The high cost of private monopolies

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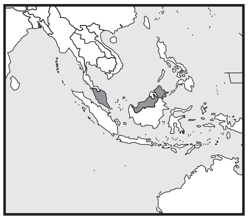

Privatisation policies have been limited to a small elite who took over profitable public utilities and turned them into private monopolies. On several occasions, the objective of reduced fiscal burden backfired, as the government had to pay higher costs to bail out failed privatisations. For consumers, price increases have not brought about benefits. There is a serious need to review the entire privatisation policies to make the process more accountable and transparent.

Lack of transparency in an oligarchic economy

The government first announced the policy of privatisation in 1983. It represented a new approach to national development, complementing other policies such as Malaysia Incorporated, which was designed to increase the role of the private sector in economic development. Among the objectives were to reduce the financial and administrative burden on the government, to improve efficiency and productivity, and to facilitate economic growth.

The mechanisms used for privatisation have been diverse and include the sale of equity or assets, lease of assets, management contracts, build-operate-transfer or build-own-operate, build-transfer, and management buy out.[1] Sale of equity predominates in agriculture, manufacturing, finance, real estate and business, while build-own-operate is more dominant in infrastructure, such as electricity, gas and water.

From the outset, privatisation has been non-transparent. At the beginning, it was mainly done on a «first come first serve» basis. Projects that had been identified for privatisation, including those that were highly profitable under public ownership, were often awarded to individuals or companies with political connections, including United Engineers Malaysia, Fleet Group, Renong, Vincent Tan Chee Yioun and Ananda Krishnan, without payment. The entire privatisation process continues behind closed doors and beyond public accountability.

Initially, the public understood that only unprofitable enterprises would be privatised. However, ultimately even the most profitable state-owned enterprises like Telekom Malaysia (telecommunication services), Tenaga Nasional (electricity provider) and Pos Malaysia (postal services) have been privatised. National infrastructure assets, such as toll roads and key services of government hospitals, were awarded to Malaysian business groups, which were given long-term concessions to operate the ventures. In many cases, privatisation has transformed public monopolies into private ones, which too often have become the property of a select group of politically well-connected business tycoons, rendering the Malaysian economy more oligarchic.

The privatisation plan appeared to work well from the late 1980s to the mid-1990s. Boasting bullish cash-flow forecasts, companies involved in privatisation projects easily tapped capital markets and banks to finance their long-term, capital-intensive ventures. However, when the economic crisis hit in 1997, many of these companies were exposed as cash-poor and debt-heavy. Now the government is confronted with the awkward prospect of having to re-nationalise some of the country's privatised ventures.

Privatisation has caused fiscal problems because the government has had to bail out failed privatisation projects. In 2000, it paid more than MYR 192 million (USD 51 million) to re-nationalise sewage services. At that time, Bernard Dompok, a minister in the Prime Minister's Department, called sewage services a «special case» as the government had to «safeguard public interest and to avoid service disruptions». However, since then the government has also reacquired Malaysia Airlines and is in the process of taking over the Renong conglomerate and two urban light-rail transit systems for almost MYR 9 billion (USD 2.4 billion).

More worrisome are recent moves to privatise basic services like water, education and health care, which have all been widely accessible at a very low cost, especially for lower income people.

Water: the unfulfilled promise of governmental tariff control

In March 2002, the Malaysian Works Minister, Datuk Seri S. Samy Vellu, said that the Government may have to privatise water management to reduce the financial burden on state governments.[2] According to the Minister, the privatisation proposal followed the Asian Development Bank's recommendation to open up and privatise water management. He gave the assurance that water tariffs would always be subject to government control. Nevertheless, the Minister's proposal came under fire from consumer groups, such as the Consumers' Association of Penang, who argued that water is an essential public resource that must be controlled and managed by the government in the public interest.

Water authorities in several states (such as Johor, Penang and Kelantan) have already been privatised, and those in Selangor and Terengganu have been corporatised (run as companies but owned by the government). In the state of Penang, the Water Board has been privatised despite being one of the best managed and most profitable water authorities in the country. Five other states are expected to complete the privatization or corporatisation of their water supply during the Eighth Malaysia plan period of 2001-2005.

Privatisation of the country's water supplies is likely to involve a review of the existing tariff structure. Despite assurance to consumers that water rates would always remain under the government's purview, in April 2001, the price for domestic users in Selangor was increased to MYR 0.57 (USD 0.15) per cubic meter from MYR 0.42 (USD 0.11) for consumption of 20 cubic meters or less. Consumers protested, claiming that the increase was not justified because of the poor quality of piped water. Although rate increases are currently under government control, they are still open to lobbying by the water companies. The imposition of full-cost water pricing as a result of privatisation will only deprive more people of access to safe water by forcing poor communities to seek alternative sources. Uniform price increases for water use will also result in greater inequities between rich and poor.

1 The «Build-Operate-Transfer» (BOT) method involves the private sector constructing a facility using its own funds, operating it for a period known as a concession period and transferring it to the government at the end of that period. During the concession period, the private sector is allowed to collect revenue directly from the users of the facility or indirectly through an intermediary, usually a government institution. «Build-Operate» (BO) method is very similar to the «BOT» method except that the former does not involve the transfer of the facility to the government. Both these methods are normally accompanied by a grant of a licence and/or concession.

