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BORANG PENGESAHAN STATUS TESIS♦

JUDUL: **THE PRIVATIZATION PROJECTS IMPLEMENTED
BY MINISTRY OF DEFENCE**

SESI PENGAJIAN: **2006/2007**

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THE PRIVATIZATION PROJECTS IMPLEMENTED
BY MINISTRY OF DEFENCE

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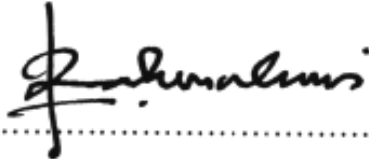
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Master of Science (Construction Management)

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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.

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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.

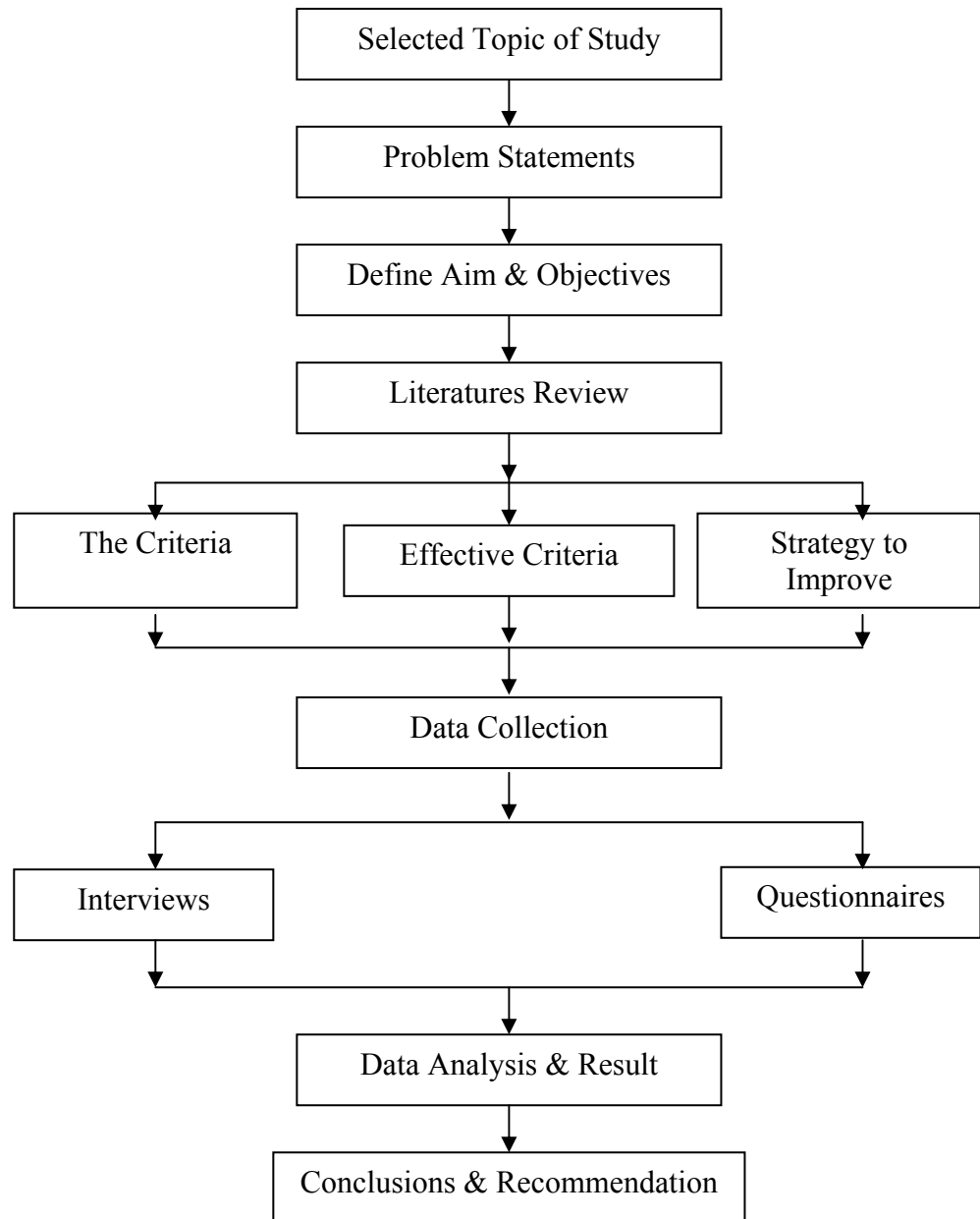


Figure 1.1 Research Methodology

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.

CHAPTER 2

NATIONAL PRIVATIZATION POLICY

2.1 INTRODUCTION

This chapter highlight on the privatization policy which had been introduced by the government in 1983 and also cover all the approached taken by the government which include:

- The policy and implementation in general especially the starting point.
- The relationship between both aspects and its elaboration.
- The objective, strategy and framework.
- Method of implementation.

The discussion focus on the national privatization approach and the approach source that had been used. Study also cover the achievement of NPP, mechanisms of NPP and Government strategy in implementing of NPP. Research also discuss on the issue which related to NPP and consideration matters in the implementation of the privatization.

Privatization was first announced as a national policy by the Government in 1983, (Muhd Salleh and Lee, 1990). It represents a new approach in the national development policy and complements other national policies such as the Malaysia Incorporated Policy developed to underscore the increased role of the private sector in the development of the Malaysian economy. This approach signalled the

Government's intention to reduce its presence in the economy, decrease both the level and scope of public spending and to allow market forces to govern the economic activities. With no doubt, privatization has an important impact on the rate and manner of economic development.

In 1985, the Government published the "Guidelines on Privatization" detailing among others are the objectives of the policy, the method applicable and the application machinery.

Several developments had taken place since the policy was first announced by the Government included the amendments of the various laws in order to allow privatization to take place and commissioning of a study to help in the drawing up of a Privatization Master Plan (PMP).

So far, a great deal of success had been achieved in the implementation of the privatization programme. The Government had engaged a consortium of local and foreign consultants to prepare the Malaysian Privatization Master Plan. The main purpose of PMP is to explain to the public the Privatization Master Plan which had been drawn up by the Government to provide a guideline in the implementation of the policy, (UPE, 1991). In this context, the PMP reviewed the background and the progress achieved in the implementation of the programme, the main issues addressed in the PMP and the future direction of the programme.

2.2 NATIONAL PRIVATIZATION POLICY APPROACH

The form of privatization policy is a step taken by the government to make sure the implementation is on track. The aim must be hand in hand with traditional Economic Development through New Economic Plan. The approach taken is:

2.2.1 Approach By Britain Government

Malaysia Government had used the approach by British Government as a guideline in their privatization. In Britain, Privatization is contrast with “National Ownership” policy. This means privatizations in Britain are the economic activity and development together with enterprise own by the non government sector and private sector. There were two underlined approach by British government in their implementation of privatization policy.

- **First Approach.** Public entrepreneur becomes private through asset and government entrepreneur share selling and government only had small share or minor share holder. Owning, controlling, management and implementation operation activities had been transferred and became private property.
- **Second Approach.** British government had cancelled its own monopoly power. It means the public entrepreneur once belongs to the Britain government with monopoly status has to compete with private sector.

2.2.2 Malaysian Government Approach

Malaysian uses the first approach from British privatization policy in order to create National Privatisation Policy (NPP). This is to transfer government sectors, inter government sector and public entrepreneur conquered by government to private. The government chose this approach because it is in lined with NPP objective, (*EPU*, 1993).

2.3 THE POLICY IMPLEMENTATION

Since the announcement of the privatization policy in 1983, until 1990 there were 37 projects had been privatised, where 27 were taken over by the private sector on the existing Government entities and the remaining was the construction of new infrastructure projects.

The list below does not include companies divested prior to 1983 under the scheme of transferring Government's equity in trust companies to Bumiputera. Under the transferring scheme which was launched in 1981:

- Thirty (30) Government companies has been transferred to Permodalan Nasional Berhad (PNB) and thereafter to the Amanah Saham Nasional (ASN) Unit Trust holders.
- One hundred and twenty (120) companies were sold to other private sector parties. The list also includes minor privatisation projects undertaken by various Government departments mainly through contracting out such as laundry, security and cleaning services.

Until 31 December 2003, there were 474 projects had been privatized, as the following chart in Figure 2.1 shown the percentage by sector distribution, (Speech by Dato' Mustafa Mohamed, 2001).

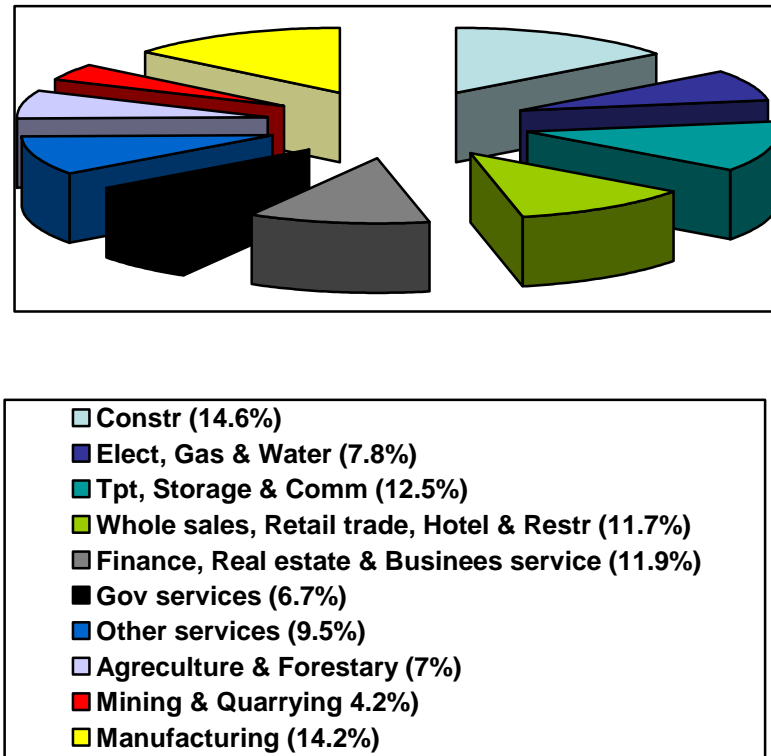


Figure 2.1 Sector Distribution of Privatized Projects (1983 – 2003).

Source: Speech by Dato' Mustafa Mohamed, Executive Director National Economic Action Council (NEAC) Malaysia, prime Minister Department.

2.4 CONCEPTUAL FRAMEWORK

Privatization is defined as the transfer to the private sector of activities and functions which had traditionally rested with the public sector. This definition applies to enterprises already owned by the Government and to new projects which normally have been implemented by the public sector. In effecting such transfers, three essential organization-related components were involved, that were:

- Management responsibility;
- Assets (with or without liabilities) or the rights to use assets; and
- Personnel.

Several methods of privatization exist and not all methods entail the transfer of all the three components mentioned above. A privatization method must involve the transfer of at least one of the components. Privatization was restricted to those methods which entail the transfer of at least components b and c mentioned above, and those methods which involved the transfer of management responsibility only but have widespread impact on the economy.

In the broad sense, privatization has been implemented much earlier than 1983 mainly by way of methods not involving the transfer of assets or personnel. Contracting-out of services by municipalities and other Government organizations were already practiced even prior to the announcement of the policy. However, these were undertaken for reasons of efficiency of execution of activities rather than to consciously achieved some national objectives. For the purpose of PMP, contracting-out including contract on a turnkey basis is excluded. Contracting-out will continue to be implemented according to existing financial procedures and regulations.

2.5 BROAD POLICY FRAMEWORK

The privatization policy was implemented within the broader national policy framework, supported by other complementary policies such as employment, capital market and fiscal policies.

Privatization is premise on the superiority of market forces over administrative directives in governing economic activity to achieve efficiency. The Government intervention in the economy will be minimal and only if considered necessary to achieve certain national objectives. Such intervention will be under taken through various ways such as taxation and subsidies, provision of indirect assistance through infrastructure, training and research. Existing regulations on private sector activities will be continuously reviewed.

More ambitious privatization programme will also place new demands on equity and debt capital. In order to avoid the crowding out of capital demand by the private sector for non-privatization purposes, a number of reforms being considered to further promote investment demand particularly by small shareholders, employees and the Bumiputera sector. These reforms will not only cater the needs of the privatization programme but simultaneously promote further development of the domestic capital market.

2.6 MECHANISM OF NATIONAL PRIVATIZATION POLICY

NPP had been formed by the Government in order to develop the nation through New Economic Policy (NEP) by privatization practiced. The Government mechanism includes the method of mechanism and strategy policy.

2.6.1 Method of Mechanism

Method of Mechanism based on the highest Government organization had been formed for the aim of planning the policy strategy, objective strategy and implementation policy. This formation will permit the implementation of privatization to be implement based on the objective that had been determined. The study discovered the method of mechanism that had been formed is shown in Figure 2.2, (*EPU*, 2002).

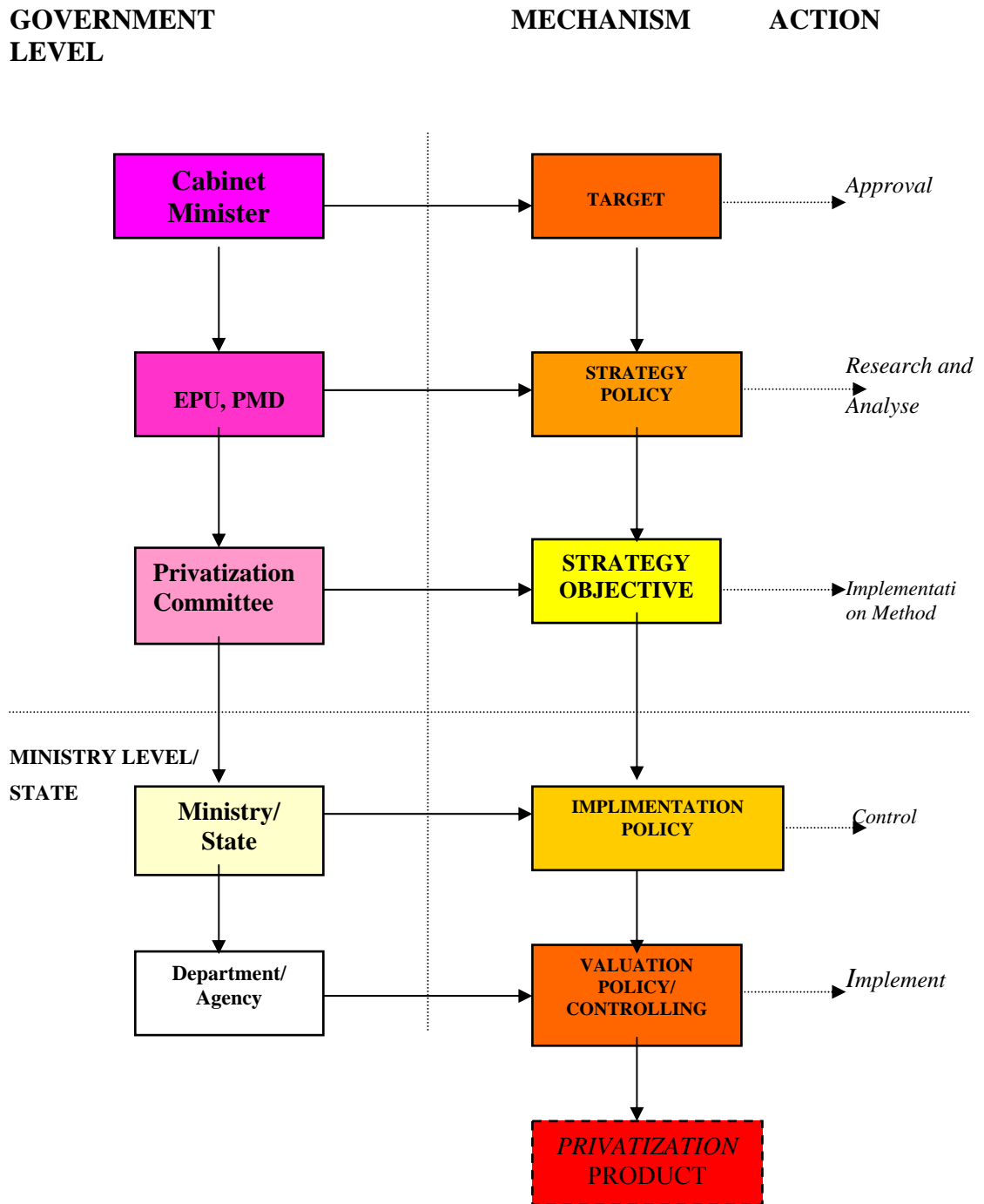


Figure 2.2 Method of Mechanism.

