according to the figures given by the management of Kelang Container Terminal. The figures in this table are the same as in Table 6-5. For example, the net profit figures in Table 6-9 is based on profits pre-tax in Table 6-5, the turnover figures is based on revenue, and the expenditure figures are based on operating expenditure.

³ Rajasingam (1993) states that 801 employees have been transferred to Kelang Container Terminal.

⁴ An interview with the General Manager of Kelang Port Authority, Mr. V. Balakrishnan at National Institute of Public Administration (INTAN) on April 13 2001.

⁵ *Business Times*, "New millennium belongs to Malaysian ports, says Ling," January 17, 2001.

⁶ The Transport Minister pointed out that the emphasis on Port Kelang is not at the expense of other ports in the country. According to him, due support has been given to them to enhance their performance and efficiency. Various measures, such as the simplified Customs procedures and the provision of financial assistance have been undertaken by the Government to improve these ports and its hinterland.

⁷ The private providers of infrastructure must be subjected to some form of supervision for the reason that users are locked into a delivery system and cannot express dissatisfaction through choice.

⁸ Regulatory institutions are to serve as a buffer between the private suppliers and users and to give effect to government policies.

⁹ Ministerial sanctions have to be required for rate revisions. for example.

CHAPTER FIVE

CASE STUDY TWO: PRIVATIZATION OF HOSPITAL SUPPORT SERVICES

5. INTRODUCTION

This chapter is an investigation of the policy process of privatization of hospital support services in Malaysia. The first part will deal with the background of health policy in Malaysia and offers an explanation of the historical background that led to privatization of hospital support services. The second part deals with the policy process of privatization of hospital support services. Policy process is an important element in studying a policy of a country, thus it is necessary to give a clear understanding of this process to readers. Policy process involves agenda setting, policy formulation, budgeting, implementation and evaluation. By following the path of this policy process, a better understanding of the current picture of the privatization of hospital support services in Malaysia will emerge. Apart from this, this chapter also highlights the progress of the program thus far.

5.1. BACKGROUND OF HEALTH POLICY IN MALAYSIA

The industrialized countries' policy reforms have always been held up as an example for developing economies to follow and replicate. The mid-1960s saw a number of developed economies – the United States, Japan, Germany, the United Kingdom – changing their health policies upon realizing that their budgetary allocations were not

able to cope with the demanding needs of their population (White 1995). Other authors (Norbeck and Lock 1987; Peters 1993; Starr 1982) have quoted several reasons that led to these changes in the health sector in developed economies. The factors that accelerated the drastic increase in budgetary allocations in the health sector are:

- i. the expensive costs of modern medicine that require specialists in specific fields of medication and has increased the demand and services given by them;
- ii. the state-of-the-art medical equipment – CAT scanner, electrocardiogram - that are costly for patients; and
- iii. all the above have resulted in a longer life expectancy of individuals, which means more government budgetary allocation would now have to be allocated for the elderly population.

Long (1987) holds that the wave of dramatic expansion of the field of medicine in the United States after the Second World War had not spared the Japanese too.¹ Long goes on to say that the technological revolution in medicine meant new synthetic pharmaceuticals, the development of antibiotics, progress in surgery, and reliance on clinical laboratory tests and x-rays. Consequently, this resulted in an expansionary budget in the health sector of developed economies.

The above scenario was becoming evident in developing countries, and as one of them, Malaysia realized the importance of a reorientation of its health policy. The government of Malaysia, whose privatization policy had advanced since it was launched

in 1983, felt in the mid 1990s the necessity to overcome its health policy problem through the already documented and adopted privatization policy. Hence, the privatization of hospital support services was seen as an extension of the already implemented privatization policy, which was also thought of as a “twinning” program in the New Development Policy.

Being one of the most advanced economies among the developing countries, Malaysia’s health care system is reputed and also claimed to be one of the best systems in the world. The Malaysian healthcare system has been given due recognition by the international community, nongovernmental organizations, and researchers. While Malaysia has made it known that there is an acute shortage of medical doctors in the country, the situation has not actually resulted in the degradation of the quality and access of health care services for the public.

The Malaysian scene is best explained by Chan (1998:117), who insists that:

Still a public-private mix for the present, the healthcare sector in Malaysia has performed creditably since Merdeka (independence from Britain in 1957) in ensuring access for the vast majority of the population. Ninety percent of Malaysian citizens live within an hour or 5 kilometer of a health center. The World Health Organization recognizes Malaysian Government healthcare as one of the most well-distributed health services in the Pacific region, indeed second only to Cuba worldwide. Preventive and promotive primary care have contributed to enviable vital statistics which are almost on a par with those of richer industrialized nations. The infant mortality rate for Peninsular Malaysia for instance is approaching that of the United States. Most remarkably, these achievements have been attained at quite modest cost, public sector health spending amounting to less than 2.5 percent of GDP.

Expressing similar views was the nongovernmental body of Malaysia, Citizens’ Health Initiative (July 8, 1998), which believes that the Malaysian healthcare system has

performed credibly for the majority of the population. It goes on to say that the rural population has recourse to an extensive network of government health centers, while the urban residents have access to government as well as private hospitals and clinics. This, according to the organization, has been a major factor contributing to the favorable health indices, which are almost at par with the industrialized nations.

Nevertheless, Malaysia still proceeded with its privatization program in the healthcare *sector*, adopting the privatization policy as an engine of growth in the different sectors of the economy as well.

In the case of Malaysia, the function of contracting-out was adopted in the privatization of its hospital support services. The five services that were contracted out are cleansing, linen and laundry, clinical waste management, biomedical engineering maintenance, and facility engineering maintenance. This mode of privatization – contracting-out – is a pioneer effort by any country in the context of the health care system in general.² Malaysia is considered to be the first country to adopt this kind of package.

5.2. POLICY PROCESS (Pre-Privatization)

Peters (1993) and Anderson (1984) identify a policy process engulfing the following: agenda setting, policy formulation, budgeting, implementation, and finally, evaluation. To have a better understanding of the events that led to the privatization of

hospital support services, the processes will be discussed in detail. The explanation of the processes will be under their respective headings.

5.2.1. Agenda setting

Defined simply, the term agenda setting describes a process whereby ideas first come into existence, followed by the selling of the ideas to authorized decision makers (Anderson 1984, Kingdon 1984). This process involves and links the many actors or players in the political system, namely politicians, bureaucrats, individuals, stakeholders, and non-governmental organizations.

The idea of contracting-out of hospital support services was first mooted by the private sector and this approach was marketed to the government of Malaysia. In the process too, the government had a role in promoting the agenda. There were several reasons that led the government to adopt the same line of thinking as the private sectors then. For a detailed explanation, the services involved are listed below (in italics) and, subsequently, the weaknesses of the present system are also highlighted.

With the *cleaning services*, the workload in hospitals was shared between the nurses and the hospital attendants. This resulted in inefficient use of trained nursing staff, whose main responsibility was the care of patients. Moreover, the nursing staff did not have proper training and experience in cleaning services. Prior to the launching of the privatization of hospital support services, a few hospitals had contracted out the cleaning

services to local small contractors, but the contractors proved to be unreliable as they did not have properly trained personnel to carry out the job.

In terms of disposal of *clinical waste*, the government realized the importance of a proper and hygienic system to ensure an unpolluted and hazard free environment. Since the Ministry of Health does not have adequate and proper incineration facilities, it was thought that the private sector would be able to build regional modern facilities for the purpose.

The *linen and laundry* services were poor and the government saw the urgent need to upgrade these services in hospitals. The in-house service was inefficient due to high loss of linen and lack of properly trained laundry staff. Like the case of cleaning services, the linen and laundry services were contracted out to small-scale contractors, but the quality of these services have not improved due to improperly trained staff.

The government also understood the need for more reliable and capable personnel in dealing with the *facility engineering maintenance* services of hospitals. The then present personnel were deemed to be inefficient due to inadequate training. The standard and performance of the personnel was unsatisfactory based on long downtime, inadequate preventive maintenance, and frequent breakdowns experienced by the hospitals. However, the authorities did not deny the fact that personnel alone are not to be blamed for inefficiencies, as there were insufficient financial allocations for repair jobs and

upgrading of facilities and equipment. Subsequently, all these factors led to poor motivation compounded by lack of incentives.

With the privatization of the above services, including *biomedical equipment maintenance* services, the government hoped to benefit from the program. Through privatization, it was envisioned that the trained nursing staff would be properly utilized in their respective training fields. A properly trained staff in their respective areas would also minimize cross infections otherwise due to poor clinical waste management, particularly in the linen and cleansing services. Subsequently, a high quality and well-equipped hospital support services would ensure a safe and reliable environment for patients and staff.

The private sectors submitted their formal proposals to the Privatization Unit of the Economic Planning Unit (EPU). The EPU, with the rest of the Privatization Task Force (PTF), which in this case consists of the Ministry of Health, Ministry of Finance, Attorney-General's Office, and the Public Service Department (PSD), together formed a Committee and worked the details on the process of the proposed and approved program. The agencies met on many occasions to agree upon and to finalize the details. When everything was agreeable between the private sector and the government agencies involved, a tender was then published in the local newspapers. The EPU approved the privatization of the five hospital support services in April 1993. The agency decided to go for open tender, and a tender was called in July 1993 and closed in October 1993. Thirty-

one tender submissions were received by the EPU and of these, three private companies were selected.

Prior to the awarding of contracts, the three private companies each submitted individual proposals to the Economic Planning Unit. Before that, the companies had engaged consultants to study the project, and the proposal was actually a recommendation made by the hired consultants on the viability of the program to be privatized. After submission to the EPU, the Privatization Unit arranged several meetings with the Ministry of Health to discuss the proposal. During the meeting, an agreement was reached by the parties for privatization.

After taking careful consideration of issues and after proper evaluations, the EPU made the recommendations to the Cabinet. The EPU issued letters of intent to the three successful companies in June 1994. The Cabinet approved the privatization of hospital support services on June 14, 1995. Meanwhile, the EPU and other agencies worked on and finalized technical requirements and performance indicators with the companies. In August 1995 the letters of award were presented to the three companies. At the same time, the Cabinet approved the formation of a regulatory unit called the Kawalselia Unit under the Ministry of Health and co-advised by a consultancy and regulatory private entity (SIHAT), which would also oversee the program.

5.2.2. Policy Formulation

The formulation of the policy saw the involvement of many agencies in the process. The agencies were the Economic Planning Unit, the Ministry of Finance, the Ministry of Health, the Public Service Department, the Ministry of Land, the Department of the Attorney General and the three concessionaires who were awarded the contracts.

Thus, the concessionaires that had been awarded the contract were also involved in the process. As mentioned earlier, three companies out of thirty-one who submitted their tenders were chosen. They are Faber Medi-Serve Sdn. Bhd., Radicare Sdn. Bhd., and Tongkah Medivest Sdn.Bhd. The rationale of having the three concessionaires attending the meetings and participating in the discussions during the formulation of policy and formulation of agreements was designed to ensure that all parties were in agreement with the final outcome of the concession agreement prior to the implementation of the program.

A Sub-Committee of Personnel of Hospital Support Services was formed with the objective of formulating and getting approval on several matters pertaining to personnel and terms of services. This Sub-Committee, which was chaired by the Deputy-Secretary General of the Ministry of Health, was one of the sub-committees established to look into the privatization of hospital support services. Other members in the Sub-Committee were representatives from various divisions of the Ministry of Health, namely the Human Resources Division, the Engineering Division, the Privatization and Contract Division,

and the Medical Practice and Development Division. The tasks and responsibilities of the Sub-Committee were as follows:

- i. to identify the terms of services of the privatization package;
- ii. to formulate the terms of services and wages that would be offered to the employees under the proposed package deal;
- iii. to formulate and forward the option letters to the respective employees;
and
- iv. to establish a Privatization Regulatory Unit.

Table 5-1 shows the number of hospitals, institutions, establishments, and personnel involved in the privatization of hospital support services, that is, as of September 1, 1996. A more detailed list by States of personnel involved in this exercise is shown in Appendix C. As shown in Table 5-1, a total of 2,681 employees of the Ministry of Health under the hospital support services division opted out and joined the three concessionaires. Of the grand total, 1,274 employees or 47.4 percent of the employees were absorbed into Faber Medi-Serve; a total of 902 employees or 33.6 percent of the employees were placed into Radicare; and finally, 509 employees or 19 percent of the employees were transferred to Tongkah Medivest.

Table 5-1 also shows that Faber Medi-Serve was awarded the most number of hospitals (71 hospitals); next, Radicare with 37 hospitals and 4 medical institutions; and finally, Tongkah Medivest with 19 hospitals. All in all, there were 127 hospitals and 4 medical institutions involved in the privatization program.

Table 5-1: Number of hospitals, institutions, establishments and employees in the three concessionaires

Company	Number of hospitals	Number of institutions	Number of establishments	Number of employees	% of government employees absorbed into entity
Faber-Mediserve	71	0	1708	1270	47.4 %
Radicare	37	4	1450	902	33.6 %
Tongkah Medivest	19	0	686	509	19 %
Total	127	4	3844	2681	100%

Sources: Computed from unpublished data provided in the *Sub-Committee Report on Personnel of Privatization of Hospital Support Services*, Ministry of Health (1996:3).

The Privatization Task Force for privatization of hospital support services did not encounter much difficulty in formulating the terms and conditions of services. This is because the Task Force had adopted the terms of wages and conditions of services that have been applied earlier on to the privatization of Port Kelang. As in the case of Port Kelang, the employees of the hospital support services were given a better package than what they received in government and, in terms of their wages, personnel of hospital support services received an increase of 17 percent plus their entitlements to housing and car loans. They would not be subjected to retrenchment for the next five years.

After the awarding of contracts and agreements from all the parties concerned were obtained, including the concessionaires, a Concession Agreement was then worked and agreed upon. The EPU acted as the Coordinator, while the other agencies mentioned

earlier were members in the meetings and discussions held. The Concession Agreement is a detailed document elaborating and explaining how the implementation process of the hospital support services is going to be carried out. The Concession Agreement also provides details of the penalties imposed on slacken work of the concessionaires. The Agreement is legally binding on the concessionaires.

Those officials who were involved in the drafting and finalizing of the Concession Agreement were specifically those who had the experience in the relevant area of the services to be privatized. The Concession Agreement went through the process of tedious and meticulous stages of preparation of the document.

The contents of the Concession Agreement are the following:

- i. the financial aspects of the program (schedule fees);
- ii. the types of services given by the three concessionaires;
- iii. the expected result of services from the three concessionaires;
- iv. the time factor in ensuring services are carried out within the stipulated time frame;
- v. the employees who opted for the privatized entities are absorbed accordingly as agreed; and
- vi. the respective segmented area of operation of the concessionaires.

At the ministerial level, the other divisions, which were involved during the agenda and formulation of policy process were the Engineering Division of the Ministry

of Health, the Human Resources Division, the Finance Division, and the set-up Unit of Privatization of the Ministry. To a large extent, the presence of the Attorney-General's officials were considered necessary, especially in assisting in the interpretation and explanation of laws and legal matters in context of the respective services and the ambiguity of certain terms and definitions.

Finally, when all parties were agreeable to the Concession Agreement, the three concessionaires signed the Agreement. However, it is not a totally agreeable process because there were negotiations and bargaining between the private entities and the government officials on many issues (issues will be elaborated in Chapter 6). Whilst the government officials tended to uphold the importance of giving good and high quality services to the public, on the other hand, the private entities felt that the government officials were demanding too much on the quality of services to be given. The process of negotiation and bargaining itself took more than 6 months before the Concession Agreement was finally completed.

In the general agreement of the privatization of hospital support services achieved between the concessionaires and the government, the element of competition per se has not been fully utilized in the program. Even though the concessionaires are from the private sector but the program has been structured in such a way that the competition element has not been exclusively included. The concessionaires are operating on a segmented area basis, whereby each of the three concessionaires is allocated regions for service delivery. Consequently, this structured program deprives the three

concessionaires from competing with one another in service delivery since each of them will not be in the same area or region. The obvious flaw of this type of privatization is that the concessionaires will be complacent since there are no competitors and therefore the services given can be sub-standard. In this context, one can again question the credibility of competition in this privatization program, and whether this type of program can be considered efficient and effective in providing service delivery to the public.

5.2.3. Budgeting

The Minister or a representative of the Ministry of Finance is one of the committee members of the Privatization Task Force. From the initial stage of the policy process, the Ministry of Finance is an active actor and participated from the start of the privatization program. The officials of the ministry were involved actively in meetings, negotiations, and bargaining with the private counterparts. Basically, in any privatization exercise there are two criteria being adopted by the Privatization Committee – technical and financial. In the case of hospital support services, the Ministry of Finance was in charge of the financial aspect of the program, while the technical criteria were handled by the Ministry of Health.

