THE PRIVATIZATION PROJECTS IMPLEMENTED
BY MINISTRY OF DEFENCE

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A project report submitted in partial fulfillment of the
requirements for the award of the degree of
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Faculty of Civil Engineering
Universiti Teknologi Malaysia

MAY 2007
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 peaceful life”
ACKNOWLEDGEMENT

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I also deserve special thanks to all the officers and friends in Accommodation and Works and also Development Division in Ministry of Defence for their support and suggestion for this study.

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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

Penswastaan melibatkan pengurangan peranan kerajaan bergantung kepada sesuatu fungsi yang ditentukan. Kementerian Pertahanan Malaysia telah mula melaksanakan polisi penswastaan 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 menyiaskan keberkesanan pelaksanaan projek-projek penswastaan 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 penswastaan iaitu perkara-perkara dalam perjanjian yang melindungi kepentingan kerajaan; memenuhi kehendak pelanggan; kemampuan menyiapkan projek mengikut tempuh; mempunyai strategi dan prosedur perlaksanaan yang mantap; dan pemaju dengan organisasi yang mantap. Sebagai penutup, kriteria yang telah dikenal pasti boleh meningkatkan keberkesanan projek penswastaan adalah perihal tanah diselesaikan terlebih dahulu sebelum perlaksanaan projek; dan keupayaan pemaju mengenal pasti kehendak pelanggan.
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<td>ATM</td>
<td>Angkatan Tentera Malaysia</td>
</tr>
<tr>
<td>ASN</td>
<td>Amanah Saham Nasional Berhad</td>
</tr>
<tr>
<td>BM</td>
<td>Built-Manage</td>
</tr>
<tr>
<td>BMT</td>
<td>Built-Manage-Transfer</td>
</tr>
<tr>
<td>BO</td>
<td>Built and Operate</td>
</tr>
<tr>
<td>BOT</td>
<td>Built-Operate-Transfer</td>
</tr>
<tr>
<td>DCF</td>
<td>Discovered Cash Flow</td>
</tr>
<tr>
<td>DPS</td>
<td>Department of Public Service</td>
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<td>EPU</td>
<td>Economic Planning Unit</td>
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<td>ESOPs</td>
<td>Employee Share Ownership Plan</td>
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<td>GOEs</td>
<td>Government-Owned Entities</td>
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<td>ICP</td>
<td>Inter-departmental Committee on Privatization</td>
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<tr>
<td>ICU</td>
<td>Implementation Control Unit</td>
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<tr>
<td>JP &amp; PH</td>
<td>Jabatan Penilaian dan Perkhidmatan Harta</td>
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<tr>
<td>KTMB</td>
<td>Keretapi Tanah Melayu Berhad</td>
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<td>LTAT</td>
<td>Lembaga Tabung Angkatan Tentera</td>
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<td>LUTH</td>
<td>Lembaga Urusan Tabung Haji</td>
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<tr>
<td>MAF</td>
<td>Malaysian Armed Forces</td>
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<td>MAS</td>
<td>Malaysia Airlines System</td>
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<td>MBOs</td>
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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
(Technical 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 31\textsuperscript{st} December 2006.

**Source:** MINDEF Development Division.

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>No of Project</th>
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<tr>
<td>1.</td>
<td>Project Completed</td>
<td>3 projects</td>
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<td>2.</td>
<td>Post Contract Phase</td>
<td>5 projects (2 projects abandoned)</td>
</tr>
<tr>
<td>3.</td>
<td>Pre Contract Phase</td>
<td>4 projects</td>
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<tr>
<td>4.</td>
<td>Proposal/Postponed</td>
<td>18 Projects</td>
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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 consists 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.