Source: Privatization Master Plan, EPU, PMD (1991)

2.6.2 Strategic Policy

Strategic policy had been formed by the Government to permit the privatization to support in generating the nation economic. The policy had been formed and their elaborations is mentioned in Table 2.1, (*EPU*, 1991).

Table 2.1: Government Strategy Policy.

Source: Privatization Master Plan, EPU, PMD (1991)

Item	Strategy Policy	Elaboration
1.	Reduce Nation Expenses	Government reduces the cost for emolument and the development by reducing of the staff and Department/Agency.
2.	Increase Nation Income	Sale tax income, service tax and income tax from public sector which has been privatized together with the sale tax of the assets and equities and share own by the Government.
3.	Efficient management in private sector	Privatized the Public sector has been efficient managed and produce productive services and product by the Private sector.
4.	Accelerate the NEP	Accelerate and increase the Bumiputera economic level to achieve 30% by year 2020 by displacement the equity own by the Government to the individual/company own by Bumiputera.

2.7 THE OBJECTIVE OF NATIONAL PRIVATIZATION POLICY

In the implementation of the programme, (*EPU*, 2002); mentioned that the following objectives as originally formulated will continue pursued:

- Relieve the financial and administrative burden of the government.
- Improve the efficiency and productivity level of the country
- Facilitate national economic growth.
- Reduce the size and presence of the public sector in the economy.
- Promote achievement of the new economic policy targets.

2.7.1 Relieve the Financial and Administrative Burden of the Government

Privatization will continue at relieving the financial and administrative burden of the Government in undertaking and maintaining a vast network of services. The policy is design to relinquish commercial management to the private sector and leave the Government free to concentrate on traditional functions of maintaining law and order and providing the support for achieving growth and distributional objectives.

2.7.2 Improve the Efficiency and Productivity Level of the Country

Privatization was expected to improve the efficiency and productivity of economic activities. Efficiency would be promoted through several means including the introduction and enhancement of competition, releasing of Government enterprises from political supervision and civil service rigidities and the introduction of employee incentives.

2.7.3 Facilitate National Economic Growth

An important consideration behind privatization is to achieve higher economic growth. In the context of achieving this objective, privatization will provide opportunities for the private sector to its role in development. The commercial and profit orientation of the private sector is expected to provide the trust for further growth.

2.7.4 Reduce the Size and Presence of the Public Sector in the Economy

The gradual disengagement of the Government from economic activities through privatization will result in the reduction in the size of the public sector, thus allowing the economy to be increasingly led by the private sector.

2.7.5 Promote Achievement of the New Economic Policy Targets

By enhancing the growth prospects of the private sector, particularly the corporate sector, privatization will provide opportunities for achieving further progress towards the fulfilment of the national economic policy objectives especially in respect of restructuring the ownership pattern in the economy.

2.8 METHODS OF PRIVATIZATION

Privatization can be implemented by several methods as follows, (UPE, 1993):

2.8.1 Sale of Assets or Equity

The sale method can be applied to either Government equity or assets. Sale of equity applies to Government companies and result in the transfer of all (together with or without liabilities) and personnel. A sale of equity can either be partial or complete. A complete sale represents a transfer of 100% Government equity in the company, while a partial sale represents a transfer of less than 100%.

2.8.2 Lease of Assets

A lease involves the transfer of right to use assets for a specific period in return for specified payments. It is usually applicable to fixed assets of a candidate to be privatized, particularly if the assets are large and its nature is strategic. Although there is no changed in the ownership status of the assets, the acquisition of the leased assets can be arranged at the end of the leasing period.

2.8.3 Management Contracts

This method involved the contracting of private sector management expertise to manage a Government entity for a fee. Its entails the transfer of management responsibility and may or may not involved the transfer of personnel but does not result in the transfer of assets.

2.8.4 Build-Operate-Transfer (BOT)

The “BOT” method involved the private sector constructing a facility using its own funds, operating it for a concession period and transfer 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.

2.8.5 Build-Lease-Transfer

This method are implemented by inviting the private sector involved in the built up of the facilities required by the Government. Later the facilities will be leased by the Government for a certain period agreed by both parties involved. At the end, the facilities will be transferred back to the Government as an owner of the facilities.

2.8.6 Management-Buy-Out

Some firms had been privatized through buyouts by the management. The potential owners are required to raise sufficient funds to make the purchase; their inability to do so had reduced the scope for this method of privatization.

2.8.7 Land Development/Land Swap

The developer was required to construct the facilities needed by the Government which include the infrastructures, technical buildings, non technical buildings such as housing and the training facilities. After completion, all the facilities mentioned will be handed over to the Government. To response the

developer act, the government will hand over the Government land to the developer for them to develop on their own decision or requirement. The cost for the development of the facilities for the Government is the value of the land which will be transferred to the developer. The value of the transferred land will be determined by the tender table out by the Economic Planning Unit (EPU), Prime Minister Department (PMD) and valued over again by the Valuation Department and Jabatan Penilaian dan Perkhidmatan Harta (JP&PH). The Government land being transferred to the developer normally have a very high commercial value and giving advantages to the developer when they develop that land.

Either a single method or a combination of methods may be chosen depending on the merits of each case. The choice of methods will be considered case by case. As a general rule, however, the methods which results in the maximum practicable degree of private sector involvement will be aimed at.

2.9 RELATED ISSUES FOR IMPLEMENTING NATIONAL PRIVATIZATION POLICY

The Government has made decisions on the following privatization issues to govern the future implementation of the privatization programme, (UPE, 2002).

2.9.1 Valuation of Assets or Equities

Privatization involving the sale of assets or equities and lease of assets requires valuations to be made of the assets or equities concerned. For equities, various methods of valuation are available, namely, the Net Tangible Asset (NTA) method, the Price Earnings (PE) Multiple method and the Discounted Cash Flow (DCF) method. While the NTA method does not take into account of the future earnings prospects of the entity concerned, the other two methods do.

Generally, the Government will use the methods that do take into account of the future prospects of the entity, including its opportunities and constraints. Taking into account 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 will also generally determine the value of physical assets to be disposed of or leased. The value of the business based on the potential earnings of the entity to be privatized may be higher or lower than the value of the assets depending on whether the assets are subject to any encumbrances or not. If the assets are subject to encumbrances and are not allowed to be used for purposes other than what they were originally intended for, the value of those assets may be lower than what it would be otherwise.

2.9.2 Personnel

The Government has implemented several policy decisions with regard to personnel affected by privatisation.

- Firstly, no personnel can be retrenched within the first five years of privatization, except on disciplinary grounds. Staff redundancy, if any, is expected to be overcome through normal attrition, redeployment and expansion of activities.
- Secondly, upon privatization, affected personnel will be offered a package of no less favourable terms and conditions of service than those enjoyed by them while working with the Government.

Affected employees are given two options either to join or not to join the privatization entity. Those who do not wish to join the privatized entity will be retired off and will be given their rightful retirement benefits immediately. Those who wish to join the privatized entity will be offered two schemes of service, one which replicates the Government scheme of service, and another which is commercially orientated. Under the latter scheme, the employees are entitled, among

others, to purchased the privatized entity's shares and to enjoy bonuses that are declared as and when warranted based on the performance of the entity.

It should be emphasized that the above decisions only relate to the personnel of Government department and statutory bodies to be privatized and do not cover the personnel of Government companies.

2.9.3 Changes in the Laws

In order to facilitate the implementation of the privatization programme, the Government has amended a number of laws which has to pose as unintended obstacles to the programme. These amendments are in respect of both the laws which have general applicability such as:

- The Constitution and the Pensions Act, 1980,
- The Telecommunication Act, 1950,
- Port Authorities Act, 1963 and
- The Electricity Act, 1949.

The government foresees that many other laws still need to be amended for the same purpose. In this respect, the Government is reviewing the relevant laws and make the necessary amendments as and when the need arises.

2.9.4 Regulatory Framework

Privatization call for economic reforms particularly by way of deregulation and lifting of barriers to entry in order to allow market forces to dictate economic activity and thereby improve efficiency and productivity. However, in respect of natural monopolies, there is a limited scope in increasing competition. In place of competition, an appropriate regulatory framework will be established and

strengthened to regulate these natural monopolies in order to ensure that consumer's interests are protected especially in terms of price, quality and availability of services. Although consumer's interests will be a focal point in developing the above regulatory framework, the Government will also ensure that the private monopolies enjoy the commercial freedom required to improve efficiency.

2.9.5 Capital Markets

By virtue of the size of the public sector, privatization exerts heavy demands on private sector financial resources. Consequently, this demand calls for a much increased role for the various financial intermediaries and the stock exchange in mobilizing both debt and equity capital.

Privatization will have the effect of deepening and broadening the Malaysian capital market particularly the stock market by increasing the number of stocks that will be made available as well as introducing new sectors into the market. While the privatization programme will have an impact on the supply side of the capital market, the demand side will also be taken into consideration to ensure that there will be sufficient absorptive capacity for the successful implementation of the policy. Towards this end, the Government is reviewing policies and measures with a view to increasing and enhancing the absorptive capacity of the capital market.

2.9.6 Bumiputera Participation

The achievement of the distributional targets, in particular that relating to the restructuring of society, will continue to be pursued in the implementation of the privatization programme. In respect of ownership of wealth, 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 addition, the

privatization programme will be used as a vehicle to correct the imbalances in the corporate sector by providing Bumiputera wider opportunities to participate in the privatization of non-trust agencies. In the implementation of the privatization programme therefore, the absorptive capacity of the Bumiputera will be taken into cognizance. The enhancement of their absorptive capacity will be promoted by encouraging collaborations between institutional investors such as Lembaga Urusan dan Tabung Haji (LUTH) and Lembaga Tabung Angkatan Tentera (LTAT), and the individual entrepreneurs as well as companies. Active participation by the Bumiputera in the privatization programme will also be promoted through schemes for employees such as management-buy-outs and employee share ownership plans. A mechanism will be instituted to ensure the sustainment of Bumiputera participation once a Government entity is privatized.

2.9.7 Foreign Participation

While the local investors are expected to take advantage of the bulk of the investment opportunities made available by the privatization programme, foreign participation can be considered in the following cases:

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

Foreign participation in a privatized entity is limited to a maximum of 25 percent of its share capital. For projects of strategic and national importance, 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.

2.9.8 Privatization Fund

The implementation of the privatization programme involves several expenditures such as expenditures on conducting feasibility studies, restructuring of potential candidates for privatization and compensation that may arise as a result of privatization. While these expenditures may be financed by way of the normal Government budgetary process, the establishment of a special fund will provide the Government with a more efficient alternative financing arrangement. This fund is expected to be self-financing with part of privatization proceeds being used to fund it. A study is being undertaken to determine the feasibility of establishing this fund.

2.9.9 Employee Share Ownership Plan (ESOPs) and Management-Buy-Out (MBOs).

To ensure success in the privatization programme, it is essential that not only acceptance and support of affected employees are secured but also incentives are given to motivate employees to contribute towards the further development of the entity they work for. Apart from the adoption by privatized companies of a more commercially oriented reward system which is largely based on performance, another form of incentive that introduced is employer share ownership. Several schemes for employee share ownership have been identified. In the past, shares of floated Government companies have been offered to employees. Such a scheme has not benefited the lower categories of employees very much due to their limited sources of financing. In addition, this scheme also has not succeeded in enhancing employees sense of loyalty and commitment towards the company since a fair proportion of employees who subscribed to the share sold them shortly after they were listed on the Stock Exchange. A longer term employee ownership is considered essential to bring about such a sense of loyalty and commitment. Towards this end, the Employee Share Ownership Plan (ESOPs) will be introduced in future privatizations. Such a scheme involves the establishment of a trust to hold shares for the employees. Financing for the purchase of shares by the employees

will be arranged by the trust. Employees will only be able to sell their shares when they leave the company or upon retirement.

Another means of bringing about long term employee ownership is through Management-Buy-Out (MBOs) whereby the top managerial personnel of a company will be allowed to buy it out based on financing that is arranged by them. The management group could also team up with the rest of the employees in such an exercise as in Management-Employee-Buy-Outs (MEBOs).

2.10 PRIVATIZATION ACTION PLAN

In order to ensure that the privatization effort is channelled to appropriate priority areas so as to optimise the impact of the policy implementation in terms of the achievement of the policy objectives, a Privatization Action Plan (PAP) has been formulated.

The PAP consists of a two-year rolling plan which is reviewed at the end of each year, detailing the entities to be privatized and those to be prepared for privatization. The yearly review will take stock of the progress being made so as to determine the entities to be privatized in the next two years. An illustration is shown in Figure 2.3, (*UPE*, 1991).

The formulation of the PAP had been guided by the PMP study undertaken by private consultants who reviewed a large sample of Government-Owned-Entities (GOEs) to determine both their feasibility and desirability for privatization. The Government will not be necessarily accept all the projects proposed by the consultants to be privatized.

The Government will undertake a continuous review of its entities to encompass those that were not covered by the PMP study. A number of entities that had been identified in these review exercise will be selected to form the rolling PAP after detailed privatization studies had been undertaken on each of them.

However, if a private sector proposal contains certain unique features which indicate that no other private sector party can privatize the project in question, the proposal may be considered by the Government as a private sector initiated privatization.

End 1990	End 1991	End 1992	End 1993	End 1994
Prepare Action Plan For 1991 and 1992	Review Implementation In 1991 and Prepare Plan for 1992 and 1993	Review Implementation In 1992 and Prepare Plan for 1993 and 1994	Review Implementation In 1993 and Prepare Plan for 1994 and 1995	Review Implementation In 1994 and Prepare Plan for 1995 and 1996

Figure 2.3 Rolling Privatization Action Plan.

Source: Privatization Master Plan, EPU, PMD (1991).

2.10.1 Others Factors Considered in Drawing up the Privatization Action Plan

Several other factors are also taken into consideration in the formulation of the PAP. An aspect which was taken into consideration is the impact which a project has on the economy. Based on this consideration, one or two fairly large candidates had been incorporated in each year of the rolling PAP. They were selected because of their potential to generate changes and benefits to the economy which their privatization can bring about.

To ensure successful implementation, the PAP, takes into account also the absorptive capacity of the domestic capital market. The size of the programme will

be designed in a way so that demand for capital to finance privatization will not crowd out demand for capital to finance other purposes.

The PAP also takes into account privatization projects initiated by the private sector. In addition, it considers new projects, the implementation of which can be privatized. The development of these projects was traditionally dependent on the public sector.

The formulation of PAP takes into account the need to achieve a well-balanced programme likely to command a broad-based support and to develop its own momentum.

2.10.2 Implementation Programme

For implementation purposes, the PAP further categorized the above components of the programme into two parts:

- Those need preparatory work to be undertaken before privatization can be implemented.
- Those ready for implementation. Most of the flagships required extensive preparatory work to be done as many of them are still operating either as a Government department or a statutory body. Their privatization will have to be implemented in several stages is shown in Figure 2.4, (*UPE*, 1991).