5.3. IMPLEMENTATION OF THE PROGRAM

The equity shareholders of the three concessionaires – Faber Medi-Serve, Radicare and Tongkah Medivest – are shown in Table 5-2. As detailed in the table, Faber Group Berhad is the major equity holder for the Northern Zone; a much more balanced

distribution among shareholders is seen in the Central Zone and Eastern Zone between Asia Lab (M) Sdn. Bhd. and Realmild (M) Sdn. Bhd. for Radicare; and finally, Tongkah Holding Berhad is the major equity holder for the Southern Zone.³

Table 5-2: Concession Companies awarded contracts of privatization of hospital support services

Company	Equity Holders	% of equity holders	Zones
Faber Medi-Serve Sdn. Bhd.	Faber Group Bhd. Med Lux Overseas (Guernsey) Ltd. Intensive Quest Sdn. Bhd. Consistent Wisdom Sdn. Bhd.	51 20 19 10	Northern
Radicare (M) Sdn. Bhd.	Asia Lab (M) Sdn. Bhd. Realmild (M) Sdn. Bhd.	51 49	Central and Eastern
Tongkah Medivest Sdn. Bhd.	Tongkah Holding Bhd. Azman Ibrahim Hasutera Sdn. Bhd. Bayangan Hijau Sdn. Bhd. Thermal International (S) Pte. Ltd. Dr. Regine Noran Nuruddin	51 21.53 11.76 8.58 6.53 1.0	Southern

Source: Compiled from unpublished data provided by the Contract and Privatization Division, Ministry of Health (1999).

The Ministry of Health signed an agreement with the three companies for a 15 - year concession period worth RM7.65 billion for the privatization of the management and operations of hospital support services in medical institutions nationwide (*The New Straits Times*, June 20 1997). As said earlier, the program - covering general, district, and nucleus hospitals - was implemented in January 1997 and the exercise involved the downsizing of 3,844 positions with 2,681 civil servants transferred to the companies.

It was estimated that the contract would cost an estimated RM500 million annually. With this program, the concessionaires were to undertake clinical waste management, cleaning services, linen and laundry services, facility engineering maintenance services, and biomedical engineering maintenance services. Faber Medi-Serve was awarded the biggest share with contracts worth RM269.8 million a year to handle the states of Sabah, Sarawak, and the northern zones covering Perlis, Kedah, Penang and Perak. Tongkah Medivest was given the smallest share with RM79.8 million covering the southern zone of Negri Sembilan, Malacca, and Johor, while RM149.6 million was awarded to Radicare Sdn. Bhd. for the central and eastern zones covering Selangor, Kuala Lumpur, Pahang, Terengganu, and Kelantan (*The New Straits Times*, June 20 1997).

With the Concession Agreement signed, the three concessionaires have to abide by the Technical Requirements and Performance Indicators (TRPI) and the Master Agreed Procedures guidelines. Among the requirements are that the companies will have to achieve the ISO 9002 standard by 2001, abide by various regulations such as Environmental Quality Act (Amendment) 1996, Occupational Safety and Health Act 1994 and Scheduled Waste Regulations 1989.

5.3.1. Cleansing

The concessionaires are to supply toiletries and consumables such as toilet rolls and paper rolls and paper hand towels, liquid hand cleansing soap and dispensers, hand dryers and other related items in all contracted hospitals. It is the responsibility of the

concessionaires to have the general areas of the hospitals cleaned. In this case, the cleansing services include the cleansing of wards, clinics, and other areas in the hospital such as lobbies, railings, corridors, staircases, toilets, and other specified areas. The concessionaires are also required to have these areas cleaned in accordance with the Ministry of Health standards and guidelines. Special attention should be given to specialized areas, namely operation theaters, intensive care units, laboratories, and other allied areas. The concessionaires are also required to purchase all existing equipment related to the service and to construct or upgrade central domestic waste storage facilities.

The cleansing services shall be carried out in accordance to good practice and follow the existing and developed procedures in hospitals as set out in the Master Agreed Procedures for cleansing and relevant Ministry of Health guidelines. The guidelines to be adhered to are as follows:

- i. Guidelines on the Control of Hospital Acquired Infection by Medical Services Division of Ministry of Health;
- ii. Disinfection and Sterilization Policy and Practice of Ministry of Health;
- iii. Code of Practice for Prevention of Infection and Accidents in the Hospital, Laboratory and Post-Mortem Rooms, Ministry of Health; and
- iv. Universal Infection Control Precautions, Ministry of Health.

As for the existing hospital workers providing this service, they were to be absorbed by the concessionaires into their organizations, except for nurses and medical attendants who were redeployed in wards and other hospital units.

5.3.2. Linen and Laundry

The linen and laundry service includes the supply of clean and new tailored linen on a rental basis, collection and laundering of soiled linen, and repair of torn or damaged linen. Like the cleaning service, all consumables and facilities for bagging, collection and transportation of linen in this service are to be provided by the concessionaires. However, linen loss in the Ministry of Health stores and during usage shall be borne by the Government.

With the Concession Agreement too, the concessionaires were required to purchase all existing hospital laundry equipment and linen stock. The items are laundry machines, trolleys, weighing machines, and boiler plant. The costs of the purchase were determined by the Valuation Department. The concessionaires are to pay for utilities (electricity, steam, water) tapped from the Contract Hospital if laundry is on site and the rates are to be determined by the government. The concessionaires are responsible for upgrading the existing laundries if necessary.

Collection of used linen from wards and other user departments was to be done daily or whenever required. Infected linen and soiled linen are bagged separately. To prevent cross-contamination, differently colored bags are used. For instance, soiled linen is bagged in white bags, infected ones in red bags, and linen used in operation theaters in green bags. The concessionaires are required to take over existing designated laundry workers. As for the personnel, nurses and medical attendants, who were working at the hospital laundries, they were redeployed in wards or other hospital units.

5.3.3. Biomedical Engineering Maintenance

With the biomedical engineering maintenance, the concessionaires were to provide maintenance for all biomedical equipment, including the supply of spare parts and maintenance related consumables. The concessionaires are to carry out a comprehensive program of planned and scheduled maintenance for all medical and laboratory equipment. They are also to provide effective and responsive repair on all medical equipment and provision of on-call and emergency services. They are to carry out Acceptance Testing as well as safety and performance characteristics on all incoming new equipment.

Among others, the service should abide by the following requirements:

- i. all relevant statutory regulations;
- ii. all recommendations from manufacturers;
- iii. at least two hours on-site response time for repair calls, and shall not exceed 15 minutes on site response for emergency calls; and
- iv. guidelines on Acceptance Testing and in Service Testing of Medical Equipment, Ministry of Health.

5.3.4. Facility Engineering Maintenance

The concessionaires were to maintain the buildings, engineering facilities, and grounds, and they are directly responsible for the operation of all the engineering plants and systems in accordance to legislative requirements. In the process, they are required to

employ the necessary competent personnel such as electrical charge-men and boiler operators. Maintenance is to be comprehensive which includes the supply of spare parts and materials, engineering and equipment consumables (except user consumables), planned preventive maintenance and breakdown maintenance services. A list of the responsibilities is as follows:

- i. to carry out routine inspections, preventive and corrective maintenance;
- ii. to carry out other facility maintenance related activities;
- iii. to provide personnel, tools, instruments, spare parts, materials, transportation, workshops, facilities and anything else necessary to carry out maintenance;
- iv. to arrange and verify warranty maintenance carried out by others; and
- v. to provide technical advice on facility maintenance.

Existing maintenance workshops shall be handed over to the concessionaires. Utilities used in these facilities shall be borne by them. The concession companies shall upgrade existing workshops and build new workshops where necessary.

5.3.5. Clinical Waste Management

After a 1992 Health Ministry study, medical waste was classified as a hazardous waste and included under the Environmental Quality (Scheduled Wastes) Regulations 1989 and the term clinical waste was defined and adopted in 1993 (*The Star*, November 23, 1999). The Health Ministry and the Department of Environment (DOE) define clinical waste, in short, as that which contains, at least in part, human tissue, blood or

other body fluids, excretions, drugs, or other pharmaceutical products, swabs or dressings, syringes and needles or other sharp instruments. Such wastes, unless made safe somehow, can infect any person who comes into contact with it (*The Star*, November 23, 1999). In terms of scope of work, the concessionaires were responsible for the collection, storage, transportation, treatment, and disposal of clinical waste from all the contract hospitals and other Ministry of Health facilities using the clinical waste management services of the contract hospital listed in Schedule 3 of the Concession Agreement.

The concessionaires were to supply consumable items such as waste bins, sharps containers, and specially labeled collection bags. The concessionaires shall collect the segregated waste placed in the dedicated bins and containers in accordance with the agreed schedule. The hospital staff will have to do the segregation of clinical waste from general waste. Collection and transportation of waste from the source of generation to the incineration plant is the responsibility of the concessionaires. The waste incinerated and disposed off by the concessionaires are to meet certain legal requirements. Trolleys and vehicles provided by the companies that are being used for transportation must adhere to the MOH requirements and specifications and all other relevant legislative requirements.

The concessionaires are required to purchase all existing incinerators and other related assets and consumables related to the service at the price determined by Valuation Department. They are also required to upgrade and/or build, operate, and maintain existing and/or additional facilities, such as incineration plants, central and site storage facilities.

5.4. PROGRESS OF THE PROGRAM

Since being launched in January 1997, the privatization of hospital support services program has been expected to adopt and adhere accordingly to the Concession Agreement. On *payment of fees*, for instance, Schedule 7 of the Concession Agreement listed the payment of fees for the types of services. As shown in Table 5-3, there is a pre-determined allocation or lump sum per year on certain payments, like cleansing, facility engineering maintenance and biomedical engineering maintenance; while clinical waste management and linen and laundry are paid according to unit kilogram. However, there are different price rates for services rendered by the three concessionaires; for example, Faber Medi-Serve and Radicare are paid RM3.40 per unit kilogram for linen and laundry for services in Peninsular Malaysia and Faber Medi-Serve is paid RM4.42 for services rendered in Sabah and Sarawak (see Table 5-3 under sub-heading a and c); while Tongkah Medivest is only paid RM2.50 per unit kilogram (see Table 5-3 under sub-heading b). This kind of budgetary allocation would also mean an open-ended allocation, whereby the Government cannot have control of payments or expenditures made. However, the pre-determined or lump sum per year allocation for cleansing, facility engineering maintenance and biomedical engineering maintenance would be much more predictable and easier to allocate.

Table 5-3: Concession Agreement Payment of Fees (Schedule 7)

a. Radicare (M) Sdn. Bhd.

Services	Unit	Central Zone Peninsular Malaysia (RM)	Eastern Zone Peninsular Malaysia (RM)
Clinical Waste Management	Kilogram	5.20	5.20
Cleansing	Lump Sum per year	13.8 million	11.7 million
Linen & Laundry	Kilogram	3.40	3.40
Facility Engineering Maintenance	Lump Sum per year	29.40 million	28.99 million
Biomedical Engineering Maintenance	Lump Sum per year	30.14 million	5.23 million

b. Tongkah Medivest Sdn. Bhd.

Services	Unit	Southern Zone Peninsular Malaysia (RM)
Clinical Waste Management	Kilogram	5.20
Cleansing	Lump Sum Per Year	19.9 million
Linen & Laundry	Kilogram	2.50
Facility Engineering Maintenance	Lump Sum Per Year	25.40 million
Biomedical Engineering Maintenance	Lump Sum Per Year	14.80 million

c. Faber Mediserve

Services	Unit	Northern Zone Peninsular Malaysia (RM)	Sabah (RM)	Sarawak (RM)
Clinical Waste Management	Kilogram	5.20	6.76	6.76
Cleansing	Lump sum per year	31.58 million	11.36 million	12.56 million
Linen & Laundry	Kilogram	3.40	4.42	4.42
Facility Engineering Maintenance	Lump sum per year	60.16 million	27.28 million	28.3 million
Biomedical Engineering Maintenance	Lump sum per year	27.54 million	10.45 million	12.53 million

Source: Compiled from figures in Schedule 7, *The Concession Agreement on Privatization of Hospital Support Services* (1996).

On *personnel*, during the implementation process, the concessionaires contract-out the cleansing services to sub-contractors. Table 5-4 gives a list of companies that have been awarded contracts by the three concessionaires. There are several reasons given for this action taken by the concessionaires. First, the fast turnover rate of the employees who resign from this job has presented problems to the concessionaires, and hence, the need of other workers to take care of the problem. Second, it is cheaper for the concessionaires to sub-contract the cleansing services than by handling it. And lastly, by contracting-out the cleansing services, the concessionaires can tackle other problems and also execute an efficient operation of their services in other areas. As shown in Table 5-4, Faber Medi-serve contracts out its cleansing service to Propel Johnson Controls (M) Sdn. Bhd. and United MHL (M) Sdn. Bhd., Radicare to Harta Maintenance Sdn. Bhd., and Tongkah Medivest to Sinar Jernih Sdn. Bhd.

Table 5-4: Sub-contracting out in the privatization of hospital support services

Company	Types of Service	Name of Company (Sub-Contractor)
Faber Mediserve Sdn. Bhd.	Cleansing	a. Propel Johnson Controls (M) Sdn. Bhd. b. United MHL (M) Sdn. Bhd.
Radicare (M) Sdn. Bhd.	Cleansing	Harta Maintenance Sdn. Bhd.
Tongkah Medivest Sdn. Bhd.	Cleansing	Sinar Jernih Sdn. Bhd.

Source: Compiled from data provided by the Contract and Privatization Division, Ministry of Health (1999).

Except for Radicare, Faber Medi-Serve and Tongkah Medivest have transferred out their personnel (the government employees who opted out to the privatized entities) to the respective sub-contractors. As shown later, this situation became a contentious issue between the employees of the two private companies.

Prior to the implementation of the program, the government and the concessionaires came to an agreement on the number of hospital beds tendered by each of the states. Table 5-5 listed the number of beds tendered by states; the figures are a comparison between 1996 (prior to privatization) and 1997 (at the onset of the program). Obviously, there is an increase of tendered beds in all the states except for Selangor and Kelantan. The state of Selangor figure shows a decrease of 1 percent from 2,383 to 2,358 beds, and the state of Kelantan (ruled by the opposition party) figure reveals a decrease of 3.9 percent from 1,394 to 1,339. The highest increase in percentage are Pulau Pinang at 18.5 percent and followed by Negeri Sembilan at 16.9 percent.

Table 5-5: Number of tendered hospital beds by States

Zone	State	Tendered Bed Numbers (1997)	% from preceding year	Overall Bed Numbers (as on January 1, 1996)
NORTHERN Faber-Mediserve Sdn. Bhd.	Perlis	404	0	404
	Kedah	2,105	7.6	1,959
	Pulau Pinang	2,397	18.5	2,023
	Perak	7,058	1.6	6,944
	Sarawak	3,660	10.7	3,306
	Sabah	3,311	10	3,009
Total	6	15,956	7.7	14,819
CENTRAL Radicare M.Sdn. Bhd.	Selangor (less 25 beds)	2,358	-1	2,383
	Wilayah Persekutuan	2,880	8.9	2,644
	Pahang	1,900	23	1,545
	Terengganu	1,199	4.4	1,149
	Kelantan (less 55 beds)	1,339	-3.9	1,394
	Institutions:			
	a. Inst. of Medical Research b. Public Health Inst. c. Health Education and Communication Center d. National Pharmaceutical Control Bureau			
Total	5	9,676	6.2	9,115
SOUTHERN Tongkah Medivest Sdn. Bhd.	Negeri Sembilan	1,517	16.9	1,298
	Melaka	999	6.8	935
	Johor	5,032	7.2	4,695
Total	3	7,548	10.9	6,808
	Total	33,180	7.9	30,742

Sources: Compiled from data in Schedule 3, *The Concession Agreement on Privatization of Hospital Support Services* (1996).

5.5. CONCLUSION

The privatization of hospital support services involved five types of services: cleansing, clinical waste, linen and laundry, facility engineering maintenance and biomedical equipment maintenance. As explained in the chapter, there were many institutions involved in the policy formulation process of this privatization program. It was not a smooth-sailing course because those institutions involved – Ministry of Health, Ministry of Finance, Economic Planning Unit, Attorney-General's Office and the Public Service Department – encountered problems, especially in the formulation of Concession Agreement. Nevertheless, the privatization program was initiated in 1997.

The three private companies – Faber Medi-Serve, Radicare and Tongkah Medivest – were awarded a 15-year concession period involving a total of RM7.65 billion. The privatization process also involved 2,681 hospital staff that was transferred and distributed among the three companies. On the part of the concessionaires, they were to abide to the Concession Agreement drawn between the Ministry of Health and the concessionaires. How far have the companies succeeded in delivering the services as stipulated in the agreement? What were the problems encountered by the concessionaires and also the Ministry of Health in the implementation process? What could be done to resolve the problems? The answers to these questions will be detailed in Chapter Six. This chapter will specifically look into the findings and observations made with regard to the implementation process of the privatization of hospital support services.

NOTES

¹ In Edward Norbeck and Margaret Lock (eds.) 1987, *Health, Illness, and Medical Care in Japan: Cultural and Social Dimensions*.

² Interview with the Director of Engineering, Ministry of Health, Malaysia, in June 1998.

