

THE PRIVATIZATION PROJECTS IMPLEMENTED
BY MINISTRY OF DEFENCE

ABDUL RAHMAN BIN IBRAHIM

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Specially Dedicated To

My Parents

My Beloved Father and Mother
“You have done all the best for my life”

My Wife

My dear Puspa Agus Salim
“Thank you for your love & supports”

My Childrens

“You’re the heart of my life”
“I hope you all will be success and may Allah bless you peacefull life”

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ABSTRACT

Privatization project involves a reduction in the role of government depending on which functions are being assigned. Ministry of Defence (MINDEF) Malaysia started to implement the privatization policy in 1993 by means of using available assets for the purpose of project development. However, after 14 years of implementing this method, majority of the projects were abandoned and delayed. The aim of this study is to investigate the effectiveness of privatization project implemented by MINDEF through the identification of effective criteria and the strategy to improve the situation. The method of this study involved literature review, interview, data collection and the analysis is using an Average Index method. The process of data collection involved obtaining primary data from the respondents by conducting questionnaire survey from the selected personnel involved directly or indirectly in planning and managing the project. From the analysis of this study five most important criteria that influence the effectiveness of privatization project were identified including the agreement contents which protect the government interests; meets the client requirements; the ability to complete project in time; good implementation strategies and procedures; and developer with good organization. In conclusion, some criteria identified to improve the effectiveness of privatization project includes resolving land matters before project implementation; and the ability of developer to identify the client requirements.

ABSTRAK

Penswastaaan melibatkan pengurangan peranan kerajaan bergantung kepada sesuatu fungsi yang ditentukan. Kementerian Pertahanan Malaysia telah mula melaksanakan polisi penswastaaan pada tahun 1993 dengan menggunakan asset yang ada atas tujuan pembagunan. Walau bagaimanapun, selepas 14 tahun konsep tersebut dilaksanakan, kebanyakan projek-projek tersebut lewat untuk disiapkan dan terbengkalai. Matlamat kajian ini adalah untuk menyiasat keberkesanan pelaksanaan projek-projek penswastaaan yang dilaksanakan oleh Kementerian Pertahanan dengan mengenal pasti kriteria yang berkesan dan strategi untuk meningkatkan keadaan. Kaedah kajian yang dijalankan merangkumi kajian literatur, temuduga, pengumpulan data dan seterusnya menganalisa data yang diperolehi dengan menggunakan kaedah statistik. Proses pengumpulan data diperolehi daripada mereka yang menjawab soalan daftar pertanyaan yang diedarkan kepada individu yang terpilih yang terlibat secara langsung atau tidak langsung dalam perancangan dan pengurusan projek. Analisa dari kajian telah mengenal pasti lima kriteria utama yang mempengaruhi keberkesanan pelaksanaan projek penswastaaan iaitu perkara-perkara dalam perjanjian yang melindungi kepentingan kerajaan; memenuhi kehendak pelanggan; kemampuan menyiapkan projek mengikut tempuh; mempunyai strategi dan prosedur pelaksanaan yang mantap; dan pemaju dengan organisasi yang mantap. Sebagai penutup, kriteria yang telah dikenal pasti boleh meningkatkan keberkesanan projek penswastaaan adalah perihal tanah diselesaikan terlebih dahulu sebelum pelaksanaan projek; dan keupayaan pemaju mengenal pasti kehendak pelanggan.

TABLE OF CONTENT

CHAPTER	TITLE	PAGE
	TITLE PAGE	i
	DECLARATION PAGE	ii
	DEDICATION PAGE	iii
	ACKNOWLEDGEMENT	iv
	ABSTRACT	v
	ABSTRAK	vi
	TABLE OF CONTENTS	vii
	LIST OF TABLES	xii
	LIST OF FIGURES	xiv
	LIST OF ABBREVIATIONS	xv
1	INTRODUCTION	
	1.1 Introduction	1
	1.2 Background of the Study	1
	1.3 Problem Statement	2
	1.4 Aim and Objectives of Study	4
	1.5 Scope	5
	1.6 Research Methodology	5
	1.7 Summary of Chapters	7
2	NATIONAL PRIVATIZATION POLICY	
	2.1 Introduction	8
	2.2 National Privatization Policy Approach	9