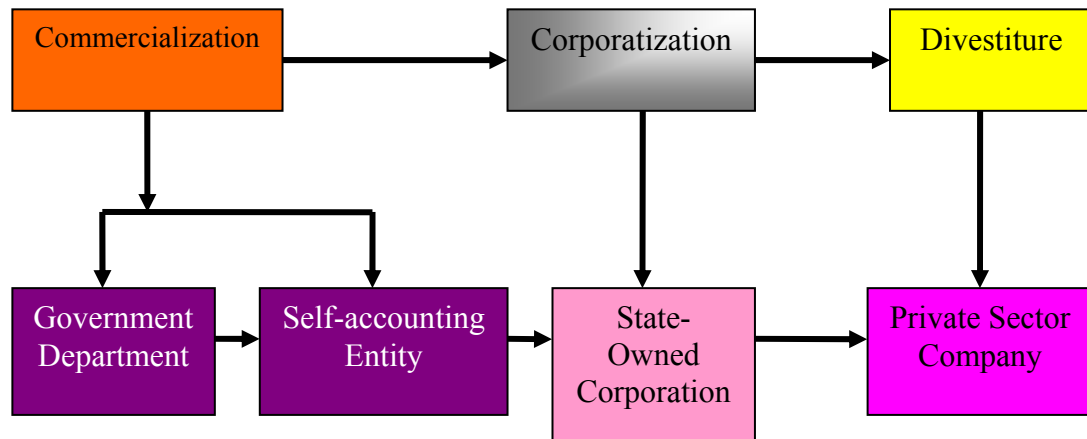


Figure 2.4 Privatization of Government Department/Statutory Body

Sources: Privatization Master Plan, EPU, PMD (1991).

The first stage that the entity has to pass through is the commercialization stage. At this stage, the user charges are introduced, followed by commercial accounting and commercial objectives.

The second stage is the corporatization stage, a process involved a change in the legal status of the entity from a department or statutory body into a company governed by the Companies Act, 1965. This stage involved the transfer of Government assets and liabilities from the Government department or a statutory body to a company still own by the Government but operating on commercial lines. At this stage, several changes will be made with a view to enhancing productivity and efficiency. Some of these opportunities are as follows:

- Replacing bureaucratic administration with commercial management.
- Introducing clear financial and operational performance targets and commercial accounting.
- Replacing centralized production-oriented decisions with consumer and market driven decisions.

The third stage that Government department/statutory body have to go through in the privatization process is the divestiture stage, a stage involving the transfer of ownership of the corporation from the public to the private sector. There are several routes to divestiture. One or a combination of the following routes may be adopted:

- Public flotation.
- Private sale.
- Management-buy-out (MBO)/Employee share ownership plan (ESOP).

Likewise, the restructuring candidates will require some preparatory work in terms of restructuring either operationally or financially, while the privatization of services calls for changes to be made to the market structure of those services by introducing competition and deregulation.

2.11 APPROACH TO PROJECT IMPLEMENTATION

The privatization of a GOEs may be initiated by the Government or the private sector. The administrative machinery that had been set up for the execution of the privatization policy is based on the principle of centralized planning and decentralized implementation. The administrative process involved in privatizing Federal GOEs varies with the nature of the project i.e., whether it is Government initiated or private sector initiated. These administrative processes are discussed as follows:

2.11.1 Approach to Government-Initiated Privatization

Planning the programme for implementation will be centralised at the EPU. This function involves:

- A continuous review of Government activities and entities,
- Identification of privatization candidates,
- Subsequently, a programme will be drawn up for more in-depth studies to be undertaken on these candidates.
- Based on the in-depth studies the two-year rolling PAP will be drawn up. This plan will be deliberated by the Inter-departmental Committee on Privatization (ICP), the highest decision-making body at the official level regarding privatization.
- The ICP will in turn put forth its recommendations on the PAP to the Government for a decision.
- Upon approval of the plan by the Government, the ICP will evaluate the various possible modes of privatizing the GOEs. The responsible Ministries will therefore extend invitations to the private sector through appropriate means to privatize these entities.
- The private sector than can respond to such invitations by the Ministries. The bids made by the private sector will be evaluated and thereafter an award will be made by the Ministry.

2.11.2 Approach to Private Sector-Initiated Privatization

The private sector will at the same time be allowed to submit privatization proposals. In the initial stage, the private sector should submit a comprehensive conceptual proposal which will enable the Government to determine its privatization and uniqueness. Such proposal will be considered on a “first-come-first-served” basis with a view to rewarding innovativeness and ingenuity and encouraging entrepreneurship. If the proposal meets the prescribed guidelines of privatization and uniqueness, a letter of exclusivity will be given to the private sector party

concerned to conduct a feasibility study and submit a complete proposal to EPU. Upon evaluation of the complete proposal, should the Government find it acceptable, negotiations will be carried out with the private sector party concern and an award will be made when an agreement is reached. The proposal should be submitted to the EPU.

Should the negotiations fail, however, the project will be privatized through competitive bidding as if it was a Government initiated project. Recognizing that the initial private sector party which has been given exclusive right to conduct the feasibility study for the preparation of the proposal has invested money for the study, it may be compensated for the cost of the study. An arrangement will be made to enable it to be compensated by the successful bidder for the project. For this purpose, a budget on the study will have to be agreed upon between the Government and the initial private sector party. The compensation for the cost of the study by the successful bidder will therefore be incorporated as one of the terms of privatization.

The following criteria will be used as general guidelines to determine the uniqueness of the project:

- The proposal contains a unique solution to an economic problem and offers a cost-effective method of solving the problem or offers to generate potential savings to the Government. In such a case, the Government is confident that the private sector propose is capable in implementing the proposal;
- The private sector party may be in a unique position to effect a successful privatization in view of its possession of certain patent rights or technical know-how which become an essential feature in a privatisation proposal; and
- The privatization candidate would not be viable if privatized on its own and its viability dependent on being linked to another component of which a private sector party is already in possession. In such case, the privatization of the project would be granted to the private party who is in possession of the main component.

If the proposal is not unique, it will be subjected to competitive bidding to enable the Government to award the project to the best bidder. A more stringent screening of bidders will be made to ensure smooth implementation of project and compliance with policies of the Government. The screening will also ensure that the bidders possess the necessary financial and technical capabilities. Such screening will apply to both Government and private sector initiated privatizations.

2.12 ASSESSMENT OF PERFORMANCE

In making an assessment of the effectiveness of the privatization programme, some measures of performance are available to indicate the extent of achievement in implementing the privatization policy. They are:

2.12.1 Efficiency Gains

There are clear indications that the privatization has led to the increased in efficiency.

2.12.2 Privatization and Growth

Privatization and economic growth had been closely related. In many instances, privatization has led to corporate expansion and greater utilization of growth opportunities through private sector motivation. In this context, TM, since its incorporation, has introduced, upgraded and marketed aggressively several new services that were scarcely known prior to corporatization.

Privatization has also resulted in the generation of multiplier effects in the economy. In this respect STMB aggressive approach has provided a catalyst for growth in the domestic film making and advertising industries.

Growth had been generated in a more direct manner through the implementation of various BOT projects and granting of licensed activities. There has been an encouraging growth in private entrepreneurship in sectors which previously have been the domain of the Government. Privatized projects had expedited infrastructural development at a time when the public sector is reducing its development expenditure, particularly with privatization of new project through BOT. The granting of a licence to operate a commercial TV station has enabled STMB to generate new investments of about RM44 million to build up its operation.

2.12.3 Relieved Administrative and Financial Burden of Government

Privatization has succeeded in reducing the administrative burden of the Government particularly in terms of personnel and financial obligation. The relief had been very significant with the privatization of large entities like the Telecommunications Department.

Privatization has generated one-off proceeds from sale of Government interests in companies totalling RM1,180 million. Apart from these one-off proceeds, recurrent revenue from privatization came in the form of lease payments as in the case of Klang Container Terminal (KCT), and more generally, in the form of corporate tax. In addition, the exposure of the Government in some privatized projects is also rapidly decline with loan financing activities undertaken by TM and Malaysian Shipping Corporation particularly.

Privatization of new projects has relieved the Government of its financial burden. The value of financial relief that resulted from the implementation of the news projects for infrastructural development on BOT basis amounted to about RM8.2 billion. The savings represent the amount that the Government would have to

spend if the projects have not been privatized. An example of such capital expenditures is that incurred by TM on development in order to meet the growing demands for its services and to keep abreast with technological advancements.

2.12.4 New Economic Policy (NEP)

In respect of the restructuring target of the NEP, the privatization programmed helped to increase Bumiputera participation in the corporate sector. Most of the privatization projects had at least 30% Bumiputera participation while Bumiputera promoter had played an active role in the privatization of new projects. In addition, the relief in the financial burden afforded by privatization has enable Government to re channel the funds from these projects to others areas where poverty relief measures are more needed.

2.13 SUMMARY

In this chapter, it has deliberated on the issue of the National Privatization Policy including the approached, the policy implementation, framework and the mechanisms, the objectives, methods of privatization, the related issues on the implementation, the action plan and the assessment on the performance of privatization.

CHAPTER 3

THE PRIVATIZATION PROJECTS IMPLEMENTED BY MINISTRY OF DEFENCE

3.1 INTRODUCTION

This chapter will discuss on the mechanism of the Implementation Rules, Evaluation/Controlling Plan and the concept adopted by MINDEF in the implementation of privatization projects. The discussion will identify main aspects on which the privatization projects were implemented and also the projects status.

3.2 IMPLEMENTATION OF MECHANISM PLAN

MINDEF implementation plan was designed in line with the aim of:

- National Privatization.
- National Strategy Plan.
- Privatization Objectives.

These will enable all departments related to Privatization project to form implementation procedures and evaluation/controlling plan. It was designed by MINDEF Development Committee with the objective to facilitate the implementation of privatization projects.

3.2.1 Form of Mechanism

The form of mechanism was formed according to the Government Privatization Strategy Plan. This mechanism was aimed for planning the matters below:

- The Implementing Plan
- The Implementing Procedure and
- Evaluation/Controlling Policy

The study shows that the mechanism form is shown in Figure 3.1, (MINDEF Development Division, 1993).

Implementing Mechanism Plan was divided into three stages formulated by MINDEF to achieve the end user's objectives and requirements as stated below:

- MINDEF Development Committee
- MINDEF Development Division
- Accommodation & Works Directorate (A&W)

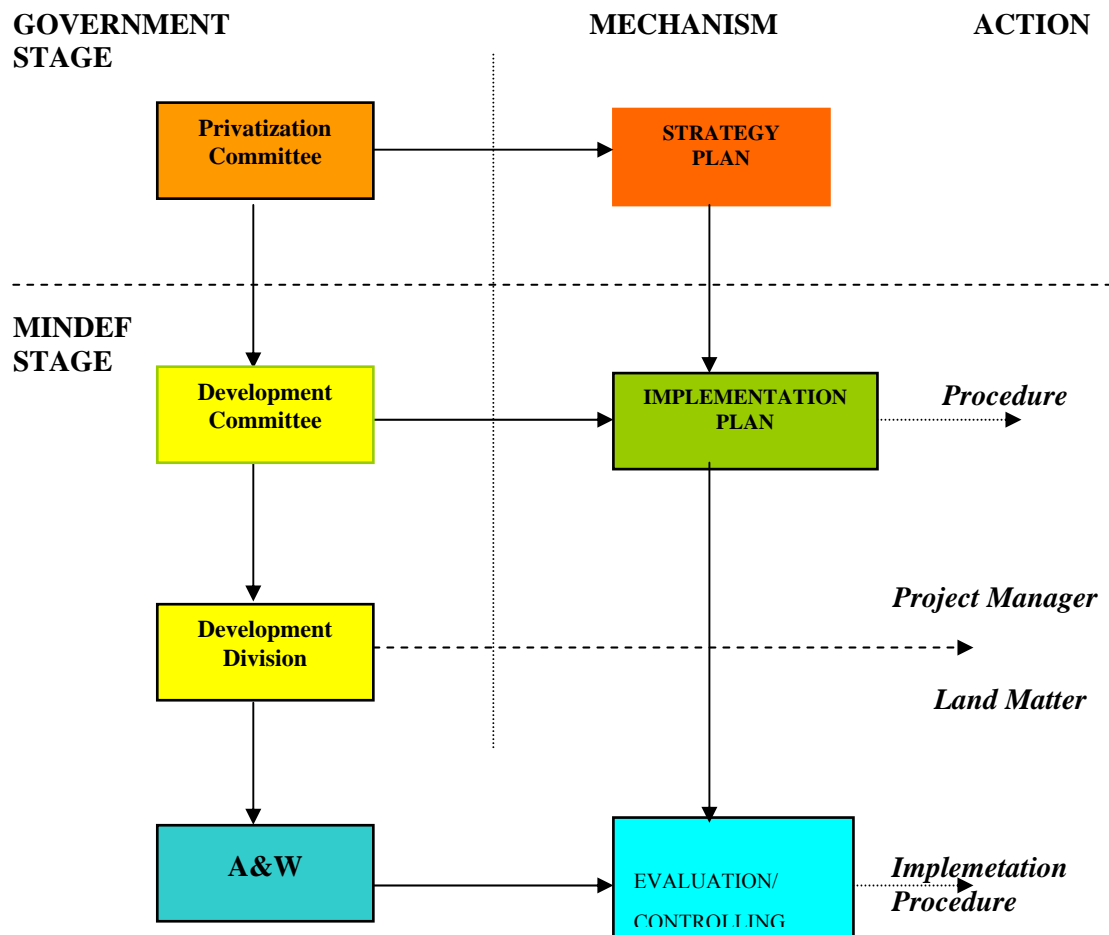


Figure 3.1 The Implementation of Mechanism Plan.

Source: MINDEF Development Division.

3.2.2 Implementation Plan

MINDEF had formed an Implementation Plan with the aims to enable all development projects are carried out accordingly to National Privatization Plan. These plans form a basis of procedures and guidance for implementation agencies in Evaluation/Controlling Policy. The plans that had been formed and its comments are shown in Table 3.1, (MINDEF Development Division, 1993).

This Plan was formed to develop MAF infrastructures and facilities while promoting economic growth of commercial development. This can be achieved with the privatization objective that had the important role in promoting and

upgrading national economy. Government lands will be leased to private sector for development.

Table 3.1: MINDEF Implementation Plan.

Source: MINDEF Development Division.

Item	Implementation Plan	Comments
1.	Development without monetary source	To develop some of MAF Camps and infrastructure without involving monetary source from MINDEF and Federal Government. The development is using Land Leased Concept.
2.	Relocation of MAF Camp	Relocating of MAF camps to suitable location/former camps in line with the unit's role and function.
3.	Constructing new MAF camp	Constructing new MAF camp to replace old camp that was built during British time.
4.	Land Swap value	To make sure the land to be transferred to the developer with a commercial value for development.
5.	To promote national economic growth	To help national economic growth by encouraging developers to build housing and commercial facilities on the land swap.

3.3 THE POLICY OF EVALUATION/CONTROLLING MECHANISM

The Evaluation/Controlling Policy was formed in lined with the MINDEF Implementation Plan. The policy was legislated to ensure that the construction work of the privatization projects met the end users requirement and specification. This project will become guidance in forming up procedures for the implementation of the construction works.

3.3.1 Form of Mechanism

Form of Mechanism is to make sure that the Implementing Plan and A&W Directorate, as an implementation agency will implement the Implementation Procedures. The study shows that the form of mechanism is shown in Figure 3.2, (MINDEF Development Division, 1993). The Policy of Evaluation/Controlling Mechanism was formed in two stages:

- Department - technical decision.
- Cell – monitoring every profession. The aim of this monitoring is to confirm that the developer will follow the Evaluation/Controlling Policy.