³ Interviews conducted with individuals in the organizations claimed that the companies who were awarded contracts are politically connected to a certain political party or politically connected to the regime. Faber is a subsidiary of Renong, and is politically connected to a Malay political party, UMNO. Tongkah Holdings is owned by Mokhzani Mahathir, the Prime Minister's son.

CHAPTER SIX

ASSESSMENT AND ANALYSIS: PRIVATIZATION OF HOSPITAL SUPPORT SERVICES

6. INTRODUCTION

The assessment and analysis of the privatization of hospital support services are based on research undertaken and reflect my views on the theories of privatization specific to this case study. Due to the political constraint as a result of financial and economic crises in Malaysia during the time of the research in 1998, I have encountered difficulty in getting interviews, especially that the privatization policy of the country was receiving a lot of publicity and debated in the media at the time.

6.1. FINANCIAL

In order to get a more general idea of the budgetary allocations for the Ministry of Health for the past ten years, Table 6-1 gives an account of the situation. This table shows operating and capital allocations for the Ministry from the year 1990 to year 2000. Since the privatization of hospital support services involves an operating budgetary allocation, the explanation below deals with this kind of allocation.

Table 6-1: Capital and Operating Budget Allocations of the Ministry of Health from 1990 to 2000

(A) Year	(B) OPERATING ALLOCATION (RM million)	(C) <i>Change in operating allocation from preceding year (%)</i>	(D) CAPITAL ALLOCATION (RM million)	(E) <i>Change in capital allocation from preceding year (%)</i>	(F) TOTAL BUDGET (operating + capital)	(G) <i>Change in total budget from preceding year (%)</i>
1990	1,278.1	-	345.7	-	1,623.8	-
1991	1,492.2	16.6	686.5	98.9	2,178.7	34.2
1992	1,798.4	20.5	689.4	0.4	2,487.8	14.2
1993	1,964.5	9.2	549.5	20.3	2,514.0	1.2
1994	2,085.1	6.1	377.1	31.4	2,462.2	-2.1
1995	2,365.7	13.4	428.0	13.5	2,793.7	13.5
1996	2,880.1	21.8	544.6	27.2	3,424.7	22.6
1997	3,219.8	11.8	567.0	4.11	3,786.8	10.6
1998	3,075.4	4.5	609.2	7.44	3,684.6	-2.6
1999	3,612.2	17.5	900.0	47.7	4,512.2	22.5
2000	4,023.2	11.4	908.2	0.9	4,931.4	9.3

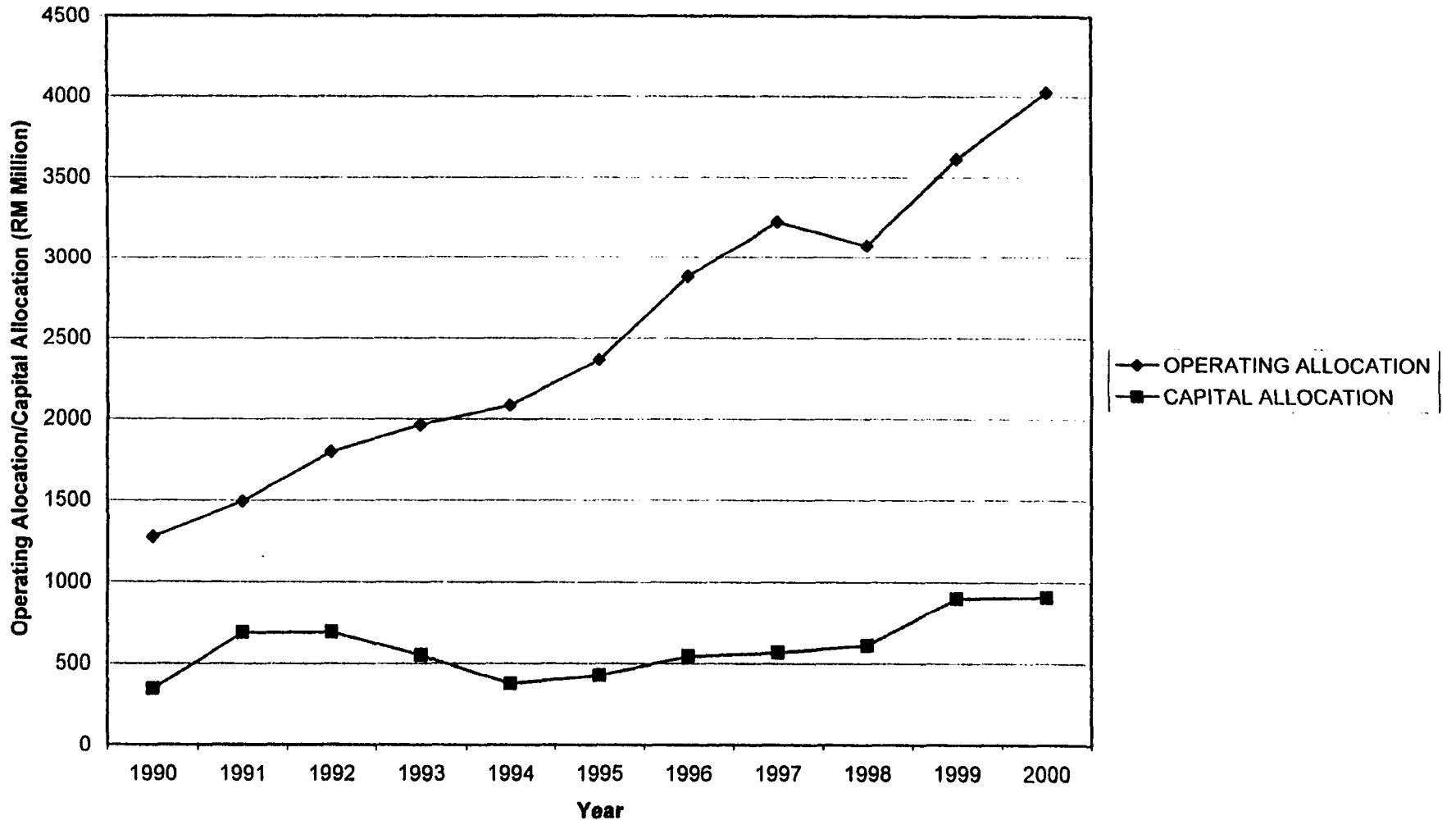
Source: Tabulated from data provided by Finance Division, Ministry of Health (1999).
Fig. 9

On operating allocation (Table 6-1 column B), the biggest allocation made is in year 2000, which amounted to RM4,023.2 million. Taking note that the privatization of hospital support services began in 1997, we can also see the trend of an increase in operating allocation beginning from 1997 (RM3,219.8 million), 1998 (RM3,075.4 million) and 1999 (RM3,612 million). In terms of percentage increase of operating allocation after privatization, there is an increase of 17.7 percent (Table 6-1 column C) in

1999. Within the context of the growth trend in Table 6-1, this increase in percentage could be understood as simply regression toward the mean following extremely small growth of 4.5 percent the previous year. As it stands, it is almost wholly unclear the post-privatization (1997 to 2000) increases average less 11.3 percent than those before privatization (1990 to 1996) 14.6 percent and there were several increases larger than 17.7 percent (in 1992 and 1996). The overall capital and operating expenditure from 1990 to 2000 is best reflected in Figure 9.

The program was first implemented in January 1997 and to date four medical institutions and 127 hospitals throughout Malaysia are involved in this program. During its implementation, 2,681 employees opted out from the Ministry of Health to join the privatized entities. Before being privatized, the annual budgetary expenditure of the hospital support services cost the government RM143 million (USD37.6 million). In comparison, it is about RM500 million (USD132 million) after being privatized. As explained in Chapter One, it has to be reiterated that there are several reasons that have resulted into a drastic increase. The budgeting system known as Modified Budgeting System that is being adopted by the Malaysian government has its weakness. It does not keep track of the actual expenditure on objects or items and thus there is no monitoring of what actually is being spent. A lump sum will be given for all categories of allocations, without taking into account the type of expenditure being made. In the case of hospital support services, the official authority who was interviewed was able to identify RM160 million actually spent on the services and from the amount RM17 million was actually allocated for maintenance purpose. Thus, the remainder RM143 million was the actual expenditure allocated for the five services.

Figure 9: Capital and Operating Expenditure of the Ministry of Health from 1990 to 2000



To give a much clearer picture of the operating budgetary allocation for the hospital support services, Table 6-2 is tabulated. Also, a formal confirmation from the Finance Division of the Ministry of Health states that the expenditure of hospital support services for the year 1996 (prior to privatization) was RM143 million (as explained in the earlier paragraph).¹ The amount of RM143 was the actual expenditure figure in relation to the costs of the five services prior to privatization. The respective figure too does not include emoluments of the employees involved in giving out the services which amount to RM70 million (a figure given by the official authority). If the two figures are added, it would come to a total of RM213 million.

Using the figure from the adjusted estimate of RM213 million (and not RM143 million) for expenditure in 1996 until 1999, Table 6-2 details the payments made to the three concessionaires. In 1997, the three concessionaires were paid a total amount of RM468.5 million, this is an increase of 120 percent of the cost prior to privatization (RM213 million in 1996). In 1998, the three concessionaires were paid a total amount of RM486.9 million or an increase of 129 percent. The year 1998 saw an increase of 3.9 percent of budgetary allocation from the previous year. Again, in 1999, the Ministry of Health made a payment totaling RM507.9 million and this marks an increase of 138 percent, which is more than doubling over the period prior to privatization. The amount paid in 1999 saw an increase of 4.3 percent over the previous year.²

From the figures of Table 6-2, there is roughly a doubling of operating budgetary allocations of the hospital support services since being privatized (see also Figure 10). Again, it should be emphasized here that the calculations made in this table is based on

the RM213 million expenditure made in 1996. Regardless, this trend seems to indicate an annual increase in the allocations. Whether this is going to continue for the next twelve years, the end of the concession period, is yet to be known.

Table 6-2: Payments for Hospital Support Services made by the Ministry of Health from 1997 to 1999

Year	Company	MoH Payments (RM million)	Percent increase between 1996-97
1997	Faber Medi-Serve Sdn. Bhd.	249.4	
	Radicare (M) Sdn. Bhd.	147.0	
	Tongkah Medivest Sdn. Bhd.	72.1	
	Total	468.5	120%

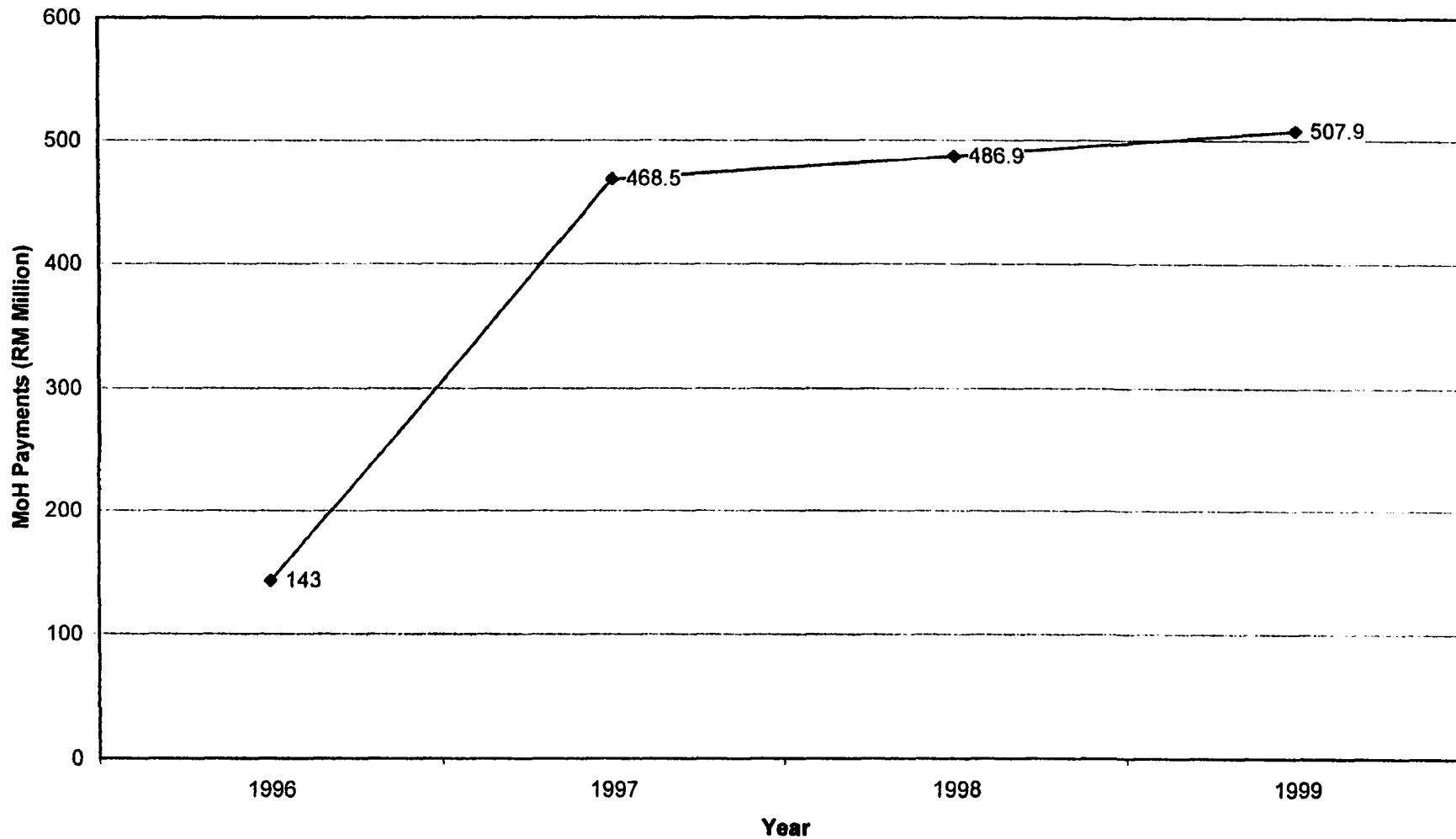
Year	Company	MoH Payments (RM million)	Total percent increase since 1996	Percent increase between 1997-98
1998	Faber Medi-Serve Sdn. Bhd.	262.9		
	Radicare (M) Sdn. Bhd.	150.1		
	Tongkah Medivest Sdn. Bhd.	73.9		
	Total	486.9	129 %	3.9 %

Year	Company	MoH Payments (RM million)	Total percent increase since 1996	Percent increase between 1998-99
1999 Note: Estimated expenditure given for this year.	Faber Medi-Serve Sdn. Bhd.	275.5		
	Radicare (M) Sdn. Bhd.	157.1		
	Tongkah Medivest Sdn. Bhd.	75.3		
	Total	507.9	138 %	4.3%

Note: Total sum of payments made in 1997, 1998 and 1999 include emoluments and maintenance; the year 1996 expenditure does not include emoluments and maintenance.

Source: Computed from unpublished data provided by Finance Division, Ministry of Health (1999).

Figure 10: Payment for Hospital Support Services made by the Ministry of Health from 1996 to 1999



The expenditure figures on hospital support services being projected prior to privatization is a bit complicated and there is a need to be cautious in analyzing and making a conclusion of those figures. However, in the present situation, the maintenance expenditure and the emoluments of the workers are added.

Before going into details with the figures given in Table 6-3, we have to take note of Schedule 7 on Payment of Fees of the Concession Agreement as shown in Table 5-3 (see Chapter 5). As mentioned earlier, three of the five services – cleansing, facility engineering maintenance, and biomedical engineering maintenance – are paid according to lump sum per year. The table shows the specified and exact budgetary allocation to be paid for the services. For easier understanding, the payment made of Schedule 7 on the three services is tabulated in Table 6-3.

After having calculated the figures for the specified amount of payments under the lump sum category as shown from the table above, let us now view Table 6-4 on the Annual Budget Allocation for Types of Services under the hospital support services – cleansing, biomedical engineering maintenance, and facility engineering – a comparison is made on the payment schedule fees with the lump sum category for the year 1997 to 1999. Figure 11 illustrates the percentages of each service of the program and as shown, in 1999, cleansing costs 11 percent of the total budget allocation for hospital support services, 11 percent for linen and laundry, 22 percent for biomedical engineering maintenance, 42 percent for facility engineering maintenance, and 4 percent for clinical

waste management. Facility engineering maintenance has the biggest share in comparison to the other services.

Table 6-3: Concession Agreement Payment of Fees (Schedule 7) paid to the services under lump sum per year category

(A) Services	(B) Company	(C) Zones	(D) Payment of fees (RM million)	(E) Total (RM million)
Cleansing	Faber Mediserve	Northern	31.58	55.5
		Sabah	11.36	
		Sarawak	12.56	
	Radicare	Central	13.8	25.5
		Eastern	11.7	
	Tongkah Medivest	Southern	19.9	19.9
Total				100.9
Facility Engineering Maintenance	Faber Mediserve	Northern	60.16	115.74
		Sabah	27.28	
		Sarawak	28.3	
	Radicare	Central	29.40	58.39
		Eastern	28.99	
	Tongkah Medivest	Southern	25.40	25.40
Total				199.53
Biomedical Engineering Maintenance	Faber Mediserve	Northern	27.54	115.74
		Sabah	10.45	
		Sarawak	12.53	
	Radicare	Central	30.14	35.37
		Eastern	5.23	
	Tongkah Medivest	Southern	14.80	14.80
Total				165.91

Source: Compiled from unpublished data in *The Concession Agreement of Privatization of Hospital Support Services*, Ministry of Health, 1996.

