

**PRIVATIZATION OF ROAD MAINTENANCE IN MALAYSIA:
A CASE STUDY**

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To my beloved mother
&
the loving memory of my father

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ABSTRACT

The belief that privatization of road maintenance can improve road maintenance service, is in question. Interviews with JKR road engineers revealed their dissatisfaction regarding the performance of the concession company in carrying out periodic maintenance works. This study covers the contract specifications, advantages and disadvantages of privatization, the most common type of periodic maintenance work carried out, incurred costs for periodic maintenance works, and the level of satisfaction of JKR as the client. A study on the Privatization Agreement revealed the actual terms of contract. Collection of data for periodic maintenance was analyzed to identify the most common type of maintenance work and its costs. A questionnaire form was submitted to JKR staffs and analyzed to identify their level of satisfaction with the privatization company's performance. It has been found that the company undertakes routine, periodic, and emergency works for the states of Perlis, Pulau Pinang, Kedah, and Perak for a period of 15 years. The major periodic maintenance work carried out by the concession company until 2003 is Regulating and Paving existing roads. However, JKR is not satisfied with the costs for works claims by the company.

ABSTRAK

Andaian bahawa penswastaan kerja penyenggaraan jalan akan meningkatkan kualiti perkhidmatan penyenggaraan jalan, kini dipersoalkan. Temubual bersama jurutera jalan JKR telah mendedahkan keraguan mereka dengan pencapaian syarikat penswastaan dalam melaksanakan kerja penyenggaraan berkala. Kajian ini merangkumi spesifikasi kontrak, kebaikan dan kelemahan penswastaan, kerja penyenggaraan berkala yang selalu dilaksanakan, kos yang terlibat dalam kerja penyenggaraan berkala, dan tahap kepuasan pihak JKR selaku klien. Kajian keatas kontrak perjanjian penswastaan memberi gambaran jelas berkenaan perjanjian sebenar diantara kedua-dua pihak. Data bagi kerja penyenggaraan berkala yang dikumpulkan, dianalisa bagi mengenalpasti kerja penyenggaraan berkala yang lazim dilaksanakan dan kos yang terlibat oleh syarikat penswastaan. Borang soal selidik diedarkan kepada staf-staf JKR dan dianalisa bagi mengenalpasti tahap kepuasan mereka dengan pencapaian syarikat penswastaan. Daripada kajian, didapati bahawa syarikat penswastaan tersebut melaksanakan kerja-kerja rutin, berkala, dan kecemasan bagi negeri Perlis, Kedah, Pulau Pinang, dan Perak selama 15 tahun. Kerja penyenggaraan berkala yang lazim dilaksanakan oleh syarikat penswastaan tersebut sehingga tahun 2003 ialah kerja '*Regulating and Paving*' jalan yang sedia ada. Walau bagaimanapun, JKR tidak berpuas hati dengan kos bagi tuntutan oleh syarikat tersebut.

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CHAPTER I

INTRODUCTION

1.1 Overview

Recently, developments in various industries have proven that Malaysia is not far behind from becoming a fully developed nation. The main reason for these growths is to satisfy the government's prerequisite to gratify Vision 2020. In accordance with this expansion, the construction industry has seen tremendous progress, evolution, and advancement from the traditional practices.

Construction industry is prominent for its prolific contributions to the nation through the completion of some of the most astounding buildings. Among them are the Penang Bridge that have won numerous awards for excellence, the Petronas Twin Towers that stands high among the world's tallest buildings, the Kuala Lumpur International Airport with its world class standards, elegance, and practicality, and the very convenient North-South Highway. More to the point, all these enhancements were achievable with proper transport infrastructures in facilitating its successful construction and operation.

Roads are essential to a country's economic and social development. For most sectors of the economy, they form vital links between production centers and markets. Their multiple function of providing access to employment, social and health services

and education makes them key elements in the fight against poverty by opening up rural areas and stimulating economic and social development.

Large road networks, built at great expense, is inadequately maintained and used more heavily than expected. The result in many developing countries is a network of deteriorating roads. This is a natural outcome of constructing roads with a finite life and is to be expected if the maintenance effort is not at an appropriate level. In addition, many more roads, whose deterioration is not yet visible, will soon reach that point if they are not properly maintained.

Harral and Faiz (1988) noted that the developing world's road building boom in the 1960s and 1970s that led to a significant development of road infrastructures, threatens to collapse, if not maintained accordingly. The cost of restoring or reconstructing these deteriorated roads is going to be three to five times greater than the bill would have been for timely and effective maintenance and strengthening.