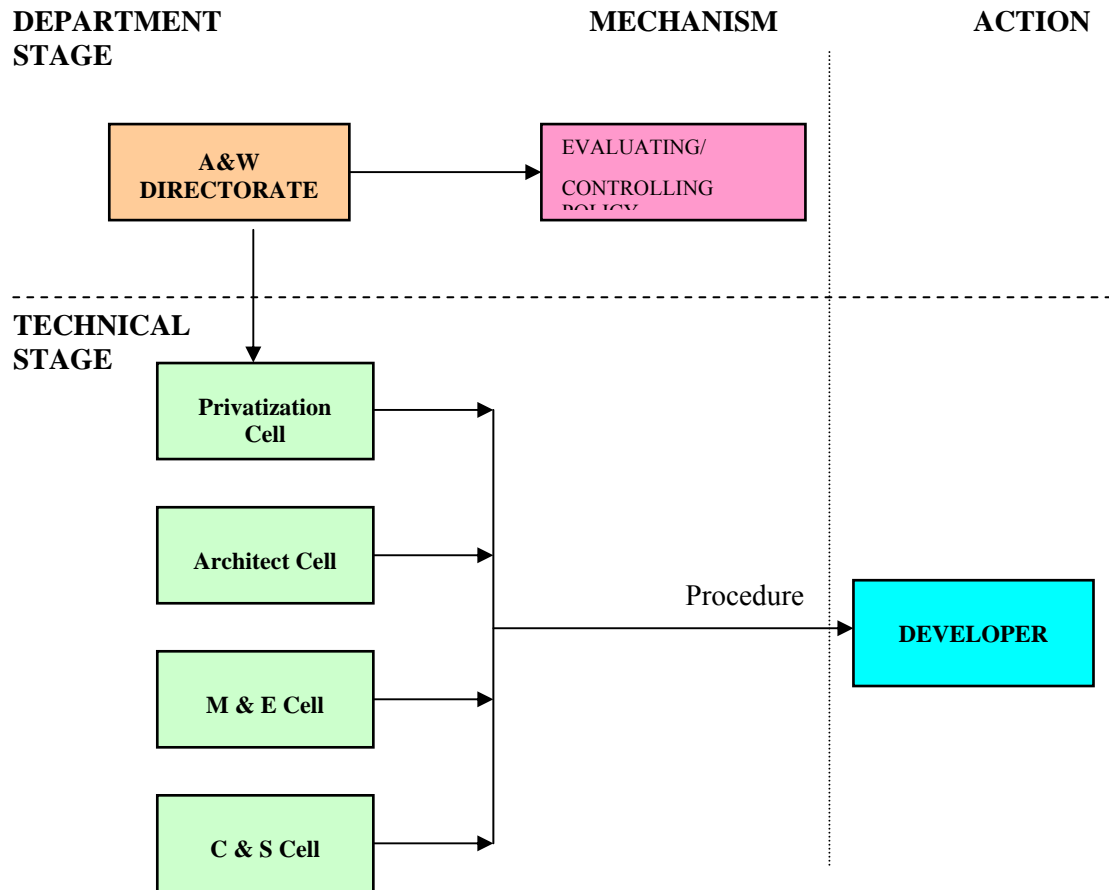


Figure 3.2 The Policy of Evaluation/Controlling Mechanism.

Source: MINDEF Development Division.

3.3.2 Evaluation/Controlling Policy

A&W Directorate in lined with Implementation Plan by MINDEF had formed this policy. This policy was legislated in form of project management to meet the end user requirement and with the plan that had been fixed by MINDEF. The aim is to make sure that the Developer will follow the requirement of construction work by MINDEF. The policy formed and comment is shown in Table 3.2, (A&W Directorate, 1993).

Evaluation/Controlling Policy had been legislated to make sure that all MAF infrastructures and facilities are properly built and fulfil the requirement of the Armed Forces. This policy was also aimed for the evaluation/controlling by A&W Directorate as an implementation agency.

Table 3.2: Evaluation/Controlling Policy.

Source: Accommodation and Work Directorate, MINDEF.

Item	Evaluation/Controlling Policy	Comment
1.	Construction based on Quarters Briefing (Taklimat Kwartar) and Project Briefing	To make sure that construction is following the user requirement and the AF Building & Facility Scale.
2.	Construction follow the Specification and Procedure	Developer is following the specification by PWD and basing the cost and specification by the Ministry of Finance.
3.	Monitoring the construction work	Inspection and monitoring at construction work to make sure the developer is following the construction requirement and specification.
4.	Pre Inspection before handing/taking over	Preparation of inspection team from various professions to identify the defect of the project before Certificate of Completion work can be issue.

3.4 IMPLEMENTATION STRATEGY

Implementation Strategy was legislated to make sure that the Privatization project can be implemented and fulfilled the MAF requirements. This strategy includes the committee and implementation project procedure. MINDEF Privatization Project Committee will plan and monitor the progress of privatisation project in planning stage and monitoring the project under construction. Members of the committee and their tasks are shown in Table 3.3, (MINDEF Development Division, 1993).

The committee will play their role to ensure that all matters with regard to the Government and MINDEF are well protected. They will also make sure that the implementation of privatization project is implemented smoothly.

Table 3.3: MINDEF Privatization Project Committee and Their Task.**Source:** MINDEF Development Division.

Item	Committee	Task
1.	Budget Department, Development Division, MINDEF	Caretaker for Project Agreement and coordinate all activity and meeting of privatization project.
2.	Land Department, Development Division, MINDEF	Responsible to administer all the Federal Government land under MINDEF. Administer and advise regarding the privatization project land and land swap to be surrendered to the developer.
3.	Legal Department MINDEF	Advise on legal matters for the committee and to check the agreement draft forward by company/agency that propose the privatization project.
4.	Accommodation & Work Directorate MINDEF	Responsible on technical, design and implementation agency on behalf of MINDEF.
5.	Service (Army, navy or Air Force) Headquarters	Services in MAF which will propose the privatization project and the requirement of infrastructures and camp facilities for construction in term of Q Brief (Quarter Brief)

3.5 PROCEDURE

The procedures for the implementation of MINDEF privatization projects are divided into three stages which involved MINDEF and other Government agencies.

The stages are as follows:

- Project Proposal Application
- Pre Contract
- Post Contract

The implementation project flow chart was designed to make sure that the project can be implemented smoothly as planned. Stages of Project Proposal Application and Pre Contract are combined into Pre Contract stage. The MINDEF Privatization Project Flow Chart which had been approved is shown in Figure 3.3, (MINDEF Development Division, 1993).

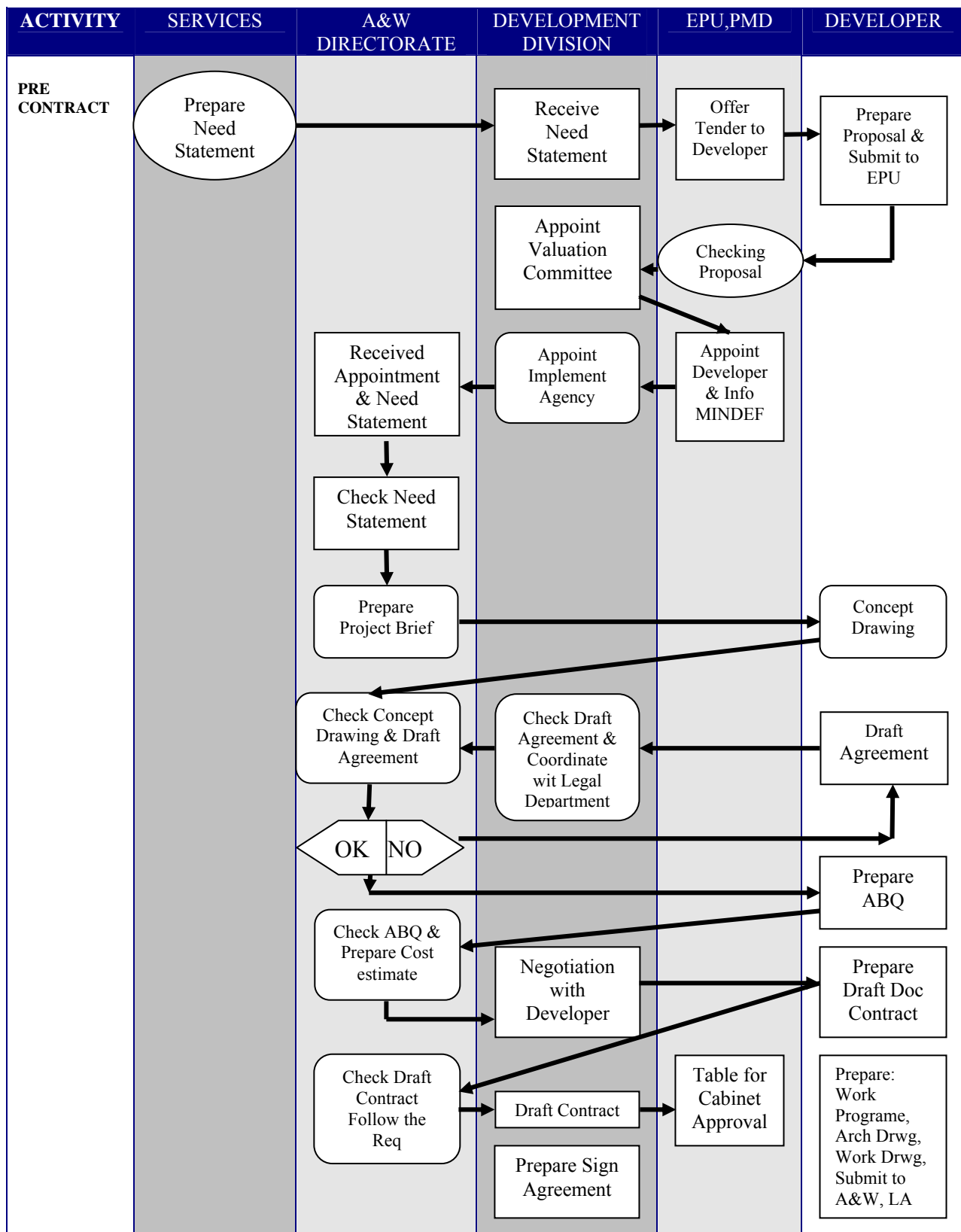


Figure 3.3 MINDEF Privatization Flow Chart (cont.)
Source: MINDEF Development Division.

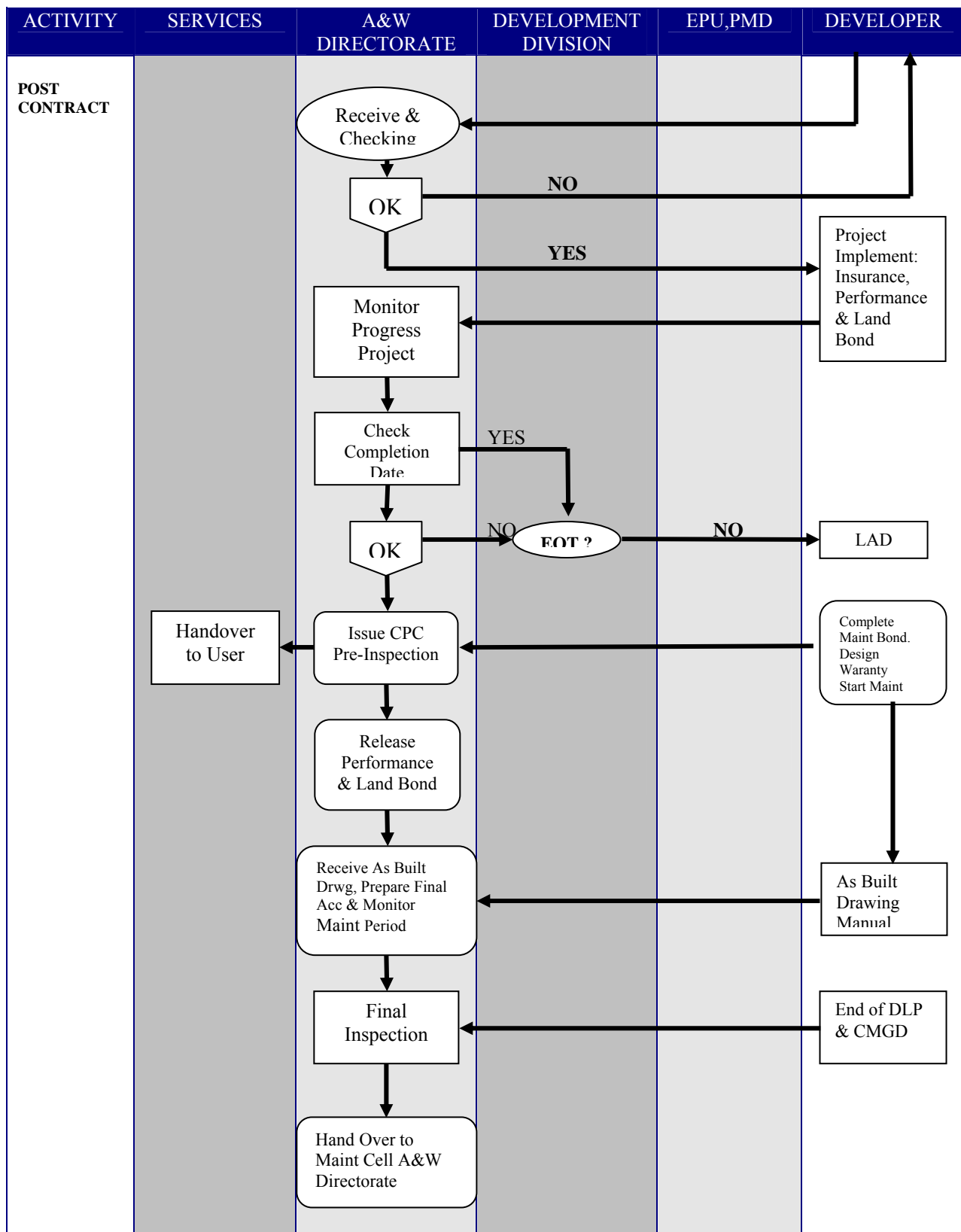


Figure 3.3 MINDEF Privatization Flow Chart.
Source: MINDEF Development Division.

3.6 PROJECT PROPOSAL APPLICATION

Privatization project in MINDEF had two approached which involved the Government and the Developer. The approached were:

- Government offering the project to developer.
- The developers submitted their proposal.

At the early stage of the implementation of privatization project, the Government had used the first approached by offering the project to the developer. But, a few years later, the second approached was implemented where the developer submitted their proposal to develop certain projects for the Government with the intention to gain profit from the development of the commercial value owned by MINDEF.

There are two important matters to be considered in these stages that influenced the processed. They are:

a. **Developer**

Developer means the company or consortium that was appointed to develop the privatization project. The developer consist of one or more company which will organised themselves in a consortium. If they organised themselves to become a consortium the developer must inform EPU the share distribution for the Government approval. The percentage of the share of each company will be mentioned in the text of the Project Agreement.

b. **Land**

Land is an important element in the privatization project. There are two categories of the land in this project that is land for the project/project site and the land swap where the land will be handed over to the developer.

- **Project Site.** Project site is the area that the development of the project including the infrastructures and structures of the new

camp that will be constructed. The Services Headquarters will propose the suitable site for the project. Normally the proposed site of the project is on the land owned by MINDEF or MINDEF will apply the new land from the State Government based on security requirement.