Table 6-4: Percentage of Annual Budget Allocation for Types of Hospital Support Services

(A) Year	(B) Clean- sing (RM million)	(C) % of alloca- tion	(D) Linen & Laundry (RM million)	(E) % of alloca- tion	(F) Biomedical Engineering (RM million)	(G) % of alloca- tion	(H) Facility Engineering (RM million)	(I) % of alloca- tion	(J) Clinical Waste Management (RM million)	(K) % of alloca- tion	(L) Total Budget (RM million)
1997	102.0	21.8	39.3	8.4	102.0	21.8	205.1	43.8	20.1	4.3	468.5
1998	107.1	22	44.4	9.1	106.4	21.2	208.8	42.9	20.2	4.1	486.9
1999	107.2	21.1	53.9	10.6	110.1	21.7	214.9	42.3	21.8	4.3	507.9
Total	316.3	-	137.6	-	318.5	-	628.8	-	62.1		1,463.3

Source: Computed from unpublished data provided by Finance Division, Ministry of Health (1999).

Figure 11: Percentage of Annual Budget Allocation for Types of Hospital Support Services 1999

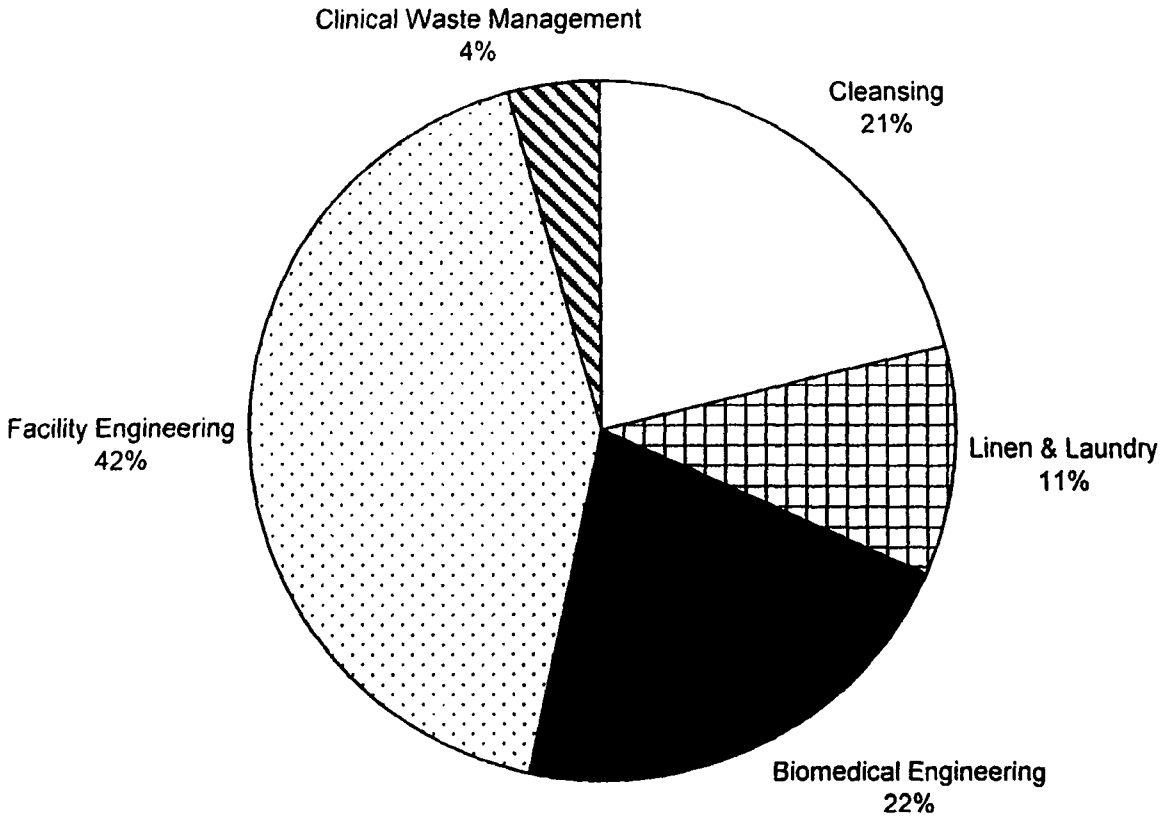


Table 6-5 reflects the actual payments made for the three consecutive years to the three concessionaires. From the table, the figures indicate that for three consecutive years (from 1997 to 1999) there is an increase of 4.5 percent of the lump sum payments as specified in Schedule 7 of the Concession Agreement for the cleansing services. The full amount to be paid to the concessionaires should be RM302.7 million as compared to the actual payment of RM316.3 million. For the facility engineering maintenance, the Government paid 5 percent more than had been agreed in Schedule 7. For the three years studied, the Government paid RM628.8 million instead of RM598.59 million. Finally, for the biomedical engineering maintenance, the Government paid RM318.5 million or 5.4 percent more than the RM302.07 million as also specified in the Concession Agreement. However, it is not known whether the 5 percent increase was due to other agreements made between the concessionaires and the Government of Malaysia.

There are ambiguities in the figures on payments made to the concessionaires. It is acknowledged that there are some “hidden costs” with the payments made on the services, especially with regard to “beyond economic repair” (BER) category items (e.g. beds, chairs, tables) or equipment (e.g. air-conditioners, fans), where the government is responsible to make payments for this type of item. Apparently, the facility engineering maintenance and biomedical engineering maintenance are under this category. Since cleansing services are sub-contracted to other contractors (by the concessionaires), there is still a question of the reasons for the extra payments made for this service.

Table 6-5: A comparison of lump sum category and actual payments made for three types of hospital support services to the three concessionaires from 1997 to 1999

(A) Services	(B) Year	(C) Lump Sum Per Year (RM million)	(D) Actual Payment Made (RM million)	(E) Difference in Payment (RM million)
Cleansing	1997	100.9	102.0	(Total of column D minus Total of Column C)
	1998	100.9	107.1	
	1999	100.9	107.2	
Total		302.7	316.3	13.6 (4.5 % increase)
Facility Engineering Maintenance	1997	199.53	205.1	(Total of column D minus Total of Column C)
	1998	199.53	208.8	
	1999	199.53	214.9	
Total		598.59	628.8	30.21 (5 % increase)
Biomedical Engineering Maintenance	1997	100.69	102.0	(Total of column D minus Total of Column C)
	1998	100.69	106.4	
	1999	100.69	110.1	
Total		302.07	318.5	16.43 (5.4 % increase)

Source: Computed from unpublished data provided by Finance Division, Ministry of Health and figures in *The Concession Agreement on Hospital Support Services (Schedule 7: Payment of Fees)*, 1996.

The question of “hidden costs” in biomedical engineering maintenance and facility engineering maintenance is still questionable if one is to go through the payments made for the respective hospital support services in 1998 by Ipoh General Hospital to one of the concessionaires (see Appendix D). As shown in Appendix D (column C, E, and F), a lump sum or a fixed amount had been paid for cleansing, facility engineering

maintenance, and biomedical engineering maintenance. For example, the specified amount of RM217,800 was allotted from January to December for the cleansing services; RM414,845 for biomedical engineering maintenance; and RM189,907 was allotted for facility engineering maintenance. This table gives an understanding of what the actual payments are for the three services in all contract hospitals should be.

Again, looking at Table 6-4 on Annual Budget Allocation for types of hospital support services, the biggest allocation was for facility engineering maintenance, which amounted to 43.8 percent of the total budget in 1997, 42.9 percent in 1998, and 42.3 percent in 1999. This is followed by cleansing services and biomedical engineering maintenance, and linen and laundry, and finally, clinical waste management. The continuing increase of annual payment in the lump-sum category, which should have been a fixed amount as agreed in the Concession Agreement is somehow debatable.

The annual expenditure increased in linen and laundry activity is because the bed sheets, for example, are weighed before being sent to laundry. Laundry for bed sheets stained with blood due to child delivery and blood of patients involved in accidents, for example, is charged a higher price (RM3.40 per kilogram, in the case of Radicare and Faber Medi-Serve in Peninsular Malaysia). In other words, hospitals with a higher rate of child-delivery and patients involved in accidents are paying more to the concession companies. This agreement has a flaw and the logic for this practice is questionable. Various factors could lead to a much higher payment than anticipated by the government. The factors are: some bed sheets are made of thicker material; the nurses might

accidentally dropped jugs of water on the bed sheets; and wetting of bed sheets when the elderly patients could not control their bladder. These reasons may be some of the gray areas or have not been thought of during the formulation of the Concession Agreement. These factors are among other factors that have contributed to the overall soaring payments made for the privatization of hospital support services.

It was reported that the Health Ministry was monitoring the performance of a company, which had been given the rights to provide maintenance and support services to 123 hospitals and health institutions (*The New Straits Times*, Dec.11 2000). The report says that the Deputy Health Minister, Suleiman Mohd. stated that the company, which was named, had been given a reminder to make improvements and ensure that the services provided were satisfactory.³ He said that if the company was still unable to improve performance, the concession would be withdrawn as it involved clinical aspects. However, the ministry was satisfied with the performance of two other companies which were also awarded a concession for similar services. Suleiman said the privatization of support services had yielded many benefits because, although the cost rose every year, it did not pose a burden to the government.

Ironically, the Deputy Minister's last statement is in contrast with one of the objectives of privatization policy in Malaysia, that is, to reduce the financial burden on government. It had been stressed all along that the government adopted privatization in order to relinquish its financial responsibility on some sectors of the economy and by doing so the government would not have to bear the financial costs of these sectors. The

financial implications as seen from the tabulated expenditure figures in this chapter show that the privatization of hospital support services have incurred heavy expenditure on the part of the government.

6.2. PERSONNEL

To get a better understanding of the personnel's position in the privatized program, a survey based on a questionnaire (see Appendix E) was conducted among the employees of the privatized entities. As is evident, the questionnaire is designed to allow respondents to air their subjective thoughts when answering the questions. Therefore, besides having objective questions, there are also questions that would allow more freedom when responding. Questions 1 to 8 are objective, while questions 9 to questions 20, have both objective and subjective answers. A comment column is seen necessary in order to gauge the feelings of the employees. The target groups for the questionnaire are the managers (Group A), technical support staff (Group B), administrative support staff (Group C), and Industrial Manual Workers (Group D). A total of 130 questionnaires were distributed and only 55 questionnaires, which amounted to 42.3 percent, were returned by the respondents. The female migrant workers, some of whom are suspected illegal immigrants, refused to answer the questionnaire or attend interview sessions.⁴

Besides distributing questionnaires, interviews were also conducted with individuals of the different groups mentioned above. The interviews took place at the respective workplaces. The interviews were conducted with the intention of understanding employees' welfare and nature of re and after privatization. The venues of

the interviews were in closed rooms and interviews were conducted on an individual basis. This precaution was taken with the intention of ensuring that the individual did not feel insecure in giving information.

Based on the questionnaire and the interviews conducted, the following criteria were chosen in analyzing the personnel's perspective in the context of the privatization of hospital support services. The criteria are salary package, working environment, job satisfaction/motivation, organization's efficiency, training, productivity, and employees' welfare. The criteria and result of the research is indicated in Table 6-6.

6.2.1. Salary

A total of 21.8 percent of respondents have had a slight change of salary after having opted to join the new entities. However, 14.5 percent of respondents described the salary package after privatization as excellent, although 5.5 percent felt the salary package was worse than before. The positive respondents in this case believe that the increase in salary has indirectly given them the extra purchasing power. This has resulted into improved living standards for them in addition to enhanced motivation provided by the increased salary package.

Table 6-6: Feedback from respondents on questionnaire on hospital support services

Criteria	Answer	Response (%)
Salary package (Question 9)	a. Excellent	14.5
	b. Slightly better	60
	c. No change	21.8
	d. Worse	3.6
Working environment (Question 10)	a. Excellent	14.5
	b. Good	56.4
	c. No change	21.8
	d. Worse	5.5
Motivation/job satisfaction (Question 11)	a. Much more motivated	23.6
	b. Slightly motivated	60
	c. No change	5.5
	d. Not motivated	7.3
Organization's efficiency (Question 12)	a. Much more efficient	10.9
	b. Better	67.3
	c. No change	9.1
	d. Inefficient	9.1
Training (Question 13)	a. Yes	80
	b. No	14.5
	c. Do not know	5.5
Productivity (Question 14)	a. A drastic increase	47.3
	b. Moderate increase	50.9
	c. No change	0
	d. A decrease	0
Employees welfare (Question 15)	a. Much more concerned	55
	b. Slightly concerned	30.9
	c. Less concerned	40
	d. Not concerned	14.5
	e. Do not know	5.5

Source: Processed data from questionnaire (Appendix E) distributed to the personnel of hospital support services.

Based on the interviews with the respondents, some claimed that those who are newly recruited get better salaries than those who are ex-public sector employees. This resulted in dissatisfaction among former public sector employees, and they blamed management for being insensitive to them. This, too, has made the employees less

motivated, and even though this matter has been brought to the management's attention, they claimed to have been told not to make any further complaints. Some respondents claimed that since the employees do not have unions in their working place, it has been difficult for them to bring their grouses and complaints to the top management. For those who said they are worse off than before, the new salary package is not commensurate with the much heavier workload they have to do.

6.2.2. Working Environment

A total of 14.5 percent of respondents agreed that the present working environment is excellent. A total of 56.4 percent said the working environment is good, and another 21.8 percent felt that there had been no change in the working environment. A total of 5.5 percent felt that the working environment is worse off than before. As observed, the clean and more systematic environment of the working place could also have contributed to the positive thinking of the 14.5 percent of respondents who feel that the working environment is excellent. This kind of environment could lead to customer satisfaction, which then could be reflected with the contentment of the staff.

When interviewed, some employees said that the special clause in the terms of service, where it states that the service of the employees can always be terminated after the fifth year, has created a tense environment between the employees and management. This provision, according to the respondents, has resulted in their being at the mercy of management. The discontent of the staff with regard to their future job status could lead

to demoralization and further deterioration of management-staff or staff-staff interpersonal relationships.

6.2.3. Motivation/Job Satisfaction

A total of 23.6 percent of the respondents agreed that they are much more motivated and have experienced job satisfaction working in the new entities as opposed to 7.3 percent who are dissatisfied with the current situation. Sixty percent of the employees feel that they are slightly motivated in the new organization, while another 5.5 percent think that there is no attitudinal change.

Those who are satisfied with the present privatized entities have the following to say:

- i. the emphasis on discipline and systematic way of doing things have made them more organized;
- ii. the employees derive job satisfaction by the fact that they are part of a new organization with a new outlook and new ways of achieving its objectives;
and
- iii. the new entity provides much-needed training for all employees.

For those who do not derive job satisfaction, the following reasons were cited:

- i. the new entities have given them a heavier workload without commensurate pay increases and these workers feel short-changed by the privatization package;

- ii. the employees expected change in the new organization, but after being in the organization for more than three years, they realize that they are doing the same mundane job as before; and
- iii. the new recruits get better attention than the former government employees, and thus they feel the management is discriminatory.

6.2.4. Organizational efficiency

Sixty percent of respondents feel that the new organizations are slightly better than their former organizations. A total of 10.9 percent of respondents feel that the present organizations are much more efficient, and a total of 9.1 percent of respondents said that there is no change. A total of 9.1 percent felt the organizations are inefficient.

For those who feel that there is no change in the organizations or that the organizations are inefficient cited the following reasons:

- i. the employees are still using the old way of doing things;
- ii. there are many agreements that had been agreed prior to the takeover that have not been carried out. for instance, housing and car loans; and
- iii. management is unreachable for those in the lower levels.

Some even questioned the organizations' motive of sub-contracting the employees to other private companies. It is a complete transfer of personnel and this has caused dilemma among the employees as to where their loyalty should be: the concessionaires or the sub-contracting companies. This raises the question of the

propriety of transferring personnel when under the Concession Agreement employees are supposed to be transferred to the respective companies and not re-transferred to the sub-contracting companies. This issue is considered crucial enough to be re-investigated by the relevant authorities.

6.2.5. Training

A total of 80 percent of respondents said that they have undergone training. The respondents felt that the courses they attended gave them the motivation to work in the new organization. The management had organized training for all categories of employees. The courses were designed to produce attitudinal change, and geared the employees to change their attitude from “public-sector oriented” individuals to “dynamic and competitive thinking” individuals.