Furthermore, the current state of the economy imposes limitations on the money available for investments in roads and their maintenance. Thus, there must be a more stringent control on the planning and the management of the road system.

Moreover, Paterson (1987), stated that improper road maintenance management also causes ineffective planning, programming, preparation, and operation of activities that eventually lead to problems such as:

- a) amplified cost for restoring roads,
- b) reduced safety for road users and passers-by,
- c) degraded comfort for road users,
- d) heightened vehicle maintenance cost for road users, and
- e) decreased aesthetics for road users and tourists.

In addition, this country, being among the developing countries, will lose precious infrastructure worth hundreds of thousands of ringgit through the deterioration of the roads alone. These costs remain very high and are often responsible for backwardness in development. Better maintenance of road networks will contribute to reduce these costs and a management aid system will provide a very

useful set of tools. It is however, essential for road agencies to be organized in an efficient way for a maintenance policy to be cost effective and durable.

Besides, the maintenance of roads in the country is generally the responsibility of the Public Works Department or better known as Jabatan Kerja Raya (JKR). It is the government's department responsible for the construction, improvement, management and administration of roads. However, in the local authority areas, for example the Municipalities, the maintenance of roads is the responsibility of the local authorities themselves.

What's more, as attested by Zainuddin (1996), a privatization policy was launched in Malaysia in 1983 based on the premise that the transfer of activities and functions, which have traditionally rested with the Government to the private sector, will bring about positive changes to the organization, management and performance of public enterprises. It represents a new approach in national developments and complements other national policies such as the Malaysia Incorporated policy formulated to further enhance the role of private sector in the development of the economy. The policy reflected the Government's commitment to reduce its presence in the economy, reduce the level of public spending and allow the market forces to govern the economic activities.

Further as stated by Zainuddin (1996), the privatization policy was adopted at a time when the economy was dominated by the public sector due to the past policy of direct Government intervention in the economy subsequent to the launching of the New Economic Policy in 1970 which was aimed at eradicating poverty and restructuring society. This has led to the expansion of the Government of Malaysia's total working population by the early eighties, which is high compared to other countries such as Singapore and Japan. In addition, over 900 public enterprises were also established during the same period and this has further constrained the Government resources for national development.

Zainuddin (1996) also stated that, the situation was further aggravated as the economy was showing signs of recession in the early eighties. Malaysia's economic growth rate declined from 6.3% in 1983 to negative growth of -1.1% in 1985. The

continued high expenditure of the public sector which was mainly financed through domestic and external borrowings, has resulted in fiscal deficits rising from RM7.3 billion in 1980 to RM16.9 billion in 1982. The external debt peaked at RM50.5 billion in 1986. With debts increasing, almost reaching the threshold considered as critical by international lending institutions, it was apparent that this strategy, if continued, would lead to serious implications for the economic and financial stability of the country.

This state of affairs clearly justified the notation that the public sector-led growth has failed to adjust itself to the external shocks. There was increasing dissatisfaction in Government circles with the poor performance of the state enterprise due to the ineffectiveness and inefficiency of the public sector. Therefore, efforts had to be made to reduce public borrowings and investments as well as to encourage the private sector to assume a lead role in economic development. Apart from the liberalization of rules and regulations and the provision of support services, privatization also forms part of the strategy to strengthen the role of private sector in development.

1.2 Statement of Problem

The privatization of road maintenance has become quite common nowadays due to its advantages outperforming its disadvantages. However, findings exposed that that may not always be true.

Jomo (1995), argues that privatization will hand over monopoly powers to private firms who are likely to use them to maximize profits. The privatization of public services tends to burden the people especially if charges are raised for the privatized services. Obviously, private firms are only interested in profitable or potentially profitable activities and enterprises. This may mean that the government will be left with unprofitable and less profitable activities.

A brief interview with road engineers also revealed similar concerns regarding the privatization of road maintenance works undertaken by the government back in the year 2001. They fear that the undertaking have caused a reduction in the efficiency in maintaining the roads. Some of them are with the opinion that road maintenance was better off managed by JKR before the privatization.

This problem ought to be investigated, as not only will it cause higher taxes and higher vehicle operating costs to road users, but also because it can cause major losses to some of the agencies involved.