- **Land Swap.** Land swap is the land owned by MINDEF that will be surrendered to the developer in form of leasing for 99 years. The value of this land that had been valued by JP&PH is equal to the cost of the new project development for MINDEF. The land swap can be the existing camp or the MINDEF land that is still undeveloped but has a commercial value when develop. The developer can apply to take over the land as land swap as mentioned in the Project Contract with the condition that the developer must submit a Land Bond to the Government.

3.6.1 Offering Project to Developer

The processes involved in these approaches are:

3.6.1.1 Submission of Project Proposal Application

Services (Army/Navy/Air Force) Headquarters submitted their project proposal application based on their requirement to the Development Division, MINDEF. The project proposal application must include three important matters below:

- **Project Proposal** from the units involved includes the infrastructures, structures and the facilities required in the proposed camp. The proposal will be prepared in form of Need Statement or Quarter Brief (Q Brief).
- **Propose site** of the project that include the location, size and stated the proposed layouts inside the existing camp or at the new camp site. For

the new site proposal, the Services Headquarters request must include the status of the land; either the land belongs to MINDEF/State/private/individual private land.

- **Land swap proposal** which include the location of the land, the size and must also mentioned about the proposed land swap either at the existing camp or other land belongs to MINDEF. It is important that if the land swaps was an existing camp, MINDEF had to cater for the replacement of the personnel and equipments at that camp before the developer can develop the site.

3.6.1.2 Submission of Project Proposal Application to EPU

MINDEF Development Division will submit the project proposal application to EPU in Prime Minister Department. EPU will study the proposal by:

- Find the status of infrastructure at the existing camp site.
- Find the market value for the developer to develop the proposed site.
- The tender is open to selected developer to invite the Bumiputra contractors (Contractor Berwibawa) to take part in the tender. The invited developer must includes the value of land swap, proposed development of the infrastructure and camp based on the Need Statements/Quarter Brief and the proposed commercial development of the land swap with their proposal.

3.6.1.3Tender Valuation

EPU instructed MINDEF to make a tender valuation to the tender received and to be returned back to EPU for tabling at the Privatization Committee in Prime Minister Department.

3.6.1.4 Land Swap Valuation

At the same time, JP&PH will make a valuation of the price of the land swap based on the actual market value according to the proposed commercial development by the developer.

3.6.1.5 Approval from Cabinet Minister Meeting

After receiving a tender valuation from MINDEF, EPU will spread out the matters to Cabinet Ministers Meeting for approval to offer the project to the selected developer.

3.6.1.6 Intention Letter

Intention Offer letter will be issued to the successful developer and MINDEF will start planning on the technical development of the camp.

3.6.2 Offering Project from Developer

The processes involved in these approaches are:

3.6.2.1 Submission of Proposal by Developer

The developer will submit their proposal to EPU and inform their intention to take over the land where there is existing camp or not. The developer will get the Need Statement/Q Brief from Service Headquarters and submit their proposal by stating the price for the land swap, development proposal of the new camp and the proposal of the commercial development on the land swap.

3.6.2.2 Study on the Developer Proposal

MINDEF will study the proposal submitted by developer and taking into account the units involve and the infrastructures of the new camp. The capabilities of developer in term of financial standing, achievement in previous projects and other factors of the developer will be studied to make sure that the project can be develop as per planned.

3.6.2.3 Land Swap Valuation

At the same time, JP&PH will make a valuation on the price of the land swap based on the actual market value according to the proposed commercial development by the developer.

3.6.2.4 Approval from Cabinet Minister Meeting

EPU will table out the matters to Cabinet Minister Meeting for approval before offering the project to the developer based on their proposal and suggestion from MINDEF.

3.6.2.5 Intention Letter

Intention Offer letter will be sent to the successful developer and MINDEF will start planning the technical development of the camp.

3.7 PRE CONTRACT PROCESS

This stage covers the preparation of Need Statement/Quarter Brief until the stage of signing the contract between the Government and the developer. This process is managed by MINDEF except on the final stage for approval of the project price is done by EPU who will table it in the Cabinet Ministers Meeting for project implementation approval. The processes involved in this stage are:

3.7.1 Preparation of Need Statement/Quarter Brief

Services Headquarters will prepare a complete Need Statement/Q Brief for the propose development of the camp. Need Statement/Q Brief will include the matters below:

- Units involve in the proposed development project.
- Total numbers of the unit personal including their ranks and civil staffs. The organisation chart must be attached.
- Military equipments, special equipments and the total storage of ammunicions and explosives that follow the Unit Scale Schedule.
- Total numbers of military transports, their categories and types.
- Military quarters and public facilities.

3.7.2 Formalisation of Project Brief

A&W Directorate will interpret the Need Statement/Q Brief in form of technical project which is known as Project Brief. These briefs are prepared based on Armed Forces Building and Facilities Scale and Guidance from Ministry of Finance regarding the specification and Government building cost. The Project Brief consists of the following:

- Architectural requirements.
- Civil and structural requirements.
- Mechanical and electrical requirements.
- Special works requirements.

3.7.3 Preparation of Tender Document

The following activities involved in this stage:

3.7.3.1 Site Measurement and Soil Investigation

The developer will conducted the land survey on the site to get the size of the project and topographical view of the site. This information will be given to Architect and Engineer for the preparation of the layout plan and infrastructures planning of the new camp.

The land survey must be done and certified by the licensed surveyor. Soil investigation is to be carried out after layout plan has been agreed. This investigation is important to make sure that the engineering design will be suitable with the foundation for the proposed buildings.

3.7.3.2 Concept Drawings

Developer will study the Project Brief and make a discussion with A&W Directorate and Service Headquarters to standardise the requirement of the proposed project.

The developer will prepare the concept drawings and A&W Directorate will checked on the technical aspects to make sure that the drawing submitted will follow the requirement of the Armed Forces Building and Facilities Scale.

The drawing must also fulfil the specification and cost guidance by the Ministry of Finance. A&W Directorate will discuss with Service Headquarters for approval as an end user. The concept drawings will constitute a portion of the Project Contract Document.

3.7.3.3 Approximate Bill of Quantities (ABQ)

ABQ is the items in the Bill of Quantities (BQ) that has been group together in the elements and will be used as a basis for price negotiation between Government and the developer.

The developer prepares the ABQ based on concept drawing that has been agreed and approved by the A&W Directorate. A&W Directorate will check the ABQ from the aspect of specification and work clarification that followed the approved drawings. The quantities of ABQ will be checked together with developer and any discrepancies will be amended before the start of negotiation.

3.7.3.4 Negotiation

Negotiation of prices between Government and developer are based on ABQ that both parties had agreed on the quantities. The price negotiation will include three levels that is the level of A&W Directorate, Development Division (MINDEF) and later at the level of EPU (Government).

- **A&W Directorate Level.** A&W Directorate will price the ABQ on behalf of MINDEF and will compare it with the price made by the developer. Then the negotiation between them will start in order to get the suitable and agreeable price by both parties. A&W Directorate will prepare price analysis and suggestion. The price analysis will be submitted to MINDEF Development Division for checking and negotiation in the second level, which is MINDEF level.
- **MINDEF Level.** This level of negotiation will be conducted by MINDEF Development Division based on the analysis and suggestion made by A&W Directorate. However MINDEF Development Division had the right not to follow the suggestion that has been made. The Division Secretary of MINDEF Development Division will chair this negotiation. The decision made in this negotiation will be submitted to EPU with MINDEF suggestions and recommendations.

- **EPU Level.** Price negotiation conducted at EPU level is between Privatization Committee and the developer. The committee will checked and certified the development price that has been agreed by MINDEF and the developer. If the development price is not accepted at MINDEF level, the committee will make a negotiation with the developer by negotiating on the total prices of the project and finally will justify the development price. The committee will also discuss and finalised the text of the contract submitted by the developer.

3.7.3.5 Formalization of Contract Documentation

A Legal Consultant appointed by the developer will prepare the formalization of contract documentation. The formalization of contract documentation involved the Government as the owner of the project, STH as a department which is responsible for the Federal land and the developer who will develop the project and receives the land swap.

The text of contract documentation will be discussed between the Government and the developer to make sure that all matters are agreed and clearly understood by both parties. The discussion will involve A&W Directorate, Development Division (MINDEF) and EPU (Government).

3.7.3.6 Contract Documentation

Contract Document is prepared by the developer after the price negotiation had finalized. In the matter of text of contract, MINDEF and the developer will sit together to prepare this document. The developer will submit the document prepared by them to A&W Directorate. MINDEF Development Division and Legal Wing will check the whole document and make amendment where required. After that the document will be submitted by MINDEF to EPU and Attorney General Office (Jabatan Peguam Negara) for final checking and approval.

3.7.4 Privatization Project Approval

EPU will table out this project proposal and contract document in the Cabinet Minister Meeting for project approval. EPU will inform the developer about the approval of the project and give them instruction to prepare Document of Contract for signing. MINDEF will organise the signing ceremony for the parties involved that is MINDEF on behalf of the Government, STH and the developer. The date for the developer to commence the project is within nine month after signing the contract.

3.8 POST CONTRACT

Post Contract stages commence after the signing of the privatization project contract until the end of the defect liability period. These include the stages before the construction, the construction period and the stage of defect liability period.

3.8.1 Before the Construction of the Project

The period before the construction of the project is within nine month after signing the contract. However it depends on the ability of the developer to produce the construction drawings and get an approval for construction of the project from the Local Authority.

MINDEF Secretary General as the Superintending Officer will appoint the Director of A&W Directorate as Superintending Officer Representative. However the power of Superintending Officer's Representative does not includes default notice, termination and dispute resolution.

3.8.2 The Construction of Project

The implementation of the project construction will follow the Turnkey method where the appointed consultant by the developer are responsible to control and supervise the project. A&W Directorate as an implementation agency will be involved at the minimum level. The Organisation chart for the controlling/supervising the project and the position of the Superintending Officer/Superintending Officer's Representative is shown in Figure 3.4, (A&W Project File, 1993).

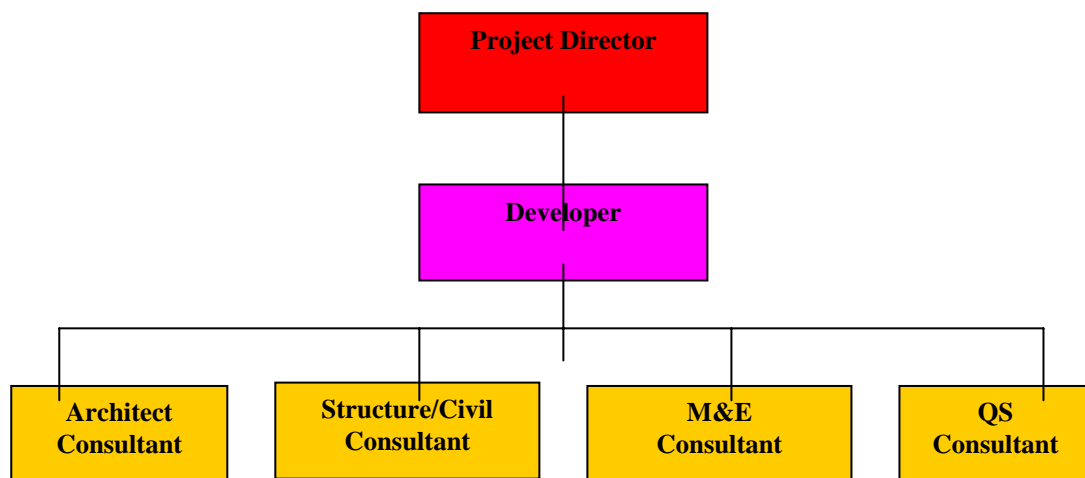


Figure 3.4 Controlling Organization and Position of Superintending Officer/Superintending Officer's Representative.

Source: Executive Brief by A&W Directorate for MINDEF Privatization Project.

The Superintending Officer's Representative will attend the monthly site meeting to monitor the progress of the project. The developer will inform the A&W Directorate when the project finish and will make a joint inspection before issuing the Certificate of Completion of Work. Beside that the developer is responsible to obtain the Certificate of Fitness from the Local Authority before the building can be occupied. For the issuing of the Certificate of Completion of Work, the developer is

required to submit Design Bond with the value of five percent (5%) of the project development for the period of five years and Maintenance Bond with the value of five percent (5%) of the project development for the period of two years which stated in the contract.

3.8.3 Defect Liability Period

Defect Liability Period for privatization project is two years. However it depends on the period stated in the contract. The developer is responsible to make good to any defect that is reported by A&W Directorate. The developer is also responsible for the maintenance work as stated in the Maintenance Schedule. The Infrastructure and camp will be registered as an asset of the Armed Forces by A&W Directorate and surrender to the services (Army/Navy/Air Force) for their occupation. A&W Directorate are responsible for the maintenance of the project after the Defect Liability Period, who will appoint its maintenance cell to be responsible for it.

3.9 STATUS OF PRIVATIZATION PROJECTS

This study includes the entire privatization projects implemented by MINDEF. The information regarding the parties involved in these projects was taken from various Department/Division in MINDEF, STH, EPU, Attorney General Department and the Developers. The study based on the stages which had been found in the project development method which had been mentioned earlier in the MINDEF Privatization Project Flow Chart as illustrated in Figure3.3.

3.9.1 Implementation Method

There are thirty projects that had been proposed by the Services (Army/Navy/Air Force) Headquarters to be implemented under this method. All projects had been planned to fulfil the immediate requirement of the Armed Forces in their quest for modernizations in order to have better facilities and infrastructures. Besides that, this concept is to fulfil the Government Privatization Master Plan among where its objective is to get the involvement of the private sectors in the development of the country. The Services Headquarters had forwarded their proposal to MINDEF Development Division.

For the purpose of this study, the projects to be implemented will be classified in four stages as listed below:

- Project Proposal
- Pre Contract
- Post Contract
- Project Completed

The study will highlight the problems arises at all stages based on the information collected from the documents of each project. The information included interviews with the parties involved, project report, annual report and other reliable information. The aim is to collect all information, facts and the actual problems faced in the implementation of the privatization project.

The information collected will be presented in schedule and sketch method complete with clarifications.

3.9.2 Current Project Status

As at 31st December 2006 the status of current project is shown in Table 3.4, (MINDEF Development Division, 2006). The table shows the status of the project based on the implementation staged of the project.

Table 3.4: The Status of Privatization Project.

Source: MINDEF Development Division.

Item	Stages	Projects	Percentage
1.	Project Proposal	18	60.00 %
2.	Pre Contract	4	13.33 %
3.	Post Contract	5	16.67 %
4.	Project Completed	3	10.00 %

3.9.3 Analysis at the Stage of Project Proposal

The study has discovered several problems rose in the project proposal stage.

The problems are:

- Land matters
- Changes in procurement method
- National economic situation
- Financial capabilities of developer

All together there are 18 projects that had been categorised under this stage and had been divided into four categories is shown in Table 3.5, (MINDEF Development Division, 2006).

Table 3.5: Statistic of the Problems at the Stage of Project Proposal.
Source: MINDEF Development Division.

Item	Description	Total
1.	Land Matters.	3
2.	Changes in procurement method.	3
3.	National Economic situation.	8
4.	Financial capabilities of developer.	4

3.9.3.1 Land Matters

The land matters involved the land (present base/camp) which should be handed over to the Developer (Land Swap) and also the new site for new base/camp proposed by the Developer. The problems were dispute in land value of present base/camp (land swap) and the new site, the land premium and the Government requirement. There are 3 projects with the problems on land matters.

- **Construction of a New Camp for Infantry Battalion in Miri, Sarawak.** The project was proposed by developer, Primetco Sdn Bhd in the early stage of the Privatization concept implement by MINDEF in 1993. The developer was interested to develop the AF camp as a land swap located nearby the Miri beach which has a commercial value as a centre of tourism. The cost of the project was RM100 million. The developer had proposed the new camp site at Bukit Lambir, Miri. The land owned by the State of Sarawak which cost RM30 million. The developer had submitted the application to the State and the Sarawak state government had requested 60 % on land premium of the land which was quite high. Negotiation is still going on to reduce the premium to make sure that the projects are viable to proceed. MINDEF will not proceed with the project until it gets the Sarawak state government approval.