6.2.6. Productivity

This criterion could be interpreted as a negative question by the respondents. A total of 47.3 percent of respondents agree that after privatization, productivity increased by leaps and bounds. However, on interviewing them, they felt that although there is a drastic increase in productivity, in reality their workload also increased and this has resulted in dissatisfaction because they are not paid accordingly. It is felt that the increase in productivity has actually resulted into positive outcomes with regard to the status of the hospitals visited. The surroundings are much cleaner and the numerous times of

scheduled cleaning in a day too has maintained the cleanliness in the corridors, wards, operation theaters, and the rest of the areas.

6.2.7. Welfare

A total of 40 percent of employees feel that the management is less concerned with their welfare. They claimed that their welfare is much worse than before joining the privatized entities. There are others who claimed that management is not keeping up its promise in the offering package given to the employee prior to privatization. Among others, the employees are entitled to a position that is better than when they were in the civil service. On this account, they are entitled to housing loans, car loans and whatever other perks and benefits they are entitled in the civil service. However, after having been employed by the new entity for several years, they found that they have yet to be allowed to take up housing or car loans. On top of that, two days of their annual leave have been deducted and they have to work an extra working hour.

6.3. AGENCIES INVOLVED

The coordinated efforts of the central agencies – the Economic Planning Unit, the Public Service Department, Ministry of Finance – seemed to have worked well, especially at the planning stage. The EPU, being the main coordinator of the program, succeeded in getting the cooperation of the other central agencies and also the Ministry of Health, and the Attorney-General's Office. Besides, the EPU had also delegated some actions to be taken at the ministerial level, for example matters involving and pertaining

to personnel. At the ministerial level, meetings were held between various divisions – Service, Engineering, and Finance - of the Ministry of Health to look into the details of the program that would take place in the hospitals and medical research institutions. The Service Division of the Ministry of Health did a thorough study of the personnel matters regarding terms of services and wages. With this, the cooperation of the other agencies, particularly the Public Service Department in guiding direction has resulted in a smooth transition of personnel transferred to the privatized entities. The respective divisions and agencies organized talks, and question and answer sessions for the personnel involved prior to the privatization of the hospital support services. The commendable and intensive efforts made by these agencies have resulted in almost 99.5 percent of the personnel opting to join the privatized entities.

While positive comments could be made about the collaboration of government agencies, the same could not be said of the cooperation between the central agencies and the concessionaires. Especially with the drafting of the Concession Agreements between the government and the concessionaires, there were extensive bargaining and negotiation between the two entities. Each party tried to have a better deal. At the end, after evaluating the implemented program, it seems that the private sector stands to gain the most in the process. For example, the entire Concession Agreement stipulates standards and performance indicators, and failure to adhere to them would result in the concessionaires' being penalized through the agreed deduction formula. However, until 2001, the deduction formula had not been formulated and agreed upon between the concessionaires and the government. This means that since the Concession Agreement

was signed in 1996, there have been no imposed fines for any work that did not conform to the Total Requirement Performance Indicator (TRPI).

The Health Ministry had stepped up investigations into complaints from government hospitals and the public on accusations of poor performance by the three companies contracted to manage and operate hospital support services (*The New Straits Times* June 20 1997: p.14). The Ministry, through its Engineering Division, had commenced investigations following complaints about the lack of cleanliness at government hospitals and the shortage of staff to carry out the services.⁵ Nevertheless, the absence of the deduction formula mean that it will not make any difference to the inefficiencies of the services delivered by the concessionaires and also it will not have a negative financial impact on them.

6.4. EFFICIENCY

The performance indicators measuring efficiency are high productivity, speedy service, low costs, systematic operations, and state-of-the art technology.

As stated earlier, the hospital support services in government hospitals throughout the country were privatized and handed over to three consortiums from January 1, 1997, in a move to increase efficiency. The program, which involves a contract with the government for 15 years, costs about RM500 million annually. It is also aimed at freeing nurses and attendants from such chores as mopping, cleaning wards, corridors and toilets, and also to enable them to give better care to patients.

Despite the huge positive publicity given to the program by the government of Malaysia, it has been widely criticized in national newspapers. For example, it was reported that the hospital support services at the Kuala Lumpur General Hospital (KLGH) has shown little or no improvement after being privatized.⁶ The report was released by the President of the Federation of Malaysian Consumer Associations (FOMCA), Professor Hamdan Adnan. According to him, there were many complaints received from patients, visitors, and staff about the services. Calls were made for immediate action to rectify the situation in the hospital and also the set-up of a task force to monitor the performance of Radicare and the other two consortiums.

The complaints have been taken up by the Ministry of Health and reports of conformance and performance indicators were compiled. On the part of the Ministry of Health, a statement was issued saying that the cleaning services have generally improved since privatization. However, the ministry did not deny that there were some problems with regard to the engineering maintenance services. While criticizing the respective concessionaires, the ministry said that the situation was a result of teething problems, and that, given more time, the concessionaires would improve their ability to fulfill the tasks stipulated in the Concession Agreement. Another factor that was quoted with regard to the engineering maintenance was that most of the equipment (facility and biomedical) is very old and that this itself posed a problem for the concessionaires.

The efficiency of one of the concessionaires, Radicare, came under attack when a blackout occurred at the KLGH.⁷ Since some of the patients were evacuated to nearby

private hospitals, Radicare was asked to foot the bills and costs incurred during the August 10, 1997, blackout at KLGH. Subsequently, after the unfortunate incident, the Ministry of Health submitted to the Cabinet a paper on the blackout, the second major one since privatization. The report claimed that the incident was caused by a damaged underground cable and that it would not have occurred if the workers had carried out comprehensive and proper maintenance.

The defaulted concessionaire Radicare, after being reprimanded for its lack of professionalism in handling the situation, agreed to review its commitment on the entire electrical supply systems in KLGH and other 37 hospitals entrusted to the consortium through the Concession Agreement. To ensure the untoward incident would not happen again, the concessionaire promised to employ consultants to do a full and comprehensive study on the electrical circuits and relay systems.⁸

In accordance with the Total Requirement Performance Indicator (TRPI) of the Concession Agreement, Radicare has also reassured the Ministry of Health that in the future there will be a rapid response system initiated, to operate almost immediately after a breakdown in any hospital to minimize the consequences. In the incident which took place, the national electrical company, Tenaga Nasional Bhd. (TNB), had responded immediately to the emergency by activating its generators at KLGH and by giving full assistance and support to Radicare during the power failure incident. Consequently, the Ministry of Health commented that a direct line between Radicare, KLGH and TNB

breakdown section would also be implemented and the line will be activated in case of power failure.

6.4.1. Cleansing

As shown in Table 6-4 (column B) the costs of cleansing activity itself is RM102 million for 1997 reduced from RM143 million for the overall activities of hospital support services for the year 1996 (prior to privatization). In fact, cleansing activity for 1997 accounted for more than 50 percent of the overall operating expenditure of the hospital support services for 1996. As mentioned earlier, a comparison of the breakdown of payment for the five services in 1996 cannot be made because the Ministry of Health did not have the break down figures for separate activities for the year 1996.

Despite the huge amount allocated for the cleansing services, there were complaints that cleaning services in some wards, clinics and other areas showed no improvement. Other reports to FOMCA complained that the linen and laundry services were slow and that the facility and biomedical engineering maintenance services were not maintained up to par as required in TRPI. It was reported that FOMCA's watch committees throughout the country gave similar feedback on the support services at other government hospitals.⁹

Nevertheless, based on the interviews conducted, most of the hospital staff and also the public agreed that the hospital buildings are much cleaner than before privatization. But there are still gray areas to be found in the Concession Agreement. In

the case of cleansing, the concession companies used vacuum cleaners, water and other electrical utensils/equipment for cleaning of hospitals, but the burden of paying for the utilities (water and electricity bills) is still borne by the hospitals and not the companies. Since the private companies should be held responsible for the payments of utilities consumed, the hospital authorities have to come out with some measures to segregate payments of this kind.

6.4.2. Linen and Laundry

There are still no standardized blanket, bed sheets, pillow-case, hospital gowns, and curtains (as of July 1998); items which should be provided by the concession companies as agreed in the Concession Agreement (signed on October 28, 1996). Interviews done with the two parties, the Ministry of Health and the concessionaires, reveal that the three concessionaires have still not agreed with the type of material to be used and thus the delay in standardization.

Since each segmented area has its own laundry center, hospitals within the premise are required to send their laundry to the relevant center. However, hospital staff complains that every so often there is a mix-up when it comes to the distribution of the cleaned laundry (for example, Town A will get laundry of Town B, and vice versa). There is basis for their complaints. The General Hospitals and District Hospitals for example do not have standardized measurement of curtain railings, pillowcases, and beds. Therefore, delivery of the wrong laundry would cause confusion in the respective hospitals. The other complaint made is that all hospitals have their respective names

printed on the laundry and yet receive laundry from different hospitals. The problems encountered during the process are: different curtain measurements in hospitals; mattresses and pillowcases are of different sizes and therefore could not fit into the old standardized measurement of the hospitals.

As said earlier, this category of service is in the category of lump sum payment. However, Table 6-7 shows that the weight of soiled and clean linen of Bentong District Hospital (in the state of Pahang) was not consistent and there were fluctuations of figures over the months recorded. For example, there was a 41.6 percent increase (column C) in the month of June for soiled linen compared to the month of May (10.5 percent). Subsequently, there is a decrease of 5.4 percent (column C) in July. As for clean linen, there is an increase of 21.0 percent in August and a decrease of 0.4 percent the following month. This again raises the question whether it would be viable for this type of service be given a fixed monthly amount of budget allocation as stipulated in the Concession Agreement where there are great fluctuations of the weight of laundry.

6.4.3. Biomedical engineering maintenance

It has also been reported that the complaints on the hospital support services apply to the facility and medical equipment maintenance, which have become an issue since privatization. A hospital power failure that became national news was blamed on the concessionaire. It was reported that during the power failure the nurses had to manually operate the respiratory machines for patients in the intensive care. This is dangerous as

patients in intensive care unit (ICU) depend on the machines and other medical equipment for survival.¹⁰

Table 6-7: Weight of Soiled and Clean Linen of Bentong District Hospital 1997

(A) Month	(B) Soiled Linen	(C) % change of soiled linen from preceding month	(D) Clean Linen	(E) % change of clean linen from preceding month
January	1219.93	-	1890.8	-
February	1713.60	40.5	1665.4	-11.9
March	1980.60	15.6	2040.8	22.5
April	1648.75	-16.8	1853.1	-9.2
May	1821.30	10.5	2017.8	8.9
June	2579.50	41.6	2180.0	8.0
July	2440.30	-5.4	2638.1	21.0
August	2085.10	-14.6	2628.3	-0.4
September	2297.70	10.2	2546.3	-3.1
October	2658.70	15.7	2771.0	8.8
November	2556.50	-3.8	2812.0	1.5
December	2836.40	10.9	2989.2	6.3
Total	25,838.38	-	28,032.8	

Source: Computed from unpublished data provided by Radicare Sdn. Bhd., Bentong (1997)

When it comes to servicing equipment, the companies take a much longer time when compared to the period before privatization. The reason given is that certain servicing of equipment could not be done by the companies and therefore, a third party

would undertake the task. Since a third party is involved, the rate charged is naturally much higher, costing the government more than before. In one particular case, there was a feud between one hospital authority and a concession company over the servicing of an x-ray machine. Since the x-ray machine broke down and was not available for a long period, the hospital authority had no choice but to send the patients who had to undergo x-ray to a private hospital nearby. The hospital authority then billed the so-called concessionaire for the charges incurred. At first, the concessionaire refused to pay, but later after much debate and persuasion, agreed to the request. This undesirable situation questions the credibility of the concessionaires in providing efficient service to hospital authorities.

6.4.4. Facility engineering maintenance

With regard to the engineering facility, the common complaint has been that it would take ages for the concessionaires to handle repair jobs. And, in most cases, the concessionaires do not have qualified staff and a third party has to take care of the repairs. Thus, this leads to higher charges *to* the government. The hospitals also complained that servicing (e.g. air conditioners) was not done on a regular basis, as agreed in the Concession Agreement.¹¹

In all instances, a building or a section of hospital complexes is taken over by the concessionaire. The section is given for the companies to set-up their offices and they are not required to pay rent or compensate the government for the use of the space. This has deprived the hospitals of space for hospital beds, equipment, office and staff space.

The occupancy of buildings by the private companies at the General Hospitals and District Hospitals has also aroused dissatisfaction among the hospital authorities. The concessionaires do not have to pay rent for the occupancy of the buildings. In most cases, the hospitals are deprived of space for their own use. Not only do the concessionaires occupy the buildings, but also they occupy land around the hospital compound to build and operate garbage disposal machinery and to build their linen cleaning facilities. The encroachment of the private entities on the hospital grounds should be looked into and as to how far it has affected the efficiency of the hospital authorities considering now that they have limited space for themselves.

However, the Ministry of Health was pleased with the measures taken by Radicare to install 10 standby generators and provide emergency lighting to all wards at KLGH. The initiative taken by Radicare was commendable since the KLGH now has a fool-proof system, which guarantees electric supply from TNB through four independent cables. Nevertheless, the government had also taken into consideration that the concession agreements gave the three concessionaires a one-year trial period to implement the support services.¹²

6.4.5. Clinical Waste Management

The efforts made by the government to ensure that clinical waste in hospitals is disposed of via much more technologically advanced methods is laudable. As said earlier, this more systematic method guarantees a healthy and unpolluted environment. The

wastes are separated into garbage plastics of three different colors, depicting three different types of clinical waste: sharp containers, receptacles, and on-site storage.

As discussed earlier under financial implications, the clinical waste is weighed and this means a high financial burden on the hospitals – reaching about a 200 percent increase in costs annually after privatization. Because of the chronic financial situation, some hospitals have returned to the traditional method of disposing some of the clinical wastes on dump sites. This has defeated the purpose of maintaining the environmentally friendly policy, as much publicized by the government. Besides, on a daily basis, one hospital staff has to handle an additional task of supervising the weighing of the clinical waste with their private sector counterpart.

As shown in Table 6-8, the payments made on clinical waste services in 1997 in Bentong District Hospital fluctuates in terms of percentages, but definitely, there is a gradual increased of expenditure throughout the months from RM402.22 in January to RM3,685.76 in December. Appendix G also reflects the same trend whereby in 1998 the weight of clinical waste in rural and district hospitals of Bentong District tend to fluctuate.

Table 6-8: Weight of Clinical Waste of Bentong District Hospital 1997

Month	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Weight (kg)	77.35	342.2	412.7	526.8	452.5	544.5	655.7	647.2	661.3	666.5	648.3	708.8	6,343.85
Payments (RM)	402.22	1,779.44	2,146.04	2,739.36	2,353.00	2,831.40	3,409.64	3,365.44	3,438.76	3,465.80	3371.16	3685.76	32,988.02
% change from preceding month	-	342	20.6	27.6	-14	20.3	20.4	-1.3	2.2	0.8	-2.7	9.3	

Source: Computed from unpublished data provided by Bentong District Hospital (1997).

Consequent to its involvement with clinical waste management, Tongkah Medivest is currently wooing the vast market of private clinics for its clinical waste management sector.¹³ The company commented that the government's efforts in making Malaysia the world's first to have a fully privatized supporting services for all public hospitals, and it was now up to the private sector to follow suit. The private sector had, however, seen the importance of the medical waste management service resulting in 95 percent of them now subscribing to the sector.¹⁴

6.5. SIHAT

Sistem Hospital Awasan Taraf Sdn. Bhd. or SIHAT, a private entity was established in 1997 with the regulatory and supervisory functions in relation to the privatization of hospital support services. The Supervision and Consultancy Agreement (SCA) signed between the Government and SIHAT states that its function was "to ensure that the privatized hospital support services successfully carry out the required level, quality and standard, the government is desirous of allowing the Consulting Company to monitor and supervise the Contractors as well as to provide consultancy services in relation to the privatized hospital support services subject to the following terms and conditions (1997:1)."¹⁵

After the awarding of contracts to the three concessionaires, it was reported that a private company would be appointed to monitor the privatized support services in government hospitals. The company, too, would need to have international experts to do the monitoring and to employ people to go around the country to check on the hospital

services, particularly with regard to bio-medical engineering maintenance.¹⁶ The decision was made because the ministry no longer has engineers and technicians as their posts were eliminated after privatization. The previous engineers and technicians have either joined the private companies which had taken over the services, or retired. As stipulated in the Concession Agreement, the concessionaires must establish a quality assurance program to attain the ISO 9002 standard in five years, but the ministry wanted them to attain the standard by 1999. The hospital directors were told to give their feedback on the privatized services of the concessionaires.

The scope of the consultancy services is to supervise, monitor, inspect, and audit the privatization of hospital support services activities and to provide assistance to the 'Kawalselia Unit' (Regulatory Unit) of the Engineering Division, Ministry of Health in all contract hospitals. As affirmed by Chan, Noorul and Dzulkifli (2000), the SCA signed between the government and SIHAT spelt out its terms of reference, which included:

- i. supervising and monitoring of the contractors' service operations;
- ii. inspecting and auditing the privatized hospital support services against the benchmarked level and quality of performance stipulated; and
- iii. providing assistance and consultancy to the Kawalselia Unit of the Ministry of Health (Engineering Division) in all contract hospitals.