1.3 Project Objectives

In order to satisfy the stated problem, certain objectives are established. They are:

- a) To study the concept of privatization and the processes involved
- b) To identify the advantages & disadvantages of privatization of road maintenance work
- c) To identify the major periodic maintenance work, in terms of length, carried out by the contractor
- d) To identify the periodic maintenance works that incurred high costs
- e) To identify the level of satisfaction of the client regarding the performance of the privatization contractor

1.4 Scope of Study

In February 2001, the Government of Malaysia privatized the maintenance operations of Federal Roads in Peninsular Malaysia. It covers a total length of about 11,600 km of various categories of Federal Roads throughout the Peninsular. The privatized maintenance operations include routine and periodic maintenance, and emergency works. Three companies are appointed and their regional responsibilities are as follows:-

Table 1.1: Privatization of Road Maintenance Concession Details

Company	Concession Area	Length
1. Belati Wangsa (M) Sdn. Bhd. (H/Q Taiping Perak)	Northern Zone covering Perlis, Kedah, Pulau Pinang, and Perak	2,603 km
2. Roadcare (M) Sdn. Bhd. (H/Q Kuantan Pahang)	Eastern and Central Zone covering Selangor, Pahang, Terengganu, and Kelantan	5,500 km
3. Selia Senggara Sdn. Bhd. (Ayer Keroh Melaka)	Southern Zone covering Negeri Sembilan, Melaka, and Johor	3,500 km

However, this study focuses on:

- the privatization of road maintenance for the Northern Region only covering Perlis, Kedah, Pulau Pinang, and Perak,
- the technicians, technical assistants, and engineers of JKR as the sources of this study,
- the data collected for the years 2001 to 2003,
- periodic maintenance works only.

1.5 Study Methodology Summary

Initially, preliminary study is made in order to get focused into a specific problem and to identify objectives. Then, literature review is carried out to increase understanding regarding the study. After that, the required data are then collected and analyzed. Finally, the study findings are concluded to satisfy the defined objectives. The brief methodology steps involved in this study are shown in Figure 1.1.

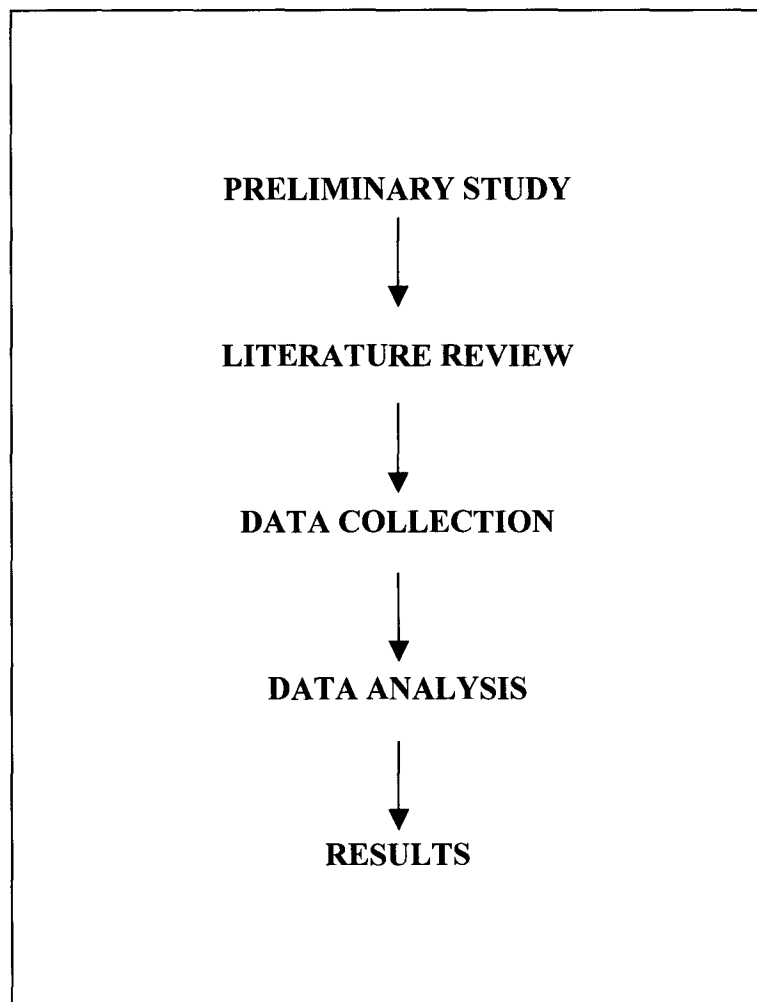


Figure 1.1: A Brief Project Methodology Chart