- **Construction of Second Infantry Brigade Headquarters Complex in Ipoh, Perak.** The project was proposed by developer to develop the existing Army camps at three different locations in Ipoh city as a new township. The total land area of that Army camps was 495 acres. The proposed new site for the construction of Army camp was at Simpang Pulai, Ipoh with a total land area of 863 acres. The land was owned by the Perak State. The Perak State government had approved the land for the development. However there was a dispute between the developer and the Federal Government regarding the value of the Land Swap. The developer had valued the land for RM199 million while the Government through JP&PH had valued the land for RM450 million based on the current value. EPU had offered this price to the developer and the matter is still under the developer consideration.
- **Relocation of Air Force Base at Sungai Besi Air Base to Subang Airport.** Under the restructuring programme of Air Force bases, the existing Air Force Base at Sungai Besi Air Base will be develop under the privatization concept and move out to Subang Airport. Air Force Headquarters had submitted the proposal to relocate the location of the Air Force base. However the Government did not agree with the proposal and still wants an Air Force base in Sungai Besi. It is to be remained there for the Armed Forces light aircrafts and helicopters. The base will also be used for the VVIP purposes.

3.9.3.2 Changes in Procurement Method

Three projects had been changed to the method of conventional Turnkey project. The changes had been made because of the urgent requirement by services. It is to ensure that the developments of these projects did not jeopardize the development of the Armed Forces as a whole. The requirement was submitted to EPU and Ministry of Finance. The Government had agreed the project to be implemented by Turnkey method because there were no respond from developers. The 3 projects completed in time are shown in Table 3.6, (MINDEF Development Division, 2006).

Table 3.6: The Project had been changed to Turnkey Method**Source:** MINDEF Development Division.

Item	Project	Status
1.	Re Construction of Pusat Latihan Perajurit Port Dickson (PUSASDA).	Completed: 21 Ogos 1999 Developer: Aman Selama Sdn Bhd & Perbadanan Perwira Harta.
2.	Development of Kem Iskandar in Mersing, Johor.	Completed: 31 Jan 2004 Developer: Consortium Muhibah Engr & LTAT
3.	Navy Hydrography Centre in Pelabuhan Kelang.	Completed: 14 Oct 2004 Developer: Muhibah Engr Sdn Bhd.

3.9.3.3 National Economic Situation

Due to the economic down turn in 1997 to 2000, eight of the eighteen projects had been postponed. These situations had jeopardized the Armed Forces modernization and upgrading planning which include new infrastructures and facilities. Besides the property market which are not too instigate with the over supply of the ready property stock in the market is a factor that lead to low reaction from the developers. Developers were more careful with their investment in this type of project because they are worried that they might not be able not sell the project. The economic down turn also become a difficulty to the developer for getting a financial support for their project. The list of the projects that had been postponed is shown in Table 3.7, (UPE, 2000).

Table 3.7: Projects Postponed.**Source:** UPE, JPM.

Item	Project
1.	Construction of TA Camp at State of Johor.
2.	Relocation of Arm Forces Camp at Taiping, Perak.
3.	Construction of Artillery Camp at Kuala Ketil, Kedah.
4.	Construction of Brigade headquarters and Armour Regiment at Sua Betong Port Dickson, Negeri Sembilan.
5.	Construction of Air Force College at Alor Setar, Kedah.
6.	Construction of TA Camp at Bukit Beruang, Melaka.
7.	Construction of Navy Base at Sijangkang, Kuching Sarawak
8.	Construction of Special Training Centre (High Level) at Brinchang Camp, Pahang.

3.9.3.4 Financial Capabilities of Developer

The study found out that the developer consists of one company or more which affiliated to each other into becoming a consortium. The developer will be appointed by EPU after being approved by Cabinet Ministers Meeting. The outcomes from the study had discovered that the developers can be described as follows:

- Majority of the developer consist of Bumiputera entrepreneur involved in construction industry or combination of Bumiputera association.
- There is a small involvement of the semi Government body which have fund or financial resources.

This shows that there is an unbalanced distribution of projects between entrepreneur/combination of Bumiputera association and semi Government bodies. The size of the projects and the huge financial requirement to run both projects that is the development of new Armed Forces facilities and commercial facilities on the land swap needs a very strong developer in term of financial standing and

experience. However most of the developer fails in obtaining strong financial back up to run the project.

3.9.4 Analysis at the Stage of Pre Contract

The analysis at this stage involved the following process:

- Preparation of Need Statement/Q Brief.
- Formalization of Project Brief
- Preparation of tender document
- Negotiation
- Agreement

These activities are conducted by MINDEF. However EPU is still the last office to make the final decision. MINDEF through EPU will table out the final negotiation of the project cost and Contract Document to Cabinet Ministers Meeting for approval. The analysis will focus on the implementation processed aspects and the procedures involved.

3.9.4.1 Preparation of Need Statement /Quarter Brief

The Need Statement/Q Brief constitutes the basic requirement of the preparation of project design and the requirement of the project. The end user is responsible for the preparation of Need Statement/Q Brief and will table it out to the Services Headquarters for approval. In principle this Need Statement/Q Brief are difficult to be understood by the consultants because the brief are more concentrated on the military requirement (security) aspect rather than technical development requirement. So the Need Statement/Q Brief will be translated into Project Brief by A&W Directorate before handed over to the consultant who will design the project. A&W Directorate is the body to assist the consultant in designing the project to fulfil the MINDEF requirement.

From the study of Need Statement/Q Brief preparation process, the writer found out that some of the Need Statement/Q Brief was not well prepared by the Services Headquarters. The study found out that the matters below have been disregarded in the preparation of Need Statement/Q Brief:

- Using a Functional Organisation not approved by Department of Public Services (DPS) in the Need Statement/Q Brief.
- Failure in mentioning clearly about the special military equipment for particular unit.
- Failure in stating the requirement of special facilities such as Ammunition Storage and training facilities.
- Military transports not stated or mentioned.
- Public facilities such as Mosque, Kindergarten, building for Badan Kebajikan Angkatan Tentera (BAKAT), Hall and Family shops were not mentioned.
- The over lapping of the public facilities in the construction of the Armed Forces complex especially when there were two developers involved in the proposal.

The lacks of information and the uncompleted of Need Statement/Q Brief will cause an improper Project Brief. Project Brief is prepared based on the Need Statement/Q Brief prepared by the end user. This will jeopardize the project planning because the project will not satisfied the requirement of the end user. Any variations later on will increase the project cost. The preparation of Need Statement/Q Brief takes a long time where it need to be revised a few time to fulfil the requirement of the end user and also the top management of the Armed Forces. The changes in the equipment technology will also cause the need to revise the preparation of Need Statement/Q Brief.

3.9.4.2 Formalisation of Project Brief

Project Brief is produced for the consultant to help them in preparing the following:

- Architectural drawings
- Civil and structural drawings
- Mechanical and electrical drawings

This will enable the developer to prepare the Approximate BQ and to finalize the negotiation of the price between Government and the developer. The study found out that there is a minor problem in preparing the Project Brief for the technical building, public facilities and housing because the usage of building and facilities in the Armed Forces have its own specific scale which are available for guidance. The scale is sometimes outdated. The problems arise for the preparation of project brief of the special facilities and the military training facilities. The matters identified in the preparation of Project Brief are as follow:

- Specification for the construction of ammo dump includes the safety area, the capacity and type of ammo and the infrastructure requirement. The advice from the expert is required that is from the Headquarters of Royal Ordnance.
- Specification for the construction of electronic shooting range especially in the matters of design requirement, safety area, electronic equipment and shooting range facilities.
- Specification for the requirement of special military transport such as truck and wheel tank that includes maintenance of electronic and mechanical equipments.
- Equipment for Armed Forces hospital such as dentist and operation theatre equipments.

All the information and requirements must be stated in project brief to enable the developer through their design consultant to meet all the requirements and facilities needed by the Armed Forces in their design. So that construction later on will fulfil the requirement of the end user.

3.9.4.3 Preparation of Tender Document

The process in this stage involved the following activity:

a. **Preparation of Concept Drawing.** The Consultants on behalf of the developer will interpret the Project Brief prepared by A&W Directorate into concept drawings which include:

- Layout and architectural drawings
- Civil and structural drawings
- Mechanical and electrical plan
- Special works.

The concept drawings become the basis of the project construction and as part of the document contract. The discussion between consultant, A&W Directorate and Services Headquarters will be held to coordinate the requirement of the services and to facilitate the requirement of the infrastructure of the camp. The study found out that most of the consultants failed to understand matters below in their preparation of the concept drawings:

- For the work outside the project site. Consultants failed to understand the composition of an Armed Forces Camp for example Administrative Headquarters blocks, logistic building, facilities for officer and other ranks, training areas which include dangerous zone/area.
- Consultants failed to understand the flow of the layout of the Armed Forces camp that include the camp protection concept and the safety of the camp. The layout proposed is not taken into consideration of both aspects.
- Consultants unable to design the special works and the developers did not appointed specialist consultant to design these facilities.

- Consultants provided only the basic design concept which did not include the structure, mechanical and electrical design. The difficulties will arise during the price negotiation. Variation will be incurred during the construction stage.
- Consultants did not understand the mechanical requirement to be prepared in term of concept drawing.
- Consultants did not take into consideration of the requirement of the local authority.

b. Preparation of Approximate Bill of Quantity (ABQ). The consultant on behalf of developer prepared the ABQ based on the concept drawing approved by MINDEF. This ABQ will be used for price negotiation to conclude the final price of the project development. The ABQ prepared will be checked in term of the format used, item composition and quantity of the items. The matters below had been found based on the study to the ABQ prepared by the consultant:

- The composition of the item in building elements and infrastructure were not consistent in wrap up of the items for each element.
- The overlapping of the infrastructure item and building infrastructure such as manhole, perimeter drain, parking areas and hard standing.
- The overlapping of the piling works and building works for item of pile cap.
- The different of quantity items was too high.
- The different of the item of fixed furniture's and loose furniture's. The consultants did not followed the guidance published or distributed by the Ministry of Finance in preparing fixed or loose furniture for building that is for housing or office use.

3.9.4.4 Negotiation

Negotiation is held to finalise the price of the project development. The negotiation held in three stages:

- Early Stage by A&W Directorate.
- Second Stage at MINDEF level.
- Last Stage at the EPU.

In the early stage, A&W Directorate as the implementation agency will negotiate the price of items stated in the ABQ. The result of the negotiation in this stage will be submitted to MINDEF Development Division for checking and amendments if necessary. Either parties can reach in the agreed price or not, it will be brought to Development Division for second level negotiation.

In second stage at MINDEF level, MINDEF Development Division will call the developer for second stage of price negotiation. In this stage the price will be finalized before continuing to the last stage at the EPU level. If there are differences in price between MINDEF and developer, the matters will be brought up to EPU level for a final decision.

Any price difference between MINDEF and developer will be finalized at EPU level, where EPU will offer the final price agreed by the Government. The developer need to come out with a decision weather to proceed with the project or not at the price finalized by EPU. All together, twelve projects have gone through the price negotiation processed where three projects were completed, five projects in post agreement stage and another four are still in the process of price negotiation. The process of price negotiation will take a long period especially in the early stage because the negotiation will go through every item to come out with the reasonable agreed price. This is for the benefit of both parties involved between the Government and the developer. The developer normally will put the high price to make a maximum profit and the MINDEF will try to minimize the price in order to get a maximum return of fund.

The detail price estimated by A&W Directorate and developer is shown in Table 3.8, (A&W Directorate Project File, 2000).

Table 3.8: Detail Price Different for Every Project under Privatization.

Source: Accommodation and Work Directorate, MINDEF).

ITEM	PROJECT	PRICE BY MINDEF	PRICE BY DEVELOPER	% DIF	AGREED PRICE
1.	Privatization Project of Sungai Dua Shooting Range	80 Mil	93 Mil	16.25	85 Mil
2.	Privatization Project of Rumah Keluarga TLDM Kiansan, Labuan, Sabah	70 Mil	75 Mil	7.14	72 Mil
3.	Privatization of Quarters and Part of Technical Complex, at Skudai Camp, Johor	165 Mil	175 Mil	6.00	175 Mil
4.	Construction of Army Logistic Complex, at Sungkai Perak	350 Mil	405 Mil	15.71	350 Mil
5.	Construction of Complex First Infantry Div, at Muara Tuang, Kuching Sarawak	220 Mil	254 Mil	15.45	230 Mil
6.	Construction of Transit Camp and Rej 502 TA, at Kuala Lumpur	62 Mil	72 Mil	16.12	66 Mil
7.	Construction of 7 Infantry Brigade Complex at Skudai, Johor	210 Mil	253 Mil	20.47	239 Mil
8.	Construction of Second Infantry Div HQ at Bukit Gedong, Pulau Pinang	80 Mil	86 Mil	7.50	82 Mil
9.	Construction of National Defence Centre at Templer Park, Selangor	94 Mil	115 Mil	22.34	100 Mil
10.	Construction of Officer Mess at Wisma Perwira, Air Force Base, Subang, Selangor	4.4 Mil	5 Mil	13.63	4.5 Mil
11.	Construction of Blue Wagon Quarters at Pulau Pinang	18 Mil	23 Mil	27.77	20 Mil
12.	Construction of AF Quarters at Camp at Peninsular Malaysia	125 Mil	132 Mil	5.60	127 Mil

The study found that the different of the price are quite high in these projects because of the followings:

- The developer submitted a high price on items which are not familiar such as security equipment, ammo damp, shooting range, electrical equipment, mechanical equipment and special equipment for the special works.
- The rates used are not consistent.
- Preliminaries and Turnkey element are priced in the range of 18% to 22% from development project. Ministry Of Finance has produce out a guide line that the Preliminaries and Turnkey element must not exceed 14%.
- The developer put a high price in estimating cost of survey works, soil investigation, and cost of maintenance during maintenance period and contribution to local authority.
- High estimation for provisional sum and sometimes the price are not reasonable.

The negotiation will take some time to come out with the agreed price. Some projects need the decision by EPU to come out with the final price because there is no agreed price in the negotiation at MINDEF level. After the development price has been finalized, A&W Directorate and consultant will prepare the schedule of rates for every items that will become the appendix to the contract.

3.9.4.5 Contract Document

The Contract Document or Agreement will be prepared by the developer after discussion with MINDEF. This will later be sent to EPU for approval. At present the text of the Agreement of Bukit Gedong project had been used as guidance for other projects.

The Agreement consists of three main sections that are technical matter, land matter and legislative matter. It must be checked in detailed to protect the government interest in the implementation of privatization project. Privatization

Committee formed up by EPU in various departments will check the text of Agreement. The department involved in the checking of the text of Agreement is shown in Table 3.9, (UPE, 2002).

Table 3.9: Department Involved for Checking the Text of Agreement.

Source: EPU, Prime Minister Department.

Item	Department	Text of Agreement
1.	A&W Directorate	On technical matters.
2.	Land Department, MINDEF, STH, Legal Department MINDEF.	Land and Legislative matters.
3.	Attorney General Office	Legislative matters.

The study shows that the checking of the text of Agreement focussed more on the main aspects. However the overall text of agreement will be checked by MINDEF Legal Department and Attorney General Office to make sure that all legal aspects will be followed by the developer and the Government interest will be protected. The main aspects to be check are as follow:

- a. Legal Aspect.** Legal Aspects that will be checked are as follow:
- **Parties Involved.** Parties involved were MINDEF (on behalf of Government), STH and developer. Checking will determine the name of the developer, addresses and company registration number is correct and complete.
 - **Definition and Interpretation.** Fulfil the requirement of the technical development, land and legal matters.
 - **Task and Responsibilities of Government.** Ensure all Government interests are protected in legal aspect.
 - **Public Utility and Amenity.** The interests of public and public authority are protected.