On the role of the Ministry of Health as a regulatory body, the 'Kawalselia Unit' is in charge of monitoring the privatization of hospital support services. This similar role

seems to be carried out also by SIHAT. Thus, there is a duplication of role by the two entities. The same tasks and responsibilities of the two entities have caused much confusion and conflict. This has deepened dissatisfaction between the two entities and also the contract hospitals. SIHAT's shareholders on effective date (October 1998) is shown in Table 6-9.

Table 6-9: SIHAT Shareholders

Name of shareholders	Percentage of shareholding
1. Kejuruteraan Kota Aman Sdn. Bhd.	50%
2. Paramount Merge Sdn. Bhd.	35%
3. QSTD Sihat Sdn. Bhd.	15%
	Total: 100%

Source: *Consultancy Agreement Between The Government of Malaysia and SIHAT, 1997* (unpublished data).

The role of SIHAT in ensuring smooth coordination and cooperation between the concessionaires and the government is still ambiguous. One can question its role as a supervisory or regulatory body. This situation can be looked at in different contexts. Why is there a need to have another entity as a regulatory body (besides the government) to look into matters pertaining the privatization of hospital support services? On one hand, this sends a message to the public that the government has no faith in the workings of its own administrative system. On the other hand, one can also argue for the 'neutral' role of SIHAT in regulating the three concessionaires and in ensuring that they adhere to the concession agreement.

In reality, SIHAT officers are given the task as mediators between the three concessionaires, the General and District Hospitals, and the Ministry of Health. Interviews and meetings conducted with SIHAT officers, the concessionaires, and the five General Hospital's staff who were in charged of the five respective activities showed feelings of dissatisfaction among them, each of them pointing out each other's mistakes or inefficiencies. There are a lot of ambiguities as to the tasks and responsibilities among them.

Table 6-10: SCHEDULE 3 – Fees For SIHAT (1997 to 2001)

Contract Year	Total Fees for the contract year	Unit Rate per month
1 (12 months)	RM 15 million	RM 1,250,000.00
2 (12 months)	RM 13 million	RM 1,083,333.33
3 (12 months)	RM 12 million	RM 1,000,000.00
4 (12 months)	RM 10 million	RM 833,333.33
5 (12 months)	RM 10 million	RM 833,333.33
Total	RM 60 million	

Source: Schedule 3 – *Fees, Supervision and Consultancy Agreement Between The Government of Malaysia and SIHAT, 1997*

There are also hidden costs in the establishment of SIHAT. This private entity has a five-year contract with the government. Table 6-10 is the breakdown of figures on the payments made annually to SIHAT, which comes to a total of RM60 million by the end of the fifth year. Steps should be taken as to whether there is a need to extend SIHAT's contract and whether the payments justify its role in ensuing efficiency of the services

delivered to the hospitals. From the interviews conducted, it is seen that there are several weaknesses with SIHAT:

- i. the body has taken a long time to come out with the formula of reimbursable fees that have to be formulated by the government and the concessionaires; and
- ii. SIHAT officials seem to be confused with the Concession Agreement and are also in the dark as to how to settle some problems, e.g. consumable items.

However, the presence of SIHAT has its advantage as the moderator in times of dispute and misunderstanding between the government and the three concessionaires in relation to the Concession Agreement.

Besides the RM60 million payments to SIHAT, there are other payments that could be considered as added operational costs made by the government. For example, Clause 8(a) of the SCA states, "The Government may make a written request that the Consulting Company carry out all or any of the Reimbursable Services specified in Schedule 4 whereby the Government will specify the exact nature of the said services. Upon such a request the Consulting Company shall submit the estimated costs of such services for the consideration and approval of the Government. If the Government approves such costing the Consulting Company shall carry out the Reimbursable Services with due diligence."

Furthermore, Clause 8 (c) states, “The fees payable to the Consulting Company in respect of Reimbursable Services shall be in accordance with such rates to be negotiated and mutually agreed upon by the parties.” (see Table 6-11 on the Reimbursable Services and Rates). As shown in Table 6-11, there is no list of specified items or a list of criteria to be adopted in the reimbursable service. R1 (b) or fees for supervision of projects is a good example. There is a lot of ambiguity in the statement above. One can ask what kind of supervision, how many supervisors are involved, what kind of payments involved, how does one project differ from the other in terms of payments, and so forth. These are all gray areas that are still debatable. How does the Ministry of Health control the budgetary allocation in this scenario? It looks like an open-ended budget and this kind of budget proves to be inefficient because it would lead to big expenditure without control.

The same situation is experienced when dealing with the three concessionaires: Faber, Radicare and Tongkah. There are still a lot of gray areas in defining what actually constitutes reimbursable services, and how the Ministry of Health deals with the different kinds of payments with regard to the said services.

Table 6-11: Reimbursable Services and Rates between SIHAT and the Ministry of Health

Code No.	Type of Service	Fees and Rates
R1	Feasibility study, detail design and supervision of new projects. Planning and design of new hospital facilities, inclusive of new unbedded institutions. (a) Fees for detail design. (b) Fees for supervision of projects.	To be negotiated. To be negotiated.
R2	Supervision of the Testing and Commissioning of new equipment and facilities for the new hospitals.	To be negotiated.
R3	Technical evaluation and assessment of new equipment and facilities for the MOH.	To be negotiated.
R4	Preparation of specifications and tender documents and carry out tender evaluation for procurement of new equipment and facilities for new hospitals.	To be negotiated.

Source: Schedule 4 – *Reimbursable Services and Rates, Supervision and Consultancy Agreement Between The Government of Malaysia and SIHAT, 1997*

6.6. MANAGEMENT INFORMATION SYSTEM

The Concession Agreement states that the concessionaires have to supply computers and a standardized Management Information System (MIS), with links to the headquarters or the Ministry of Health, the General Hospitals, and the three concession companies. By the Agreement, which was signed in 1996, the concessionaires were given three months to install the MIS. However, the installation was only done three years later, but only within their own organizations with no linkages with the Ministry of Health or

the General Hospitals as agreed in the Concession Agreement. The concessionaires gave several reasons for the delay: the Ministry of Health does not agree to certain MIS package; and the concessionaires and the Ministry of Health have to formulate a standardized formatting of the computer program. Whether the delay would mean a deduction formula would be put into effect is still not known.

6.7. BEYOND ECONOMIC REPAIR

SIHAT is directly involved in the recommendations of classification of equipment under Beyond Economic Repair (BER). Consultants or surveyors will collect all information regarding the equipment deemed BER. The three concessionaires have to provide:

- i. recommendations of equipment to be replaced or removed based on BER criteria;
- ii. justification for the recommendation with relevant data and information; and
- iii. delivering assets BER to hospital condemned item store.

The problem with BER, like the Deduction Formula, is that there is still no agreement on what criteria are to be adhered to between the three concessionaires, the Ministry of Health and SIHAT. All the relevant entities have still not agreed in determining the criteria for BER.

However, there are hidden costs not reflected on paper for the expenditures of BER. For instance, there is a clause in the Concession Agreement which states that the costs of building equipment (air-conditioners, fans, etc.) or items (doors, chairs, etc.) in hospitals which is classified under Beyond Economic Repair (BER) has to be borne by the government. In many instances, it is reported that the private companies want to find the easy way out so they do not have to repair the equipment or items. A BER is issued and subsequently, the government has to make payments. This kind of payment is again not reflected on the expenditure under payment for companies, but it is instead listed under different headings of the Ministry of Health and also to be borne by the Ministry.

6.8. DEDUCTION FORMULA

Schedule 8 in the Concession Agreement states that a deduction formula will be agreed upon by the Ministry of Health and the three deduction companies. Each of the five services has its own set of performance indicators used to monitor their respective scope and service standards. Each performance indicator is accorded a specific number of demerit points according to the relative importance in the performance and conformance to the scope and service standards. Demerit points will be imposed for each episode of non-performance or non-conformance of a particular performance indicator and the demerit points for each performance indicator will be accumulated for the month. However, the Ministry of Health and the three concession companies have yet to come out with the agreed deduction formula. This is to the advantage of the companies because they will not be making payments for slack work. This means for the past three years the three companies have not been fined or penalized for their inefficiencies.

“This is being looked into. We are studying Radicare’s legal obligations under the concession agreement,” Health Minister Chua Jui Meng said when asked if Radicare will be made to bear the cost incurred by the hospital for four critically-ill patients sent to private hospitals during the blackout as reported in *The Sun* (Sept. 9, 1997). Also, the Ministry was looking into the possibility of seeking compensation from Radicare from the second major blackout and that this could lead to financial implications to the consortium should the ministry decide to proceed with legal action, Health Minister, Chua Jui Ming told reporters.¹⁷

The Health Minister restated that there is a deduction system of payment in the agreement under which concessionaires will “definitely suffer financial implications” if their performance falls short of required standards. Asked whether such contracts will be reviewed if another incident occurs, he said that although there are provisions for this, the ministry and Radicare do not expect it to recur.

However, the failure of the concerned parties to formulate the deduction formula as agreed in the Concession Agreement has been a setback to the overall implementation of the program. As agreed, the deduction formula should have been implemented during the takeover of the hospitals by the concessionaires, but the delay has not only caused inefficient and ineffective services but has also affected the credibility of the Concession Agreement.

The two parties concerned – the government and the concessionaires – failed to come to an agreement on a workable formula. In the first place, SIHAT, the body that should be the mediator in all circumstances where dealings take place with the two parties, has also failed to take up its responsibility in ensuring the success of their collaboration. To worsen the situation, the two parties are also dissatisfied with the lack of initiatives taken by SIHAT in solving the matters at hand. The two parties perceive SIHAT as ineffective because of:

- i. the lack of leadership of SIHAT officials in assisting the process of negotiations and bargaining;
- ii. inadequate training of SIHAT officials in conflict resolutions;
- iii. lack of in-depth knowledge of issues at hand; and
- iv. unenthusiastic SIHAT officials because they have to do a wide coverage of areas.

6.9. CONCLUSION

The privatization of hospital support services by contracting-out is a new sector that the government of Malaysia has ventured into. The services being privatized – cleansing, linen and laundry, biomedical equipment maintenance, facility engineering maintenance, and clinical waste management – have encountered problems.

There are several issues that should be made transparent at the initial stage of implementation. These issues could be ironed out during the process of formulation and thus would result into a much more effective program. At the outset, the government

employees involved in the transfer to the privatized entities were not directly involved in the process; instead, they were given briefings by the officials at ministerial level and also the Public Service Department. Basically, these briefings only concerned their services, which would be allocated by the ministry into the three concessionaires. Thus, this process is more like a bipartisan agreement between the Government of Malaysia and the concessionaires, with no involvement or any say from the employees. With regard to their situation, the employees were caught in a position whereby they did not have much choice but to join the concessionaires. The main reason for this is because their establishments/posts in the Ministry were abolished and they were forced to opt for the private companies.

The contents of the Concession Agreements between the government and the concessionaires, and also between the government and SIHAT are vague and ambiguous. Therefore, different parties will have different interpretations of clauses and understandings of the Agreements. This has led to dissatisfaction among the parties, and in the long run it has failed to consolidate efforts in ensuring an efficient and effective program of hospital support services.

The issues and problems have already been detailed and discussed in this chapter but there are several issues that are deemed necessary to be given due consideration, for example, the deduction formula. This aspect of the Concession Agreement would ensure that concessionaires and SIHAT would not act in a lackadaisical attitude in running the program. As mentioned earlier, this type of program is categorized as 'soft services'

which would mean extraneous efforts to ensure of its success and, in most cases, it is the most difficult if not an impossible task to achieve.

However, there are still positive outcomes to be found from the privatization of hospital support services. As observed, there is a justifiable reason for the demonstrated increase in the expenditure of hospital support services after privatization. The wards, corridors and the surroundings of the hospitals are much cleaner. In the case of cleaning services, the rigid and programmed schedule which has to be countersigned by the hospital staff every time the workers of the privatized entities complete their cleaning rounds has proved to be effective.

Also, as demonstrated by some of the respondents in the given questionnaire, they acknowledge that the new status they are in now means that they have extra-income to spend and better living standards. The training that they have to undergo at the outset of their admittance into the new privatized entities has motivated them to better themselves and to upgrade the services given to the public in the future. This entails a transformational and attitudinal change on the part of the employees and the changes have benefited the entities and also the public at the receiving end.

NOTES

¹ The data were given by an officer of the Ministry of Health and he confirmed that the Finance Division did not have the breakdown of expenditure according to the five services that were privatized.

² It should be noted here that RM143 million operating costs in 1996 does not include emoluments and maintenance.

³ *The New Straits Times*, December 11, 2000, "Health Ministry monitoring hospital support services of firms."

⁴ I was told that the enforcement officers from the Immigration Department had made raids in hospitals on the lookout for illegal migrant workers working with the concessionaires.

⁵ It was reported that the Engineering Division, Ministry of Health was liaising with the respective regional supervising officers and hospital administrators on the complaint.

⁶ *The Sun*, June 14, 1997, "Hospital support services poor."

⁷ *The Sun*, March 9, 1997, "Govt. studies Radicare's obligation in blackout."

⁸ The Minister of Health, Chua Jui Meng, said that he is satisfied with the consortium's rapid measures by placing 10 units of standby generators and emergency lightings in KLGH. Radicare was given a stern warning from the minister himself not to let the incident recur.

⁹ *The Sun*, June 14, 1997, "Hospital support services poor."

¹⁰ *The Sun*, June 14, 1997, "Hospital support services poor."

¹² *The Sun*, March 9, 1997, "Govt. studies Radicare obligation in blackout." The Minister of Health states that even if three of the cables are damaged, the fourth cable will be able to supply power to the entire hospital; only in the case of national blackout are generators used for back-up supply.

¹³ *The New Straits Times*, November 8, 1999, "Tongkah Medinvest eyes vast business potential." Private clinics were, at first, reluctant to pay for the service despite giving out a substantial amount of clinical waste.

¹⁴ To date the company, which was given the task of managing Government hospitals in the southern region of the country, had 19 hospitals under its management. The company had recorded an annual turnover of RM70 million in its 2 years of operations – "Our pre-tax profits are however only between RM4 million and RM 5 million as we are providing service at a most competitive price governed by the standard set by the Government. We

view the growth of the business on a long-term basis as we have been given a 15 year contract the Government's privatization scheme."

¹⁵ *The New Straits Times*, March 9, 1997, "Chua: We'll monitor support services." The Health Minister announced that the Government will appoint a consortium to monitor the three companies managing support services in government hospitals and medical institutions. The ministry had to privatize the task of monitoring these companies as its engineering division did not have enough staff to handle it.

¹⁶ *The Sun*, July 18, 1997, p.8 "Firm to keep tabs on privatized hospital services."

CHAPTER SEVEN

7. CONCLUSION

This chapter provides an overall assessment of privatization as experienced in Malaysia. A study on the viability and effectiveness of this policy should be the pursuit of the policymakers in this country. In the course of my research, I have found that the dynamics and also the ineffectiveness of this policy have made an impact on the economic and political sectors of Malaysia.

Going back to the set objectives of the study (see page 5), I have stated the following: comparing the two case studies, analyzing the presence of competition, and how far the Bumiputeras have benefited from this policy. By going into a comparative perspective, it is hoped that it could be of guidance to the policymakers in Malaysia and also other developing countries in formulating, implementing, monitoring and evaluating of this prominent policy. The competition factor will witness the market forces at work which is a significant process in any privatization policy. Assessing the Bumiputeras' achievement in their economic status is linked to the NEP whereby privatization is one of the means to reach the stipulated goal. In the same breath, this would also entail education and training opportunities for the Bumiputeras. Besides assessing the above, I have found other issues during my research deemed necessary to be brought into light.

Before venturing further, below is a brief summary of the findings of the two case studies – Port Kelang and hospital support services. To begin with, the privatization of Port Kelang in 1986, the first entity to be privatized, was supposed to give impetus to the future privatization program of Malaysia. This specific program was hailed as a successful privatization program and was structured in such a way that it intertwined with the objectives of the NEP in catapulting Bumiputeras' participation in the economic arena. Whether this specific objective has been met is still questionable. However, as discussed in Chapter 3 on Bumiputera equity ownership on selected privatized entities, it could be seen that there is a decline in the Bumiputera ratio in comparison to the non-Bumiputeras. In terms of productivity and efficiency, Chapter 5 has elaborated the successful story of Port Kelang: a high increase in percentages of TEUs and ships in the three companies. While I tend to concur that the privatization of Port Kelang is a successful program, but there is a bit of ambiguity and confusion on whether Port Kelang is a truly privatized entity. The companies being awarded the contracts in Port Kelang are government-owned companies, whereby the majority shares are owned by the government. The big question here is: Can the Port Kelang case be categorized as an entity that has undergone privatization process? This is where the confusion comes into being. Hence I have to fall back on my own definition of privatization that I had adopted all along which is, "Privatization refers to the transfer of public sector's activities to private entities. This process of transfer can involve complete or partial transfer. The presence of market forces via competition is seen as an underlying feature in this policy process" (see page 27).