2.3	The Policy Implementation	11
2.4	Conceptual Framework	12
2.5	Broad Policy Framework	13
2.6	Mechanism of National Privatization Policy	14
2.6.1	Method of Mechanism	15
2.6.2	Strategic Policy	16
2.7	The Objective of National Privatization Policy	17
2.7.1	Relieve the Financial and Administrative Burden of the Government	17
2.7.2	Improve the Efficiency and Productivity Level of the Country	17
2.7.3	Facilitate National Economic Growth	18
2.7.4	Reduce the Size and Presence of the Public Sector in the Economy	18
2.7.5	Promote Achievement of the National Economic Planning Targets	18
2.8	Methods of Privatization	19
2.8.1	Sale of Assets or Equity	19
2.8.2	Lease of Assets	19
2.8.3	Management Contracts	19
2.8.4	Build-Operate-Transfer (BOT)	20
2.8.5	Build-Lease-Transfer	20
2.8.6	Management-Buy-Out	20
2.8.7	Land Development/Land Swap	20
2.9	Related Issues Implementing National Privatization Policy	22
2.9.1	Valuation of Assets or Equities	21
2.9.2	Personnel	22
2.9.3	Changes in the Laws	23
2.9.4	Regulatory Framework	23
2.9.5	Capitol Markets	24
2.9.6	Bumiputra Participants	24
2.9.7	Foreign Participation	25

2.9.8	Privatization Fund	26
2.9.9	Employee Share Ownership Plan (ESOPs) and Management-Buy-Out (MBOs)	26
2.10	Privatization Action Plan	28
2.10.1	Other Factors Considered in Drawing up the Privatization Action Plan	29
2.10.2	Implementation Programme	30
2.11	Approach to Project Implementation	32
2.11.1	Approach to Government-Initiated Privatization	32
2.11.2	Approach to Private Sector-Initiated Privatization	32
2.12	Assessment of Performance	34
2.12.1	Efficiency Gains	34
2.12.2	Privatization and Growth	34
2.12.3	Relieved Administrative and Financial Burden of Government	35
2.12.4	New Economic Policy (NEP)	36
2.13	Summary	36

3 THE PRIVATIZATION PROJECTS IMPLEMENTED IN THE MINISTRY OF DEFENCE

3.1	Introduction	37
3.2	Implementation of Mechanism Plan	37
3.2.1	Form of Mechanism	38
3.2.2	Implementation Plan	39
3.3	The Policy of Evaluation/Controlling Mechanism	41
3.3.1	Form of Mechanism	41
3.3.2	Evaluation/Controlling Policy	42
3.4	Implementation Strategy	44
3.5	Procedure	46
3.6	Project Proposal Application	49
3.6.1	Offering Project to Developer	50

	3.6.2	Offering Project from Developer	52
3.7		Pre Contract Process	53
	3.7.1	Preparation of Need Statement/Quarter Brief	54
	3.7.2	Formalization of Project Brief	54
	3.7.3	Preparation of Tender Document	55
	3.7.4	Privatization Project Approval	58
3.8		Post Contract	58
	3.8.1	Before the Construction of the Project	58
	3.8.2	The Construction of Project	59
	3.8.3	Defect Liability Period	60
3.9		Status of Privatization Projects	60
	3.9.1	Implementation Method	61
	3.9.2	Current Project Status	62
	3.9.3	Analysis at the Stage of Project Proposal	62
	3.9.4	Analysis at the Stage of Pre Contract	67
	3.9.5	Analysis at the Stage of Post Contract	77
	3.9.6	Completed Project	80
3.10		Summary	81
4		RESEARCH METHODOLOGY	
	4.1	Introduction	82
	4.2	Research Methodology	82
	4.3	Literature Review	83
	4.4	Data Collections	84
		4.4.1 Questionnaire Design	85
	4.5	Data Analysis	85
		4.5.1 Questionnaire Measure	87
	4.6	Summary	88
5		DATA ANALYSIS AND RESULTS	
	5.1	Introduction	89
	5.2	Respondents Background	89
	5.3	The Result of Questionnaire Survey	92
	5.4	Findings and Discussions	94

5.5	Suggestions for Better Performance	99
5.6	Summary	99
6	CONCLUSIONS AND RECOMMENDATION	
6.1	Introduction	101
6.2	Conclusions	102
6.3	Recommendations	103
	REFERENCES	105
	APPENDIX A	107

LIST OF TABLES

TABLE NO.	TITLE	PAGE
1.1	The Status of Privatization Project as at 31 st December 2006	4
2.1	Government Strategy Policy	16
3.1	MINDEF Implementation Plan	40
3.2	Evaluation/Controlling Policy	43
3.3	MINDEF Privatization Project Committee and Their Task	45
3.4	The Status of Privatization Project	62
3.5	Statistic of the Problems at the Stage of Project Proposal	63
3.6	The Project had Been Changed to Turnkey Method	65
3.7	Projects Postponed	66
3.8	Detail Price Different for Every Project Under Privatization	73
3.9	Department Involved for Checking the Text of Agreement	75
3.10	Progress of the Project	78
3.11	List of Project Completed as at 31 st December 2006	80
4.1	The Criteria of Privatization Project Implemented by MINDEF	86
4.2	The Strategies to Improve the Effectiveness of Privatization Project Implemented by MINDEF	87
5.1	The Service Duration of Respondents in Project Implementation	90
5.2	The Respondent Project in Hand	90