- **Default by Government and Developer.** All legal procedures must be included in the text of agreement.
 - **Dispute Resolution.** Make sure there is a representative on behalf of the Government.
 - **General Legislative.** All General Legislatives must be checked to preserve all parties involved in the agreement.
- b. Technical Aspect.** Technical aspects to be checked are as follows:
- **Project Designs.** All aspects of design concept included the responsibilities of developer, assurances by the consultant and variation of works.
 - **Project Construction.** Includes the quality, times, the defect liabilities and maintenance period.
 - **Consultant.** Inauguration, responsibilities and scope of works.
 - **Form of Assurance.** Performance Bond, Maintenance Bond and insurances.
- c. Land Aspect.** Land aspects to be checked are as follows:
- **Construction Site and Land Swap.** The information of the site must cover the total land area, lot number, location and land certificate/grant.
 - **Matters of Ownership.** Includes the transfer of ownership of the land, site occupancy and the delay of land occupancy.
 - **Form of Assurance.** Developer is required to submit the Land Bond before they can proceed with their works on site to protect the Government interest because the land swap ownership will be transferred to developer within three month after the contract had been signed.

Pre Contract stage is very important stage to determine either the project can proceed or not. All parties involved started from the end user itself, all Departments in MINDEF, EPU and the developers including the consultants need to play their role. Time is very important here where any delay in making a decision will

increase the cost of the project. The consultant must really understand the requirement of the AF and the security aspect must be put in the first criteria in the design.

Beside that the interest of both parties must be catered to make sure the project can be delivered in good condition and the developer could make a profit and beside that the objective of privatization can be achieve.

3.9.5 Analysis at the Stage of Post Contract

The study had shown that all aspects are being managed by MINDEF. The project construction aspects will be done by A&W Directorate, the contract matters will be managed by Development Division of MINDEF and the land matters by MINDEF Land Department. A&W Directorate will control and supervised the construction of project by the developer. The concept of the construction is base on the Turnkey Project, where the developer is responsible for everything but still under the control and supervision of A&W Directorate.

3.9.5.1 Before the Construction of the Project

The construction of the project will commence within nine months of the signing of the Contract. Pre Contract meeting will be conducted to inform the developer on the matters to be done in this stage and during the construction period. The study in this stage had found the matters below:

- In this stage the developer required to get the approval of the building plan and land works from the local authority before the commencement of the works. The study found that the developers are always late in getting the approval and this cause the commencement of the project delayed from the original plan.
- The developers are always late in preparing construction drawings. As a result this will cause delay in commencement of project.

- The developers do not commence the construction works after getting approval from local authorities.

3.9.5.2 The Construction Period

There are five projects under the construction period. The study shows that the progress of the project as at 31st December 2006 is shown in Table 3.10, (A&W Directorate Project File, 2006).

Table 3.10: Progress of the Project.

Source: Accommodation and Work Directorate, MINDEF.

Item	Project	Progress per planning	Actual Progress
1.	Construction of Transit Camp and Rej 502 TA, at Kuala Lumpur	100%	94% Project Delay
2.	Construction of 7 Infantry Brigade Complex, at Skudai, Johor	100%	19% Project Abandoned
3.	Construction of Second Infantry Div HQ at Bukit Gedong	1 st Phase - 100% 2nd Phase - 45%	First Phase – 100% Second Phase - 40%
4.	Construction of First Infantry Div Complex at, Muara Tuang, Kuching, Sarawak.	-	4% .Project Signed on 29 Dec 2005.
5.	Pembinaan Pusat Pertahanan Nasional (PUSPAHANAS) di Templer Park, Selangor	Project should be start within 9 month after singing	Project Signed on 14 Mac 2005. Project not yet started

The study found that the progress of the projects is delayed:

- **Construction of Transit and 502 Territorial Regiment Camp, Kuala Lumpur.** The commencement of this project was on 8 October 1998 and the completion date as per agreement was on 17 January 2002. However the project had been delayed and abandoned for a long period. The discussion had been conducted by parties involved and the EOT has been given until 31 October 2005. However on 31st December 2006 the project is still delayed where the progress of the works is at 94%.
- **Construction of 7 Infantry Brigade Complex, Skudai, Johor.** This project commences on 16 June 2001 and should be completed by 17 January 2003. However the project had been abandoned until now and the progress of the works is only at 19%.
- **Construction of Second Infantry Division Headquarters at Bukit Gedong, Pulau Pinang.** This project commences on 12 February 2001 and should be completed by 11 February 2007. There are two phases in this project. The first phase is completed and now continues with the second phase which is at 40 %.
- **Construction of National Defence Centre (PUSPAHANAS) at Templer Park, Selangor.** The Contract for this project has been signed by both parties involves on 14 March 2005 and the commencement of the project should be started within 9 month. However until 31st December 2006 the project is yet to begin. The latest proposal is to change the location in Putra Jaya area.
- **Construction of First Infantry Division Complex, at Muara Tuang, Kuching, Sarawak.** Project was signed on 6 May 2006 for duration of 3 years. The developer is in the process of getting approval for building drawing and land works. The work had started with 4% progressed.

3.9.6 COMPLETED PROJECT

Only ten percent or three of 30 projects were completed since this privatization method had been implemented by MINDEF 14 years ago. The list of the projects is shown in Table 3.11, (A&W Directorate Project File, 2006).

Table 3.11: List of Project Completed as at 31st December 2006.

Source: Accommodation and Work Directorate, MINDEF.

Item	Project	Remarks
1.	Construction of Officer Mess at Wisma Perwira, Air Force Base, Subang, Selangor. (4.5 Mil)	- Developer: Farizar Sdn Bhd. - Project Start: 27 December 2000 - Project Complete: 28 December 2002
2.	Construction of Blue Wagon Quarters at Pulau Pinang. (20 Mil).	Developer: LTAT. Project Start: 16 March 1995. Project Complete: 15 March 1999
3.	Construction of AF Quarters at Camps in Peninsular Malaysia. (1,526 Units All Types). (172 Mil).	Developer: LTAT. Project Start: 15 May 1995. Project Complete: 17 December 1998

The first project was developed by a private firm and completed because the project size was small. So the developer could manage the construction. The other two projects were implemented by the consortium that was Lembaga Tabung Angkatan Tentera (LTAT) which is known to have strong financial capabilities.

3.10 SUMMARY

The implementation of MINDEF privatization project did not only involve the construction of the infrastructure and camp for the Armed Forces, it also involved the procedure of handing over the land swap in term of leasing of the land by the developer and the legal agreement that should be made in attention by both parties involved. The issues of the project site and land swap must be settled out earlier before proceeding to others matters.

Result from the study that had been conducted shows that the economic situation and land matters must be first taken into consideration before the start of the planning of the Pre Contract and Post Contract. Besides that the financial capability of the developer must also be in the consideration because there is no progress payment in term of cash will be made to developer for this type of project. Careful and more considerations must be made in the process of selection of developers.

After fourteen years, the achievement is nothing to be proud of as the effectiveness of this privatization method had caused delay in the projects implementation. Only ten (10) percent of the projects were completed, other projects are delayed and abandoned which shows that this method does not fulfilled the objectives of National Privatization Policy.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The research methodology is essential in guiding the researcher to achieve the aim and the objectives of the study. This chapter described the methodology used in carrying out this study. The study was carried out through the literature search and followed by interviews and questionnaire. This followed through discussions and suggestions and eventually conclusions being drawn to conclude the study.

The targeted participants comprised the personals involved directly or indirectly in planning and managing the projects. This group of people chosen were likely possessed substantial experienced in data collection methods and to make judgments and opinions on the importance of essential skills or to pass the questionnaire to the right person if they were not participating.

4.2 RESEARCH METHODOLOGY

To encourage participation, each personal was approached by telephone prior to sending out the questionnaire or personally handed over. From this initial contact, the respondent's name, functions and responsibilities within their respective

sections/departments were determined. These people were asked to comment on each question in term of ease of understanding and interpretation, content, appropriateness, relevance, and comprehensiveness.

The questionnaire was designed and communicated in a user-friendly multiple-choice format, with only a few open-ended questions, to reduce answering effort, and to aid the recipients in making decisions. To boost response rates and to ensure a timely completion of the questionnaire, three days after that, a telephone follow-up call was carried out to request for their cooperation. Three attempts were made to reach individuals who had not returned the completed questionnaire by the set deadline.

For this study the brief methodology was divided into four stages, such as:

- Literature Review
- Data Collection
- Analysis and
- Findings

In the part of the preliminary study, the following three items were identified and been studied,

- Problems statement
- Objectives and
- Scope of Study

4.3 LITERATURE REVIEW

The purpose of the literature review is to help the author on the general overview of the study. The literature study was done through reading and searching on the subjects from project files, minutes of meetings, interviews and other sources as references.

The literature review hence, provides guidance to questionnaire preparation, which is discussed in the following section.

4.4 DATA COLLECTIONS

In this stage, data collections studied in this research were categorized into two kinds of data:

- Primary data
- Secondary Data

The primary data were collected in two methods, the first method by the questionnaire – where question we developed and distributed to the relevant personal and the second method was by face to face interviews.

Questionnaire was designed base on literatures and consultation with the supervisor. Questionnaires were distributed to significant respondent that identified earlier.

Questionnaire was designed in two main sections. Section 1 is about general information on the background of respondent. Section 2 was about the opinion regarding the criteria measures, the effective criteria and the strategy to improve the effectiveness of privatization project.

The distributed questionnaires were collected and analyzed using statistical method. Discussion was done base on the derived results and related statistic and also suggestion by the participants. The respond from all 30 participants were received back.

4.4.1 Questionnaire Design

The question asked in the questionnaire was in the form of multiple choice or open ended questions. Multiple-choice questions required the anticipation of the whole range of likely answers, were given, and formulating the options as such.

Having considered the criteria, the effective criteria and the strategies to improve the effectiveness of privatization project, a semi-structured approach with mostly multiple-choice questions were selected. The multiple-choice questions were based on Likert's scale of five ordinal measures of agreement towards each statement (from 1 to 5) as shown in Figure 4.1 below.

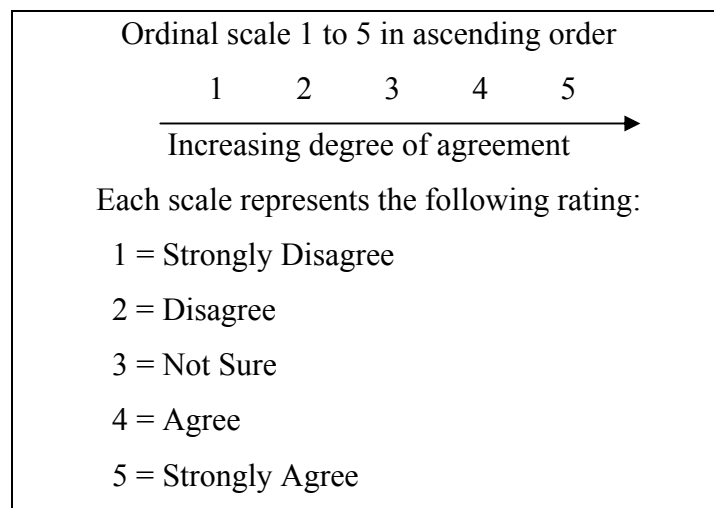


Figure 4.1 Five Ordinal Measures of Contributing Factors of Likert Scale

4.5 DATA ANALYSIS

The next logical step, after collecting the information was to analyze the information and available data. The criteria of privatization project identified and listed are shown in Table 4.1.

Table 4.1: The Criteria of Privatization Project Implemented by MINDEF

No.	The Criteria of Privatization Projects Implemented by MINDEF
1	Meets the client/ user requirements
2	Ability to complete project in time
3	The agreement contents protect government interest
4	Good implementation strategies and procedures
5	Developer with good financial flow
6	Developer with good organization
7	Developer with vast experienced
8	Developer with good record of performance
9	Tender to selected Bumiputra contractor
10	Settled the land problem at early stage

The procedure used in analyzing the result of questionnaire survey was aimed that at establishing the relative importance for the various criteria that influencing the effectiveness of privatization projects and to determine the most effective criteria by ranking them according to the data given by the respondents. Beside that, the questionnaire survey was also aimed to search the respondent's feedback regarding the strategies undertaken by MINDEF in order to succeed and any better ways to improve the effectiveness of privatization projects is shown in Table 4.2. It is intended that the results obtained would generate some proposals on how can MINDEF succeed in their projects.

Table 4.2: The Strategies to Improve the Effectiveness of Privatization Project Implemented by MINDEF

No.	The Strategies to improve the Effectiveness of Privatization Projects
1	Ability of developer to identify the client requirements
2	To complete the project according to contract duration
3	To detail the Agreement contents to protect government interest
4	To detail the strategies and procedures implemented
5	Offer to developer with strong financial
6	Required effective and transparent privatization policy
7	Apply Effectively and transparently on the Agreement contents
8	Offer project only to developer with excellent record
9	Offer tender to all qualified developer
10	Solved the land matters before offer project

4.5.1 Questionnaire Measure

This questionnaire was mainly based on Likert's Scale of five ordinal measures from one (1) to five (5) according to the level of agreement as stated in Figure 4.1 above.

The data generated from the questionnaire were analyzed by using the frequency analysis. The measurement tools in the survey provided quantitative indication of qualitative judgments.

The rating scale for the questionnaire are; 1=strongly disagree, 2=disagree, 3=not sure, 4=agree and 5=strongly agree.

The average index formula:

$$\text{Average Index} = \frac{\sum \mu X n}{N} \quad (1)$$

Where, μ is weighting given to each factor by respondents;
 n is the frequency of the respondent;
 N is the total number of respondent.

With the rating scale as below, (Abd. Majid and McCaffer, 1997);

- 1 = Strongly Disagree (1.00 ≤ Average Index ≤ 1.50)
- 2 = Disagree (1.50 ≤ Average Index ≤ 2.50)
- 3 = Not Sure (2.50 ≤ Average Index ≤ 3.50)
- 4 = Agree (3.50 ≤ Average Index ≤ 4.50)
- 5 = Strongly Agree (4.50 ≤ Average Index ≤ 5.00)

4.6 SUMMARY

For the conclusion, the method of data collection is divided in two ways, by the questionnaire and face to face interviews. Each personal were contacted by telephone and directly approached to encourage participation. The questionnaire was pre-tested for a week to a few selected personals. These people were asked to comment on each question. Personal interviews were conducted with the aid of structured questionnaires. The questionnaires were used to collect data. The average index formula was used to analyze the data. Finally, from the findings of questionnaire survey, the researcher will be able to identify the criteria and the effective criteria's as well as the ways to improve the effectiveness of privatization project implemented by MINDEF.

CHAPTER 5

DATA ANALYSIS AND RESULTS

5.1 INTRODUCTION

After all data had been collected through the questionnaire survey, the data was then analyzed and discussed. This chapter presents the analysis and the results of the research derived from the data gathered from the questionnaires. In accordance to the research methodology as described in the previous chapter, the data and the results were analyzed and presented in alignment with the objectives in Chapter 1. This chapter also gives the brief information about the respondent background.

5.2 RESPONDENTS BACKGROUND

Thirty questionnaires were distributed to MINDEF staffs that are directly or indirectly involved in planning and managing the projects. Those questionnaires

were returned back. From the analysis of the respondents from the returned of 30 questionnaires, the factors below had been analyzed:

a. The Service Duration of Respondents in Project Implementation

From the analysis, the percentage of respondents from 1 to 5 years working experienced (40%), follows by 11 to 20 years (33.3%) and more than 20 years (26.7%). The tabulated percentage is shown in Table 5.1.