2 Foo Eu Jin. «Sell-off of Water Utility Inevitable to Douse Rising Expenses». *New Straits Times*, 29 March 2002.

Health care: increased costs without improvement in quality

The existing government health care delivery system has placed 90% of Malaysian citizens within an hour or 5km of a health centre and has been lauded by the World Health Organization as one of the most equitable health services in the Pacific region. However, the welfare system is threatened by privatisation.

In the Seventh Malaysia Plan (1996-2000), the government alluded to its intention to privatise medical services. This policy came under severe attack from consumer and other public interest groups and was not pursued by the government. Significantly, the subsequent Eighth Malaysia Plan, which charts the strategies and programmes to be undertaken by the federal government during 2001-2005, does not refer to the privatisation of medical services. However, the government has moved to corporatise public hospitals.

Many government hospital services, including pharmaceuticals and medical supply, as well as support services, had already been privatised in 1994 and 1996 respectively. These measures increased costs to the government, including higher drug prices, without a commensurate improvement in the services provided. The privatisation of the five hospital support services in 1996 (laundry, hospital equipment, facilities maintenance, cleaning services, and clinical waste disposal) increased operational costs four to five times.

In 1994, Malaysia's drug distribution system, which was run by the government's General Medical Store (GMS) was privatised, and state hospitals were required to procure their supplies from a new company, Southern Task Sdn. Bhd. (STSB), a subsidiary of Renong. An indication of the overall dismal performance of STSB was the move to change to another entity called Remedi Pharmaceuticals Sdn. Bhd. (PPSB) in 1996. A 1996/97 study carried out by the School of Pharmaceutical Sciences, University Sains Malaysia, found that privatisation of GMS has not resulted in any significant improvement in the overall drug distribution system.[4] On the contrary, the weighted price of drugs supplied in 1997 increased 3.2 fold.

Presently, patients are increasingly being asked to purchase their own medical supplies, such as drugs and surgical equipment, before being treated. Malaysians are rightly concerned as to whether the proposed corporatisation of government hospitals will similarly lead to sharply increased health care costs, particularly for the poor, elderly and chronically ill, as well as compromise the quality of publicly-funded medical care for all Malaysians.

Privatisation of education

Privatisation or corporatisation of institutions of higher education creates disparities in access. In anticipation of university corporatisation as well as the establishment of private universities, Parliament passed two new Acts in 1996, namely the National Higher Education Council Act and Private Higher Education Institutions Act. The University and University Colleges Act was also amended to contain provisions that allow the universities to initiate or participate in all forms of business.

In fact, two systems have emerged: higher quality private education for those who can afford it and poorer quality public education for those with low incomes. Universities have also undergone corporatisation since 1998. Consequently, fees have already gone up. Once again, such increases will adversely affect the lower income group. Despite promises that there will be more grants and scholarships, the government shifted the burden of educational costs on to students and their families.

Privatisation of sewage treatment and solid waste disposal

The privatisation of sewage treatment in 1993 in Malaysia was a major financial failure, as the company which was awarded the contract made huge losses and had to be bought back by the government in June 2000. Indah Water Konsortium (IWK), a company formed in 1993, was given a 28-year contract and assigned the responsibility of operating public sewage treatment facilities.

4 Mohd Izham Mohd Ibrahim, *et. al.* «Drug Distribution Systems in Malaysia: The Privatisation of the General Medical Store». Presented at the *National Conference on Privatisation and Health Care Financing*, 1997 in Malaysia, USM, Penang.

The company did not do well partly because a significant proportion of the public refused to pay their sewage bills, which had been previously paid under municipal charges. The treatment of sewage and wastewater remains in a deplorable state. Moreover, the company failed to treat water effectively. In 1999, less than 17% of the 5,409 treatment plants run by IWK complied with government discharge standards.[5]

The privatisation of solid waste disposal services in 1995 experienced several delays and was not fully implemented. Four regional consortiums were chosen to manage solid waste. Before privatisation itself is implemented, a Municipal Solid Waste Act has to be formulated. The government agreed that the consortiums could take over in stages by means of an interim service contract before the bill is passed. The local authorities will pay for the services rendered by the consortium. Our concern is that upon privatisation, the companies will charge consumers directly and increase fees.

Meanwhile, solid waste management continues to be a serious problem for many urban centres. Sanitary and waste problems are magnified significantly in high density, lower income urban areas with low cost apartments, squatters and other settlements occupied by low-income groups.

GATS and privatisation

Negotiations under the General Agreement on Trade in Services to liberalise the services sector are currently underway in the WTO.

In a confidential document leaked in April 2002, the EU requested Malaysia to open up, *inter alia*, its postal and courier services, telecommunications, energy and environmental services, including water supply and solid waste management. Civil groups fear that the EU is pressuring Malaysia behind the scenes to accept its requests. While the Malaysian public is being burdened by more privatisation of key public sector goods and services, pressures to hand over these areas to foreign companies add to concerns. However, NGOs within the country, such as the Third World Network and the Consumers Association of Penang, continue to pressure the government to ensure that these sectors are not subject to liberalisation.

Conclusion

The promised benefits of the government's privatisation policy have not been realised. The benefits have been limited to a small elite who took over profitable public utilities and turned them into private monopolies. On several occasions, the objective of reduced fiscal burden backfired, as the government has had to pay higher costs for supplies and bail out failed privatisation. For ordinary consumers, price increases have not brought about commensurate benefits or improved services. Hence, there is a serious need to review the entire privatisation policies of the government and to make the process more accountable and transparent. ■

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5 *The Star,* 23 December 1999.