Having understood the definition and looking at the whole process and scenario, I have come to the conclusion that the Port Kelang case is a privatized entity because the elements of private sector, albeit a small portion of the equity ownership, and competition exist between the three terminal operators that were awarded the contracts. Thus, Port Kelang can be seen as a particular variety of privatization.

Unlike the Port Kelang case, the three concessionaires of the hospital support services are from the private sector. This is a clear-cut case of the process of privatization being undertaken and there is also a change of management in the entities. The awarding of contracts to the three Bumiputera companies in this case is seen to be in line with the NEP agenda. However, one of the problems faced by the authorities are unreliability and non-commitment of the three companies towards the 15 year program in rendering an efficient service delivery to the hospitals. Also, the operating expenditure of the hospital support services after being privatized has become an issue. The doubling increase from RM213 million to RM468.5 million or 120 percent in its first year of operation in 1997 had caused alarm to the policymakers. In the first place, reducing the government's operating expenditure is one of the objectives of the privatization policy in Malaysia. The debate now is how much more will it cost in the future, and is there ever a ceiling to the costing? Maybe the government has to resort to other alternatives that are more feasible, especially with regard to the financial aspect of it. In line with this, the other avenues of service delivery for the public, e.g. non-governmental organizations, is discussed at the end of this chapter.

As shown from the two case studies discussed in the earlier chapters, there are invariably some issues and problems of the policy that need to be addressed. Maybe a review of the policy, a revamp of the present agencies involved in the phases of policy process, and the establishment of agencies will enhance the credibility of the policy. Thus, besides making comparisons, some proposed reforms will be forwarded for further study and discussions.

On the overview of the policy and based on the research undertaken, I believe that the privatization policy of the country is at the crossroads. The regional financial crisis, which struck the Asian region in July 1997 trimmed Malaysia's economic growth considerably. Prior to the crisis, the privatization policy had not been a debated issue in Malaysia, but the crisis revealed the weaknesses of the supposedly 'successful' privatization policy of the country. As discussed briefly in Chapter Three, this is especially true when the government started bailing out failed privatized entities thus reversing the benefits of privatization. In the process of bailing out, the Bumiputera businessmen – recipients of the bailouts – were seen to be the cronies of the regime who stood to gain from the government bailouts. The action of the regime created dissatisfaction among the population, especially the Bumiputera masses.

Before making comparisons of the two case studies, let us first look into the private-public sector relationship. The public sector should not be relegated to the periphery, as has been the case but in fact should complement the existing privatized entities. The public sector's drive towards efficiency, transparency, and accountability

engineered by the Public Service Department, should be a guiding force to the existing privatized entities. While there is much literature on adopting and adapting to the above objectives, over reliance on corporate figures or the private sector by the government has dampened the morale of the public sector. With regard to the above statement and also based on the two case studies, the Ministry of Finance and the Economic Planning Unit should reconsider the awarding of contracts of privatization, especially with regard to “first-come, first-served” mode. Some measures have to be put in place to ensure and instil transparency and accountability particularly in the awarding of contracts. This would reduce allegations of cronyism and nepotism. This is particularly clear in the list of concessionaires in the hospital support services who are alleged to be politically well-connected individuals. The concessionaires – Faber Mediserve Sdn. Bhd., Radicare (M) Sdn. Bhd., and Tongkah Medivest - are strongly linked to UMNO and the leaders of the party. The criterion of related expertise in the respective area of privatization seems to be given a back seat. As in the case of contractual awards, the concessionaires of hospital support services were given 15 years contract from 1997 until 2012. After three years in operation, the Ministry of Health realized that the concessionaires did not have the relevant expertise in the respective area and hence that accounted for poor and inefficient service delivery. The Ministry could have terminated the contract but it would entail a lengthy and cumbersome process. More significant was the fact that these concessionaires were politically linked companies. All these factors do not help in the terminating of the concessionaires contract. It is felt that the contract should have been awarded for a much shorter period, maybe for three years, and from then on evaluation should be

made on the performance of the concessionaires whether to extend or terminate their contracts. The same observation was also found to be true on the awarding of the contract to the private regulatory authority, SIHAT. The shareholders too are linked to the regime.

With regard to Port Kelang, a slightly different scenario is depicted. The contracts were awarded to the three private terminal operators who are actually mostly government-controlled companies and the government is a major stockholder in the companies. This brings to mind the question of whether it is necessary at all to privatize Port Kelang or whether a management contract would be appropriate in this case. This issue again was brought up by Goh and Jomo (1995) with a suggestion that managerial and organizational reforms are required in the case of Port Kelang and not necessarily privatization.

On patronage and awarding of major contracts, Gomez and Jomo in *The Malaysian Political Economy: Politics, Patronage and Profits* (1998) allude to the political connections involved in the awarding of major contracts under the privatization policy. Both authors see a strong correlation between political figures and the selected few Bumiputera businessmen who were awarded projects worth billions of ringgit. The issue of patronage is often criticized in any privatization policy, especially in developing countries. While the government of Malaysia, after the economic slowdown, is now gearing itself to launch a new phase of privatization, it must ensure that cronyism and nepotism will not be entrenched in the policy.

The political patronage factor in the privatization process has had negative consequences for the socio-economic situation of the country. There have been accusations that corruption, cronyism, and nepotism have been pervasive in the privatization policy. The extent and seriousness of this situation is yet to be evaluated. The hearsay of these stigmas is already being much discussed by the public and the opposition controlled media. For privatization policy in this country to be successful, various stakeholders and policy-makers should make efforts towards a clean, transparent, and accountable administration. Past experiences have shown that without transparency, the privatization policy of this country or elsewhere, for that matter, is doomed. Hence, rents should be awarded based on merit rather than patronage.

On the organizational aspect of privatization, what actually happens is only a transfer of uniform from public to private sector. How much attitudinal change has taken place is not known. This is not to say that public sector employees are less efficient, but with the anticipated investment in personnel enhancement, private entities are expected to produce a much more qualified, resilient and well-trained personnel. This depends on the commitment of privatized entities towards this goal. Among the concessionaires, Radicare (M) Sdn. Bhd is found to be more committed towards the program. This company does not transfer its workers to other sub-contractors and this means that it practices "in-house" operation, utilizing its manpower in the overall operation of the program. Besides, the employees were given special training in management, leadership and skills at the outset of the transfer to the organization. In the case of Port Kelang, it has retained all the transferred employees of Kelang Port Authority to the private

companies. Therefore, there is no question of sub-contracting of the employees or hiring of foreign workers. The advantage for the employees in Port Kelang is that they have managed to maintain the workers' union in the new organizations and thus they have more clout in demanding or taking care of the welfare of their members. This is not so in the case of the employees of hospital support services, whereby the absence of venue to voice their opinions or grouses via trade unions has resulted in employees' welfare not being taken care of.

On the R & D factor, again, it is assumed that with privatization there is an improvement in technological know how and in the skills of personnel. Towards this objective, the private entities will have to spare resources to ensure that the adopted technology is not stagnant and obsolete. Efforts should be geared to develop advanced technological knowledge not only among the personnel, but also in the services provided. While at the initial stage of developing the technology, expatriates can be hired, the transfer of skills to the indigenous should be made a priority by the privatized entities. As shown in my case study, there are certain efforts made toward this objective in the operation of the new incinerators in the privatization of hospital support services. However, it was learned that the concessionaires are not overzealous in developing this aspect of R&D considering that the contract will end and there is no need to invest in this kind of activity. It is different with Port Kelang, which has seen a lot of positive changes made by the management, for example, heavy investments in maintenance and upgrading of facilities and to stay in competition with other ports in the region, especially Singapore port. This positive competitive attitude among the private terminal operators has

succeeded in making Port Kelang as one of the busiest ports due to its enhanced status via the introduction of state of the art technology.

The issue of regulatory authority is also one of the prominent issues discussed in any privatization policy. The civil servants are the heart and core of ministries and agencies, and their importance in policy implementation is undeniable. Since civil servants are directly involved at the outset of the privatization projects or programs; and subsequently are actively involved in the process of formulation, budgeting, implementation and evaluation, they should be responsible and fully committed at every stage of the policy process. For instance, the evaluation phase is an area that is very much neglected by policymakers and implementers in Malaysia. There should be a consolidated effort in rejuvenating this policy aspect and there must be efforts to establish an entity specializing and focusing on the evaluation aspect. This is not a far-fetched proposal considering that the regulatory framework of the privatization policy in Malaysia is weak and much could be improved from feedback and inputs from various quarters in ensuring future accountability and transparency. An example of a weak regulatory authority can be noted from the privatization of hospital support services. The presence of SIHAT as a private regulator has created confusion and dissatisfaction among the hospital authorities. The effectiveness of SIHAT in providing the services stipulated in the Concession Agreement with the government is questionable because of its weak establishment and the lackadaisical attitude of its staff. As mentioned in Chapter Six, there is no evaluative effort made after the regulatory services were privatized to SIHAT and thus there is no feedback of the establishment's effectiveness. If SIHAT undergoes evaluation, the public

too must be given access to reports, information, financial figures, and others of the establishment. This act is desirable and can provide transparency and accountability on the part of the regime.

As stressed in the earlier chapters, the role of a regulatory authority is important and vital in ensuring efficiency. The regulator would ensure compliance as stipulated in the concession agreement. There is also the question of whether a government regulator or a private consultant, like SIHAT is more efficient. As discussed earlier, SIHAT does not live up to expectations and is not performing its role efficiently. In fact, its presence has caused confusion because of overlapping responsibilities between itself and the ministerial regulatory unit, Kawalselia Unit.

On the other hand, Kelang Port Authority as a regulator of Port Kelang has not encountered as many problems as in the case of hospital support services. Various interpretations can be made out of this statement. It is reasonable to assume that having a single government regulator in the case of Port Kelang avoids overlapping functions and thus reduces confusion. This is one area that the government has to investigate.

The New Economic Policy (1971-1990) is another prominent factor that is inextricably linked to the privatization policy of Malaysia. The NEP specifically targeted at the Bumiputeras to ensure their economic well-being is now under scrutiny and remains another political factor that will influence policy making in Malaysia. Rents are awarded to a select few in this group with the intention of enhancing their economic,

education, and social status. Many of the Bumiputeras who received rents from the NEP failed to utilize them adequately and have become more dependent on government. As stated by the Prime Minister himself in his published work, *The Way Forward* (1998), this negative situation called for amendments by the government: hence, privatization is seen as an alternative to eliminate the 'Ali-Baba and subsidy mentality' of the Bumiputera by focusing on a small group of capable Bumiputeras with technical expertise, experience and qualifications, who will then provide the 'trickle-down' effect to the rest and thus wealth will be dispersed. Depending on the situation, the expectation of successful Bumiputeras spreading wealth is at times problematic. The privatization of hospital support services is a case in point. It is alleged that the concessionaires "transferred" their personnel to sub-contractors and provided a certain portion of the government's allocation they received for payments to the sub-contractors. Although the concessionaires are said to be getting payments, the handling of the services in the program are actually carried out by the sub-contractors. This means that the full operations of hospital support services is done by the sub-contractors themselves while the concessionaires (two of them) are not involved in the implementation phase at all. This, too, has caused some dissatisfaction on the part of the Ministry of Health and the hospital authorities. The act of the concessionaires can also be interpreted as detrimental to the implementation of the NEP.

On the other hand, in the Port Kelang case, the private terminal operators are totally involved in the operation and maintenance and upgrading of the vicinity. They are much more committed as concessionaires and have not created much problem to the

regulatory authority, Kelang Port Authority, and also Ministry of Transport. On top of that, the privatization of Port Kelang has also succeeded in establishing it as a reputable port of call.

Efficiency, it has been suggested, can be achieved via means other than through privatization. Among the characteristics of efficiency are increased labor productivity, reduced costs in services given, quality of services given, and the speed of delivery of services. The mentioned characteristics do not need the creation of free-market mechanisms to exist. Even though it can be argued that privatization which then led to efficiency is achieved through free-market practices, the findings of the second case study show otherwise. In fact, the expenditure of hospital support services rose two times from RM213 million in 1996 (prior privatization) to RM468.5 million in 1997 or an increase of 120 percent after privatization. The subsequent years witnessed further annual increases of 3.9 percent in 1998 and 4.3 percent in 1999. Undeniably, there is a doubling increase in operating expenditures and this increase still is not in line with one of the five stipulated objectives of Malaysian privatization, namely, to reduce government's budgetary expenditure. Thus, one can deduce that while the privatization policy can lead to efficiency in some programs, it is not a blanket solution. The public sector, in this case, can fulfill the above characteristics and be efficient as well.

The situation in Port Kelang, on the other hand, witnesses the government receiving revenues – tax and rental – from the private terminal operators. At the outset of the program through its sales and lease of assets, the government received RM111

million from Kelang Container Terminal, 361 million from Kelang Port Management, and RM110 million from Kelang Multi Terminal.

Efficiency can be achieved without privatization. Maybe this is a lesson to be learned by the Malaysian government and other governments of the South. To an extent, the privatization policy is applicable in some context, but it is not a universal panacea for all economic ills. While proponents of the free-market see privatization as the ultimate solution, in reality efficiency can be achieved without having to resort to privatization. Administrative and organizational reforms can play a crucial role in State's interventions. The Public Service Department via the numerous ministries, federal departments, State departments, district offices, and municipal offices has a heavy task in implementing these reforms. The reforms will have to encompass all criteria of efficiency and high productivity, for example, training in finance and management at all levels. Accordingly, a combined effort of administrative and organizational reforms will be imperative. Incentives in the form of monetary and excellent awards can motivate the staff to achieve higher goals in their respective tasks. If these reforms are successful, it might be proven that there is negligible correlation between efficiency and privatization.

Privatization advocates usually claim that enhanced efficiency will be achieved through the interaction of private ownership and competition. In the Malaysian context, however, privatization has not been accompanied, in some instances, by any significantly increased competition. The concessionaires of hospital support services never experienced competition among themselves. Each concessionaire is operating on a

segmented area basis. This has therefore eliminated the competitive element in service delivery of hospital support services. The absence of the competitive element in this program has resulted in negative and inefficient service delivery by the concessionaires. Since there is no fear of one company ousting another with the absence of competition, the concessionaires can afford to adopt a lackadaisical attitude towards the whole program. It is a totally different scenario in the case of Port Kelang whereby the three private terminal operators compete among themselves by investing in modern facilities to lure customers to their vicinity. As shown in the TEUs and ships figures in Chapter Five, one can observe the presence of competitive element in Port Kelang, whereby Kelang Multi Terminal has made heavy investments and finally it has also succeeded in luring ships away from its competitors, Kelang Container Terminal and Kelang Port Management.

Having gone through the comparisons of the two case studies, it is felt that there are other strategies and reforms that can be adopted by the Malaysian government in ensuring economic growth and prosperity. Besides adopting privatization, the government may need to look into other strategies that can complement privatization. Maybe this is something untested in the context of the developing world, but the utilization of non-profit organizations to perform the tasks formerly carried out by the public sector should be introduced. In the developed economies, some tasks like sub-contracting of cleaning or hospital maintenance are taken up by non-profit organizations, and payment for the services rendered are made through grants. As the status implies, non-profit organizations that champion social welfare will work on the basis of social

obligations to society. Thus payments made by the public sector are much less than when the services are privatized. As to how far the existing non-profit organizations in the country have the knowledge or expertise to provide services of quality is another issue. Maybe in the long run the government could help by encouraging the development and involvement of this type of organization in service provision.

This again brings us to the understanding of the terms of '*hard*' and '*soft*' services. These terms are important to differentiate the viability of certain projects that are considered to be privatizable. To say that all sectors of the economy can be privatized could lead to disastrous outcomes. Privatization should be considered as a means and not as an end. This again questions the Privatization Masterplan with its list of entities to be privatized. Projects eyed for privatization should be categorized into '*hard*' or '*soft*' services based on the socio-economic consequences that occur when they are privatized. This brings us to the two case studies. As said earlier, hospital support services is categorized as "*soft*" services whereby the consequences of privatization will have an impact on the vulnerable groups. Port Kelang, however, is categorized as "*hard*" services and thus the impact on the population would be very minimal or negligible.

Efforts towards administrative reforms of the public sector should be high on the agenda of the Public Service Department. Administrative reforms in the form of training, new organizational set-up, fast decision-making, and clientele-consumer office environment should be created. A fully transparent administrative system would be ideal. More participation by the people in governmental activities would ensure more

understanding of the government's development agenda. Policies for the masses are best channeled through the people before they are endorsed. Only then, can there be success in its implementation. Put simply, a bottom-up approach, as posited by many scholars of public policy is preferable to a top-down approach especially in service-oriented policies like the hospital support services.

As for the transparency of the privatization policy, the question remains whether the government is ready to establish an independent body looking into the privatization projects or programs. Such a body should have access to information pertaining to the programs, beneficiaries of the policy, and implementation process. To ensure its neutrality, this body should consist of policy makers, non-governmental organizations and outstanding citizens. Again, as past experiences have shown, politicians should not be part of the process to avoid factionalism and dissatisfaction amongst the various political components of the government.