5.3	The Respondent Qualification	91
5.4	The Respondent Feedback on Privatization Project Status	91
5.5	The Criteria of Privatization Project Implemented by MINDEF	92
5.6	The Effective Criteria of Privatization Project	93
5.7	The Strategies to Improve the Effectiveness of Privatization Project	94
5.8	The Criteria of Privatization Project Implemented by MINDEF	96
5.9	The Strategies to Improve the Effectiveness of Privatization Project	98

LIST OF FIGURES

FIGURE NO.	TITLE	PAGE
1.1	Research Methodology	6
2.1	Sector Distribution of Privatized Project (1983-2003)	12
2.2	Method of Mechanism	15
2.3	Rolling Privatization Action Plan	28
2.4	Privatization of Government Department/Statutory Body	30
3.1	The Implementation of Mechanism Plan	39
3.2	The policy of Evaluation/Controlling Mechanism	42
3.3	MINDEF Privatization Flow Chart	48
3.4	Controlling Organization and Position of Superintending Officer/ Superintending Officer's Representative	59
4.1	Five Ordinal Measures of Contributing Factors of Likert Scale	85

LIST OF ABBREVIATIONS

ATM	-	Angkatan Tentera Malaysia
ASN	-	Amanah Saham Nasional Berhad
BM	-	Built-Manage
BMT	-	Built-Manage-Transfer
BO	-	Built and Operate
BOT	-	Built-Operate-Transfer
DCF	-	Discounted Cash Flow
DPS	-	Department of Public Service
EPU	-	Economic Planning Unit
ESOPs	-	Employee Share Ownership Plan
GOEs	-	Government-Owned Entities
ICP	-	Inter-departmental Committee on Privatization
ICU	-	Implementation Control Unit
JP & PH	-	Jabatan Penilaian dan Perkhidmatan Harta
KTMB	-	Keretapi Tanah Melayu Berhad
LTAT	-	Lembaga Tabung Angkatan Tentera
LUTH	-	Lembaga Urusan Tabung Haji
MAF	-	Malaysian Armed Forces
MAS	-	Malaysia Airlines System
MBOs	-	Management-Buy-Out

MINDEF	-	Ministry of Defence
MISC	-	Malaysian International Shipping Corporation
MOF	-	Ministry of Finance
NDP	-	National Development Policy
NEP	-	New Economic Policy
NFPE	-	Non-Financial Public Enterprises
NPP	-	National Privatization Policy
NTA	-	Net Tangible Asset
PAP	-	Privatization Action Plan
PMD	-	Prime Minister Department
PMP	-	Privatization Master Plan
PNB	-	Permodalan Nasional Berhad
PROTON	-	Perusahaan Automobil Nasional
PSD	-	Public Service Department
SOSCO	-	Social Security Organization
STH	-	Syarikat Tanah dan Harta
STMB	-	Sistem Television Malaysia Berhad
TA	-	Territorial Army
TDM	-	Tentera Darat Malaysia (Malaysian Army)
TLDM	-	Tentera Laut DiRaja Malaysia (Royal Malaysian Navy)
TM	-	Telekom Malaysia
TNB	-	Tenaga Nasional Berhad
TUDM	-	Tentera Udara DiRaja Malaysia (Royal Malaysian Air Force)

CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

Ministry of Defence (MINDEF) Malaysia started implementing the Privatization Policy in 1993, after the Government had issued the “The Guideline of Privatization” in 1985. MINDEF is one of the Ministries which required the biggest allocation for emoluments, infrastructure developments, facilities and also to buy military equipments in order to achieve their operational objective and missions. Most of the MINDEF development projects implemented through privatization method had failed to achieve the objective of privatization policy for rapid development of projects.

1.2 BACKGROUND OF THE STUDY

Beginning 1983 the government decided to embark on a policy of Privatization. By privatizing the failing Non-Financial Public Enterprise (NFPE), the provision of public utilities and infrastructure, it is hoped to ease the strain choking the public coffer.

Privatization forms a basic core of the Government's programmed to achieve a developed nation status by year 2020. Malaysia can be proud that despite being one of the pioneer in Privatization in the early 1980s, our record is impressive.

The Malaysian Privatization Policy started to gain attention after the announcement of the "Malaysia Incorporated Policy" in 1983. Privatization policy simply means a gradual shift of responsibility from the managing public sector enterprise towards the private sector. The public sector is not only involved in creating law and policies but also directly involved in the economic and trading activities in Malaysia.

The Policy, which saw the transfer of activities and functions traditionally rested with the public sector to the private sector, has brought about positive changes in the organization, management and performance of public enterprise.

The limited allocation of budget from the Government had restricted MINDEF in their budgeting for the development of facilities which are already obsolete. The expansions in MINDEF budget are essential for the modernizations in line with the new structures of the Malaysian Armed Forces (MAF). Prior to privatization, the development of their facilities are carried out using the traditional construction contract and turnkey contract. The move to privatization policy means using available assets for the purpose of project development.

1.3 PROBLEM STATEMENT

Privatization concept was introduced in MINDEF in 1993. The aim is to upgrade and develop the requirement of the facilities for Malaysian Armed Forces (MAF). Most of the facilities especially the camps available right now are located in locations which are not suitable because of the new development surrounded them and also because of the development of the MAF itself. Besides that, the conditions of the camp which are out of dated, are not economical for the MAF to repair or

upgrades. These situations became worse when the MAF started their modernization in line with the new structures of their organization.

The Privatization concept implemented with the privatization agreement made between MINDEF on behalf of the Government and the developer appointed by the Government. In the agreement, the developer are required to construct the facilities needed by the MAF which include the infrastructures, technical buildings, non technical buildings such as married quarters and the training facilities. Upon completion, all the facilities mentioned will be handed over to the MAF.

In return, the government will hand over the MINDEF land to the developer for them to develop on their own decision or requirement. The cost for the development of the facilities for the MAF is the value of the Land Swap transferred to the developer. The value of the transferred land will be determined by the Economic Planning Unit (EPU), Prime Ministers Department (PMD) based on the valuation made by the Valuation Department and “Jabatan Penilaian dan Perkhidmatan Harta” (JP&PH). The MINDEF lands which are transferred to the developer normally have a very high commercial value. This give an advantage to developer in developing the land.

Since the implementation of privatization project by MINDEF, there were thirty (30) projects registered under this concept. Twenty seven projects were initiated in the early stage of the implementation of this method (1993) and the other three were registered in the year 2000. However after 14 years this method was introduced, the effectiveness of this method could not be proud of. The projects under construction are delayed and abandoned and others are still at the stage of pre contract. These pre contract projects could not be continued which are still in the process of preparation and negotiation. Eighteen (18) projects were in the stage of proposal/postponed when several matters could not be solved. The status of the privatization projects as per today is shown in Table 1.1 below, (MINDEF Development Division, 2006).

Table 1.1: The Status of Privatization Project as at 31st December 2006.**Source:** MINDEF Development Division.

Item	Description	No of Project
1.	Project Completed	3 projects
2.	Post Contract Phase	5 projects (2 projects abandoned)
3.	Pre Contract Phase	4 projects
4.	Proposal/Postponed	18 Projects

The method of Privatization by MINDEF through land swap was agreed by EPU. However the method used had caused the delay in most of the project implementation. Since there was always the same problems occurred, this study seeks to determine, analyse and make suggestions for the necessary improvements in the planning and implementation of this method in MINDEF.

1.4 AIM AND OBJECTIVES OF STUDY

The aim of this study is to investigate the effectiveness of privatization project implemented by MINDEF and how to improve the performance. To achieve this aim, the objectives are being delineated as follows:

- To identify the criteria of privatization project implemented by MINDEF.
- To identify the effective criteria of privatization project.
- To identify the strategy to improve the effectiveness of privatization project.

1.5 SCOPE

The scopes of this study will be on the effectiveness of privatization projects implemented by MINDEF and will cover the projects which are planned and implemented under this privatization method.

1.6 RESEARCH METHODOLOGY

The methodologies for this research are the approach which will be adopted in the research to achieve the objective that had been identified. The approach is divided into the stages with the aim to make a valuation on the research outcome. The discussion with the supervisor will be held at every stage with the aim to direct the research towards the objectives and scope of the research. The research methodology flow chart adopted for this research is shown in Figure 1.1.