On the issue of accountability, stakeholders and policy makers will have a momentous role if they are to eliminate corruption, cronyism and nepotism. This will ensure the people's social welfare would not be jeopardized in the process. No doubt, it is a huge and pivotal task, but there is no alternative: the lessons of yesteryear have shown that the public will not tolerate policies that deprive them of their social rights.

There are many aspects of privatization policy in Malaysia that other researchers can look into. Since the bailing out of failed privatized entities by the government has

become an issue of late, it would be interesting to have an in-depth study on this aspect of privatization. Questions can be asked as to the factors and reasons that led the government to succumb to this approach and its impact on the socio-economic and political life of Malaysians. Indirectly, new studies can also look into the aspect of “cronyism and nepotism” in relation to this policy.

Concerning the political and economic crises that took place three years ago, which could then be interpreted in the context of the present state of privatization in Malaysia, Jomo Kwame Sundaram, a prominent political economist in Malaysia, puts it succinctly:

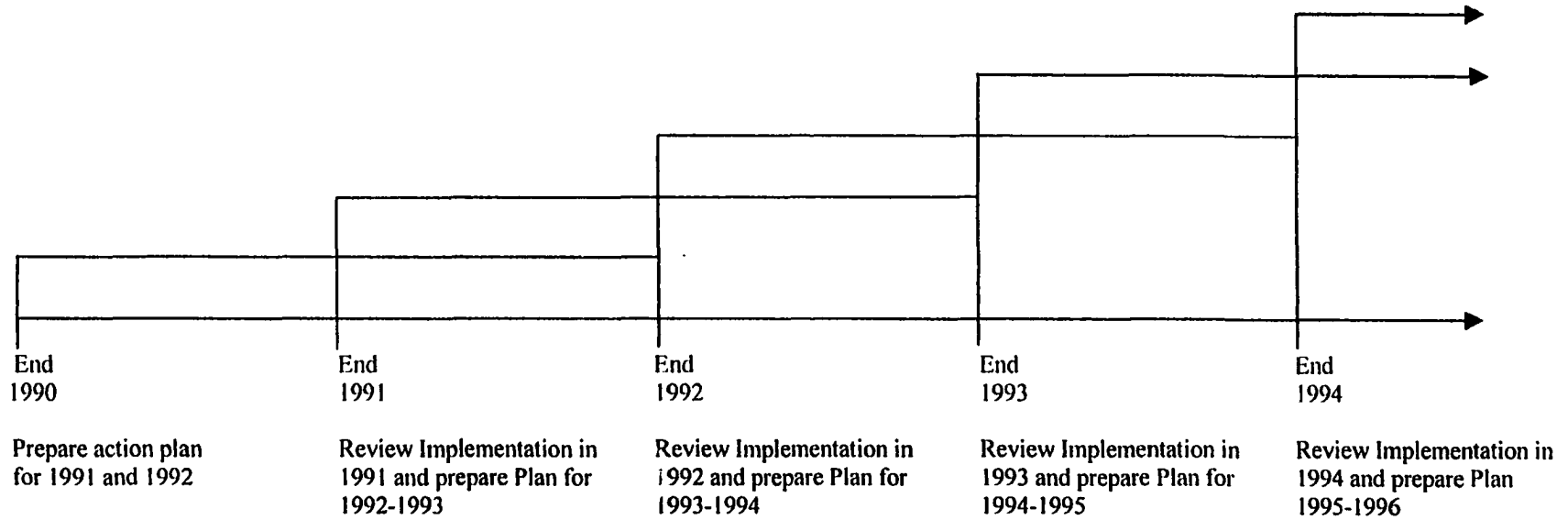
...the unexpected developments and accompanying effervescence are also forcing ordinary people to think of alternatives, of reform, of new institutions for the creation and sustenance of a more decent and just society rid of dominance of political business, money politics and related depravities. Beyond Mahathir versus Anwar, the legitimacy of many official institutions and public faith in them, pronouncements, this is unlikely to descend into anarchy, but rather, is leading to language or idiom. While the reform movement may fail, Malaysian politics and political culture will never be the same again (*Suaram* Nov. 1998).

The above statement holds some truth. There is now an urgent insistence for accountability and transparency, especially with regard to future privatization programs from the public. Thus the privatization policy is now at a crossroads. Good governance is the agenda of the day. The public cannot be denied access to information, facts, figures, and processes involved in privatization policy and, thus, their rights to obtain all the above. There is no turning back. Since the regional financial crisis in 1997 and followed by leadership crisis involving Dr. Mahathir and Anwar Ibrahim, the Malaysian political environment has changed. The political culture does not tolerate secrecy and ambiguity in

the political system. And it seems that, in relation to privatization, the survival of the policy and the current regime is developing along this new trend.

APPENDIX A

ROLLING PRIVATIZATION ACTION PLAN



Source: Privatization Masterplan (1991).

APPENDIX B

SUMMARY INDICATORS OF THE MASTERPLAN PROGRAMME

	0100 Agriculture	0200 Forestry & Logging	0300 Mining & Quarring	0400 Construction	0500 Manufacturing	0600 Transportation	0700 Utilities	0800 Finance	0900 Marketing & Distri	1000 Hotel & Recreation	1100 Medical	1200 Real Estate	1300 Other Services	1400 Investment	1500 Govt. Admin	TOTAL
GOFs Involved (Number)																
Classification 1	12		4		11	9	4	3	2	6		5	8		5	69
Classification 2	14	3	2	2	23	10	9	6	8	9		2	15		4	107
Classification 3	5	1	3	1	4	2	1	2	1		12		38			70
	31	4	9	3	38	21	14	11	11	15	12	7	61	0	9	246
Employees Involved (Number)																
Classification 1	5,681		382		5,415	15,640	35,551	3,453	263	164		134	6,689		2,006	75,378
Classification 2	10,369	2,031	249	267	6,592	14,615	34,137	4,845	1,477	2,022		87	3,121		708	80,520
Classification 3	314	152	804	765	909	502	585	182	1,431		21,041		15,529		42,214	
	16,364	2,183	1,435	1,032	12,916	30,757	70,273	8,480	3,171	2,186	21,041	221	25,339	0	2,714	198,112
Emoluments Involved (\$'000)																
Classification 1	25,043		2,265		35,114	164,221	224,453	48,873	3,091	1,115		1,564	53,262		20,473	579,474
Classification 2	65,596	19,867	1,952	2,980	85,102	126,299	338,771	57,818	18,587	11,385		540	24,148		7,473	760,518
Classification 3	2,445	1,458	14,689	8,410	16,740	4,467	2,020	2,925	2,855		196,843		160,338		413,199	
	93,084	21,325	18,915	11,390	136,956	294,987	565,244	109,616	24,533	12,500	196,843	2,104	237,748	0	27,946	1,753,191
Value Involved (\$'000)																
Classification 1	420,158		13,385		327,063	871,234	1,000,000	512,178	40,534	80,497		268,290	0		0	3,533,341
Classification 2	949,041	335,115	0	18,731	514,771	970,462	6,002,895	547,792	93,100	89,724		11,921	42,936		0	9,576,489
Classification 3	2,790	0	206,675	1,236,113	1,307,612	0	0	209,665	264,300				0		0	3,227,155
	1,371,989	335,115	220,060	1,254,844	2,149,446	1,841,696	7,002,895	1,269,635	397,934	170,222	0	280,212	42,936	0	0	16,336,984

Key: Classification 1 – privatizable in the short term (within 2 years), Classification 2 – privatizable in the medium term (2-5 years), Classification 3 – privatizable in the long term (over 5 years)

Source: Privatization Masterplan, 1991.

APPENDIX C

Number of personnel involved in the privatization of hospital support services by states

State	Number of personnel
Wilayah Persekutuan (including institutions)	275
Selangor	172
Pahang	140
Kelantan	173
Trengganu	142
Perlis	45
Kedah	196
Pulau Pinang	146
Perak	473
Sabah	148
Sarawak	262
Negri Sembilan	162
Melaka	86
Johore	261
Total	2681

Source: *Sub-Committee Report on Personnel of Privatization of Hospital Support Services, Ministry of Health (1996).*

APPENDIX D

Payments made to Faber Medi-Serve Sdn. Bhd. For Hospital Support Services at Ipoh General Hospital

Month	(A) Laundry		(B) Cleansing	(C) Clinical Waste		(D) Biomedical Equipment	(E) Facility Engineering	Total
	Kg.	RM		Kg.	RM			
Jan.	47,166.65	160,366.60	217,800.00	3,831.10	19,922.76	189,907.00	414,845.00	1,006,672.46
Feb.	35,505.80	120,719.72	217,800.00	4,634.90	24,101.48	189,907.00	414,845.00	972,008.10
Mar.	42,608.67	144,869.48	217,800.00	5,851.60	30,428.32	189,907.00	414,845.00	1,003,701.40
Apr.	41,498.60	141,095.24	217,800.00	6,379.00	33,170.80	189,907.00	414,845.00	1,003,197.04
May	42,518.23	144,561.98	217,800.00	6,819.50	35,461.40	189,907.00	414,845.00	1,009,394.88
June	44,517.70	151,360.18	217,800.00	6,256.00	32,533.28	189,907.00	414,845.00	1,012,701.46
July	50,061.10	170,207.74	217,800.00	6,816.00	35,443.20	189,907.00	414,845.00	1,035,018.94
Aug.	52,435.90	178,282.06	217,800.00	7,360.20	38,273.04	189,907.00	414,845.00	1,046,467.30
Sept.	49,836.76	169,444.98	217,800.00	6,745.10	35,074.52	189,907.00	414,845.00	1,033,816.60
Oct.	52,526.64	178,590.58	217,800.00	7,529.40	39,152.88	189,907.00	414,845.00	1,047,824.86
Nov.	53,522.22	181,975.55	217,800.00	7,219.10	37,539.32	189,907.00	414,845.00	1,049,285.97
Dec.	53,309.45	181,253.13	217,800.00	7,035.60	36,585.12	189,907.00	414,845.00	1,047,425.85
Total	1,922,727.24		2,613,600.00	397,686.12		2,278,884.00	4,978,140.00	12,267,514.86

Source: Administration Division, Ipoh General Hospital (1998).

APPENDIX E

Responses on the Questionnaire by Personnel of Hospital Support Services

Questions	Choices	Response (%)	Number of respondents
1. Race	a. Malay	96.4	53
	b. Chinese	1.8	1
	c. Indian	1.8	1
	d. Others	0	0
2. Sex	a. Male	78.2	43
	b. Female	18.2	10
	* No response	2	2
3. Marital status	a. Married	87.3	48
	b. Single	9.1	5
	c. Divorced	3.6	2
4. Education level	a. Post-graduate	0	0
	b. Bachelor degree	0	0
	c. Diploma	1.8	1
	d. Secondary	72.7	40
	e. Others	20	11
	* No response	5.5	3
5. Job status	a. Top level management	0	0
	b. Middle level management	0	0
	c. Support administration staff	14.5	8
	d. Support technical staff	67.3	37
	e. Others	12.7	7
	* No response	5.5	3

6. Salary (before privatization)	a. RM3,000 – RM3,999 b. RM2,000 – RM2,999 c. RM1,000 – RM1,999 d. below RM999	0 1.8 12.7 85.5	0 1 7 47
7. Salary (after privatization)	a. RM3,000 – RM3,999 b. RM2,000 – RM2,999 c. RM1,000 – RM1,999 d. below RM999	0 1.8 60.0 38.2	0 1 33 21
8. Period you worked in this privatized organization?	a. 1 to 2 years b. 3 to 4 years c. more than 4 years	96.4 0 1.8	53 0 1
9. Is the present salary package (after privatization) much better than before privatization?	a. Excellent b. Slightly better c. No change d. Worse	14.5 60 21.8 3.6	8 33 12 2
10. Is the present working environment much better than before privatization?	a. Excellent b. Good c. No change d. Worse * No response	14.5 56.4 21.8 5.5 1.8	8 31 12 3 1
11. Are you more motivated working in the present organization?	a. Much more motivated b. Slightly motivated c. No change d. Not motivated * No response	23.6 60.0 5.5 7.3 3.6	13 33 3 4 2

12. Is the present privatized organization more efficient?	a. Much more efficient b. Slightly efficient c. Status quo d. Inefficient * No response	10.9 67.3 9.1 9.1 3.6	6 37 5 5 2
13. Has the present organization conducted training (e.g. attitudinal change, time management, productivity, etc.) for the personnel from the management and support group?	a. Yes b. No c. Do not know	80.0 14.5 5.5	44 8 3
14. Has the productivity (e.g. work, products, etc.) of the organization increased after privatization?	a. A drastic increase b. A moderate increase c. Status quo d. A decrease * No response	47.3 50.9 0 0 1.8	26 28 0 0 1
15. Is the present organization more concerned with the employees' welfare than the former organization?	a. More concerned b. Slightly concerned c. Less concerned d. Not concerned at all e. Do not know * No response	5.5 30.9 40.0 14.5 5.5 3.6	3 17 22 8 3 2
16. Is there an increase in consumer costs for the services that were privatized by the organization you work?	a. A drastic increase b. A slight increase c. Status quo d. A decrease * No response	23.6 52.7 18.2 0 5.5	13 29 10 0 3

17. In your opinion, has the Privatization Policy of Malaysia been successful and effective in contributing to the development and economic growth of the country?	<ul style="list-style-type: none"> a. Very successful b. Successful c. Status quo d. Failed e. Do not know * No response 	<ul style="list-style-type: none"> 5.5 65.5 1.8 14.5 10.9 1.8 	<ul style="list-style-type: none"> 3 36 1 8 6 1
18. On the whole, do you think that the present organization has shown a good performance compared to the former organization you worked with?	<ul style="list-style-type: none"> a. Excellent b. Good c. Status quo d. Not good e. Do not know 	<ul style="list-style-type: none"> 10.9 56.4 25.5 3.6 1.8 	<ul style="list-style-type: none"> 6 31 14 2 1
19. In your opinion, has the Privatization Policy that was launched by the Malaysian Government in 1983 been beneficial at all? (Please circle your answer. You can have more than one answer.)	<ul style="list-style-type: none"> a. Benefits all b. Benefits the workers of the privatized entities c. Benefits the owners of the privatized entities d. Benefits to certain individual only e. Does not benefit anyone f. Do not know 	<ul style="list-style-type: none"> 25.5 36.4 49.1 43.6 1.8 0 	<ul style="list-style-type: none"> 14 20 27 24 1 0

APPENDIX F

Weight of Clinical Waste for Bentong District Hospital 1998

Month	Rural Hospital	% change from preceding year	District Hospital	% change from preceding year
January	22.7 kg	-	659.6 kg	-
February	17.2 kg	-24	720.1 kg	9.2
March	21.2 kg	23.3	700.2 kg	-2.8
April	27.9 kg	31.6	614.4 kg	-12.3
May	26.128 kg	-6.4	576.272 kg	-6.2
1 June to 20 June	21.466 kg	-17.8	474.837 kg	-17.6
Total	136.594 kg	-	3,745.409 kg	-

Source: Computed from data provided by Radicare Sdn. Bhd., Bentong (1998)

APPENDIX G

Shareholder Structure and Directors in Sistem Hospital Awasan Taraf Sdn. Bhd. (SIHAT)

Directors of SIHAT:

1. Tan Sri Dato Dr. Abdullah Abdul Rahman
2. Dato Mohd. Hussaini Abdul Jamil
3. Encik Azmi bin Hashim
4. Dr. Wong Wei Khiang
5. Tan Sri Dr. Awang Had Salleh
6. Mr. Julian Yuen Ngai Chye

Individual Company Shareholders	Equity Ratio			
	Subtotal	Bumiputera	Non-Bumiputera	Foreign
1. Kejuruteraan Kota Aman Sdn. Bhd. a. Azmi bin Hashim (50.6 %) b. Dr. Wong Wei Khiang (33.1 %) c. Wong Wee On (16.1 %) d. Azian bte Hashim (0.2 %) Percentage composition of shareholders Bumiputera: 50.8 % Non-Bumiputera: 49.2 %	50 %	25.40 %	24.60 %	0 %
2. Paramount Merge Sdn. Bhd. a. Tan Sri Dato Dr. Abdullah bin Abdul Rahman (50 %) b. Dato Mohamad Hussaini bin Abdul Jamil (50 %) Percentage composition of shareholders Bumiputera: 100 % Non-Bumiputera: 0 %	35 %	35 %	0 %	0 %
3. QSTD-SIHAT Sdn. Bhd. a. Tan Sri Dr. Awang Had Salleh (30 %) b. Julian Yuen Ngai Chye (60 %) c. Dr. Wong Wei Khiang (10 %) Percentage composition of shareholders Bumiputera: 30 % Non-Bumiputera: 70 %	15 %	4.50 %	10.50 %	0 %
TOTAL	100 %	64.90 %	35.10 %	0 %

Source: Schedule 8 – Shareholder Structure and Directors in SIHAT, Supervision and Consultancy Agreement Between The Government of Malaysia and SIHAT, 1997

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