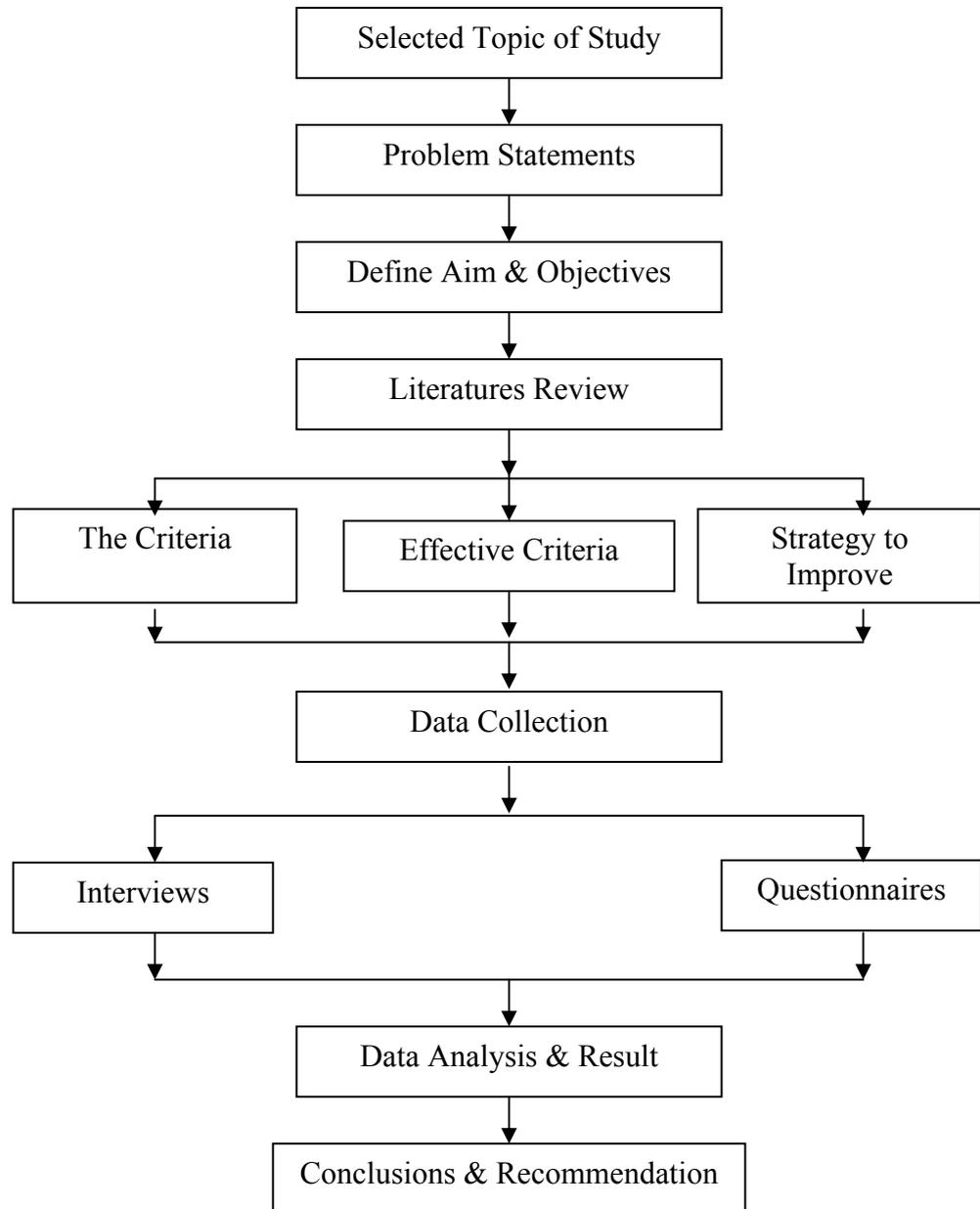


Figure 1.1 Research Methodology

1.7 SUMMARY OF CHAPTERS

This report consist of six chapters. First chapter highlights an overview/problem statement of the topic encompassing the issue of the study, the objectives, the scope and the research methodology of the study.

Chapter Two is discussing the literature review, focus on the national privatization policy and implementation in general, the relationship of both aspects and its explanation. The discussion also cover the development of national privatization approach and the method used to produce our National Privatization Policy (NPP).

Chapter Three continue with the literature review on the criteria to be considered for privatization and discusses on the implementation of mechanism plan, valuation and method that was adopted by MINDEF in the implementation of privatization projects and also the status of projects. The study also identified the aspect towards the implementation of Privatization project.

Chapter Four is the research methodology which discussed on the method of data collections, preparation of questionnaire and tool for analyzing data.

Chapter Five discussed on the data collection and the analysis of the findings.

Chapter Six highlights the conclusion and the recommendation adopted to improve the effectiveness of the privatization project implemented by MINDEF.