Table 5.1: The Service Duration of Respondents in Project Implementation

Description	Frequency	Percent (%)	Cumulative %
1 – 5 Years	12	40	40
6 – 10 Years	0	0	40
11 – 20 Years	10	33.3	73.3
>20 Years	8	26.7	100
TOTAL	30	100	

b. The Respondents Projects in Hand

From the analysis, the percentage of respondent's project in hand from 6 to 10 projects (13.33%), 11 to 20 projects (20%) and more than 20 projects (66.67%) The tabulated percentage is shown in Table 5.2.

Table 5.2: The respondent's project in hand

Description	Frequency	Percent (%)	Cumulative %
1 – 5 Projects	0	0	0
6 – 10 Projects	4	13.33	13.33
11 – 20 Projects	6	20	33.33
>20 Projects	20	66.67	100
TOTAL	30	100	

c. The Respondents Qualifications

From the analysis, the percentage of respondent's qualifications was 6.66% obtained Masters, 86.66% with Bachelor degrees and 6.66% has diplomas in related technical background. The tabulated percentage is shown in Table 5.3.

Table 5.3: The Respondent Qualifications.

Description	Frequency	Percent (%)	Cumulative %
Master	2	6.66	6.66
Bachelor	26	86.66	93.32
Diploma	2	6.66	100
Others	0	0	0
TOTAL	30	100	

d. The Respondent's Initial Feedback on Privatization Project Status

From the analysis, the respondent's had reacted early on the performance of the privatization project status. The tabulated percentage is shown in Table 5.4.

Table 5.4: The Respondent's Feedback on Privatization Project Status

Description	Frequency	Percent (%)	Cumulative %
More Problem	2	6.66	6.66
Problem	24	80.00	86.66
Less Smooth	2	6.66	93.20
Smooth	2	6.66	100
TOTAL	30	100	

5.3 THE RESULT OF THE QUESTIONNAIRE SURVEY

a. The Analysis on the Criteria of Privatization Project

This section investigates the criteria of privatization project implemented by MINDEF. Table 5.5 shows the results of survey of the criteria measures for privatization project implemented by MINDEF.

Table 5.5: The Criteria of Privatization Project Implemented by MINDEF

No	The Criteria of Privatization Project by MINDEF	Frequency Analysis					Average Index
		1	2	3	4	5	
		No. of Respondents					
1	Meets the clients requirement	0	0	0	10	20	4.67
2	Ability to complete project in time	0	0	0	10	20	4.67
3	Agreement contents protect government interest	0	0	0	10	20	4.67
4	Good implementation strategies and procedures	0	0	2	6	22	4.67
5	Developer with good cash flow	0	0	2	12	16	4.47
6	Developer with good organization	0	0	2	6	22	4.67
7	Developer with vast experienced	0	0	0	12	18	4.60
8	Developer with good record of performance	0	0	0	14	16	4.53
9	Tender to selected Bumiputra contractor	0	0	6	12	12	4.27
10	Settled land problem at early stage	0	0	2	14	14	4.40

b. The Analysis on the Effective Criteria's of Privatization Project

Table 5.6 shows the result of the effective criteria of privatization project. This result comes from the criteria of privatization project above, then the criteria's has been ranked to get the result in which number 1 is the most effective criteria compared to number 10.

Table 5.6: The Effective Criteria of Privatization Project

No.	The Effective Criteria of Privatization Project	Rank
1	Agreement contents protect government interest	1(4.67)
2	Meets the clients requirement	1(4.67)
3	Ability to complete project in time	1(4.67)
4	Good implementation strategies and procedures	1(4.67)
5	Developer with good organization	1(4.67)
6	Developer with vast experienced	2(4.60)
7	Developer with good record of performance	3(4.53)
8	Developer with good cash flow	4(4.47)
9	Settled land problem at early stage	5(4.40)
10	Tender to selected Bumiputra contractor	6(4.27)

c. The Analysis on the Strategies to Improve the Effectiveness of Privatization Project

The last section of the questionnaire investigates the extent of the strategies to improve the effectiveness of privatization project. The results are tabulated in Table 5.7 is shown below.

Table 5.7: The Strategies to Improve the Effectiveness of Privatization Project.

No.	The Strategies to Improve the Effectiveness of Privatization Project	Frequency Analysis					Average Index
		1	2	3	4	5	
		No. of Respondents					
1	Ability of developer to identify the client requirement	0	0	0	16	14	4.47
2	Ability to complete project in time	0	2	0	14	14	4.33
3	Detail Agreement contents to protect government interest	0	0	2	10	18	4.53
4	Detail strategies and procedures	0	0	6	16	8	4.07
5	Offer to developer with good financial	2	0	4	4	20	4.33
6	Effective and transparent privatization policy	0	0	2	18	10	4.27
7	Apply effectively to the agreement contents	0	0	2	18	10	4.27
8	Offer to developer with excellent record	0	0	2	16	12	4.33
9	Offer tender to qualified developer	0	0	2	14	14	4.40
10	Solved land matters before offer	0	0	0	8	22	4.73

5.4 FINDINGS AND DISCUSSIONS

This section discussed the findings of this study. The results of the study were analyzed and discussed in the following sequence to answer the objectives mentioned in Chapter 1. The aforementioned analysis sequence is organized and the data presented in some meaningful and logical order. After the data had been organized and presented into descriptive manner, it is then analyzed and interpreted them in order to draw inferences about the data obtained. The discussions were divided into four parts. The first part discussed the respondent background. The second part discussed the criteria of privatization project, then follows by the

effective criteria of privatization project and finally discussed on the strategies to be undertaken by MINDEF to improve the effectiveness.

Discussion on the findings will be based on Average Index as the indicator corresponding to each statement. The value of Average Index ranging from 1.00 to 5.00, with 4.07 being the lowest degree of rating for the responses and 4.73 gives the highest degree of responses.

a. Respondents Background

A group of respondents (40%) with various backgrounds of technical disciplines had experienced in planning and managing projects between 1 to 5 years, 33.3% had experienced between 11 to 20 years and 26.7% had experienced more than 20 years.

b. First Objective: To identify the Criteria of Privatization Project Implemented by MINDEF

This section discussed the findings based on the results obtained from the questionnaire survey vis-à-vis on the criteria of privatization project implemented by MINDEF. Table 5.8 shows the ranking of the criteria of privatization project implemented by MINDEF.

Table 5.8: The Criteria of Privatization Project Implemented by MINDEF

No.	The Criteria of Privatization Project Implemented by MINDEF	Rank(AI)
1	Agreement contents protect government interest	1(4.67)
2	Meets the clients requirement	1(4.67)
3	Ability to complete project in time	1(4.67)
4	Good implementation strategies and procedures	1(4.67)
5	Developer with good organization	1(4.67)
6	Developer with vast experienced	2(4.60)
7	Developer with good record of performance	3(4.53)
8	Developer with good cash flow	4(4.47)
9	Settled land problem at early stage	5(4.40)
10	Tender to selected Bumiputra contractor	6(4.27)

Tables 5.8 indicate most of the criteria listed above achieved the average index of more than 3.5 that directly indicate the ten (10) criteria's of privatization project. Relatively, the majority of the respondent agreed it is crucial to be taken into consideration the ten (10) criteria's.

c. Second Objective: To identify the Effective Criteria of Privatization Project

From the ranking above, the effective criteria of privatization project had been identified. Most of the criteria seem to be very effective. The Agreement contents which protect the government interest were one of the most effective criteria to be considered to ensure all government interests are protected in legal aspect. MINDEF Legal Department and Attorney General Office need to review the Agreement contents or text prepared by the developer from any weaknesses and loopholes because at present the Agreement contents was more inclined toward the advantages of the developer. At present the text of Agreement of one of the

privatization project had been used as guidance or guidelines for other privatization projects by MINDEF.

Another highest ranking of the effective criteria is to meets the client's requirement. This happens at the stage of preparation of the tender document where most the developer failed to understand some matters during the preparation of the concept drawings. The time consumes had affected the whole work programme which indirectly caused the project delayed as a whole.

The ability to complete project in time is one of the effective criteria because the purpose to have project implemented through privatization is to increase the efficiency and productivity on government project launched to fulfill the objectives.

d. Third Objective: The Strategies to Improve the Effectiveness of Privatization Project

This section discussed the findings based on the result obtained from the questionnaire vis-à-vis the strategies to improve the effectiveness of privatization project. Table 5.10 shows the ranking of strategies that is undertaken by MINDEF to improve the effectiveness.

Table 5.9: The Strategies to Improve the Effectiveness of Privatization Project

No.	The Strategies to Improve the Effectiveness of Privatization Project	Rank/AI
1	Solved land matters before offer project	1 (4.73)
2	Detail Agreement contents to protect government interest	2 (4.53)
3	Ability of developer to identify the client requirement	3 (4.47)
4	Offer tender to qualified developer	4 (4.40)
5	Ability to complete project in time	5 (4.33)
6	Offer to developer with strong financial	5 (4.33)
7	Offer to developer with excellent record	5 (4.33)
8	Apply effectively to the agreement contents	6 (4.27)
9	Effective and transparent privatization policy	6(4.27)
10	Detail strategies and procedures	7 (4.07)

Table 5.9 presented that to solve land matters before offer project to developer is the most important strategy to improve the effectiveness of privatization project with average index of 4.73. The detail agreement content to protect government interest is the second rank of 4.53 average indexes, while the ability of developer to identify the client requirement is the third rank with 4.47 average indexes.

From the result above, the three most important strategies to improve the effectiveness of privatization project were identified, they are;

Resolve land matters before project implementation is handled by developer is one of the main issue where the land swap is used in the privatization method for MINDEF as explained earlier in Chapter 2. The problem of the project site and land swap must be settled earlier before the signing of the Agreement.

Detail Agreement contents to protect government interest is required to be revised in detail again and again for the benefit of both parties, that is government and developer.

Ability of developer to identify the client requirement has been mentioned earlier in the privatization criteria need to be highlighted by developer in order for the project to be in smooth progress.

5.5 SUGGESTIONS FOR BETTER PERFORMANCE

Here are few comments and suggestions expressed by researcher that might help MINDEF to overcome the effectiveness dilemma:

- Advisable not to offer more than one project to the same developer because the opportunities should also be given to others. With the present situation, the ‘developer’ had failed to complete and abandoned both of the project. Total cost of this 2 projects cost more than RM300 million.
- The government should only offer the privatization project to the proven developer with good construction management and financial background.

5.6 SUMMARY

Quantitative judgments were employed in data analysis. Statistic was used to analyze the background of the respondents and Likert Scaling used to analyze the criteria, the effective criteria and the strategy to improve the effectiveness of privatization project implemented in MINDEF. The final result of the analysis was listed. From the analysis, it shows that the Agreement contents which protect government interest is one of the most significant and the effective criteria. Lastly,

the most frequent strategy must be undertaken by MINDEF is to resolve the problems of land matters before offer project to developer in order to improve the effectiveness of privatization project implemented by MINDEF.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATION

6.1 INTRODUCTION

This Chapter concludes the study by listing down the results of the analysis. Some recommendations for the effective privatization project implemented were also included. Based on the literature reviews, questionnaires distribution, feedbacks and result analysis, the three main objectives of this project report had been successfully achieved.

6.2 CONCLUSIONS

As a conclusion, this study has identified and met the entire three objectives that had been stated earlier.

Objective 1: To identify the criteria of privatization project implemented by MINDEF

In overall the respondents agreed that the first five criteria of privatization project identified were the agreement contents which protect the government interest; meets the client's requirements; the ability to complete project in time; good implementation strategies and procedures; and the developer with good organization.

Objectives 2: To identify the effective criteria of privatization project

From the analysis several effective criteria has been identified. The effective criteria of privatization project were then ranked from 1 to 10 as follows:

1. Agreement contents protect government interest
2. Meets the clients requirement
3. Ability to complete project in time
4. Good implementation strategies and procedures
5. Developer with good organization
6. Developer with vast experienced
7. Developer with good track record of performance
8. Developer with adequate cash flow
9. Settled land matters at early stage
10. Tender to selected Bumiputra contractor

Objectives 3: To identify the strategy to improve the effectiveness of privatization project

From the analysis the three major criteria that can improve the effectiveness of privatization project were to solve land matters before offer project, detail agreement content which protect government interest and the ability of developer to identify the client's requirement.

6.3 RECOMMENDATIONS

In order to achieve the effectiveness of privatization project implemented in MINDEF, the researcher would like to propose the recommendations below that might be use in the future for the benefit of all parties involved.

a. The Ability of Developer

The selected developer must have the qualities in all aspect such as good financial background, experienced in mega projects, accountability and responsibility in handling giant project. The government needs to have suitable guideline in selecting the developer.

b. Land Swap

The Government and MINDEF need to study the suitability of the land swap where all restriction on the land must be settled before the offer or signing of the contract agreement to avoid any difficulties and problems that may arises and jeopardize the planning of both government and developer.

c. Suggestion for Further Studies

More research need to be done about the effectiveness of the projects implementation through privatization which are still going right now and to make sure the method of the implementation of the project can be improved and delay can be avoided. The study also required finding the alternative ways and means or suitable alternatives in the successful and the effectiveness of the privatization project implemented by MINDEF.

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APPENDIX A
Sample of Questionnaire

**PENYELIDIKAN TENTANG PROJEK PENSWASTAAN YANG DILAKSANAKAN
OLEH KEMENTERIAN PERTAHANAN**



**FAKULTI KEJURUTERAAN AWAM
UNIVERSITI TEKNOLOGI MALAYSIA**

MATLAMAT
**UNTUK MENGENALPASTI KRITERIA PROJEK PENSWASTAAN YANG DILAKSANAKAN
OLEH KEMENTERIAN PERTAHANAN**

NAMA JABATAN :

NAMA RESPONDEN :

JAWATAN :

KUMPULAN

PENGURUSAN DAN PROFESIONAL

SOKONGAN

COP PENGESAHAN JABATAN:

DISEDIAKAN OLEH;
FAKULTI KEJURUTERAAN AWAM,
UNIVERSITI TEKNOLOGI MALAYSIA,
81310 UTM SKUDAI,
JOHOR DARUL TAKZIM

QUESTIONNAIRE

**THE PRIVATIZATION PROJECTS IMPLEMENTED
BY MINISTRY OF DEFENCE**

Dear Sir/Madam,

I am a final year student in Masters of Science (Construction Management) from Faculty of Civil Engineering, Universiti Teknologi Malaysia (UTM). Due to the requirements of my course, I would be conducting a survey to obtain some data that are relevant to this research. Therefore I would appreciate very much if you would kindly participate by being one of my respondents to help me in my research. You can be rest assured that **ALL THE INFORMATION IN THIS SURVEY WILL BE STRICTLY CONFIDENTIAL**. Lastly but not least, I would like to take this opportunity to thank you for your valuable and kind support.

Again, thank you.

ABDUL RAHMAN BIN IBRAHIM

MAKLUMAT UMUM JABATAN RESPONDEN

1. Berapakah bilangan pegawai dan anggota di Jabatan tuan?

<input type="checkbox"/>	1-5 orang	<input type="checkbox"/>	11- 20 orang
<input type="checkbox"/>	6-10 Orang	<input type="checkbox"/>	Lebih dari 20 orang

2. Berapa lamakah tuan telah berkhidmat di Jabatan ini?

<input type="checkbox"/>	1-5 Tahun	<input type="checkbox"/>	11-20 Tahun
<input type="checkbox"/>	6-10 Tahun	<input type="checkbox"/>	Lebih dari 20 Tahun

3. Apakah kelayakan akademik tuan?

<input type="checkbox"/>	Sarjana	<input type="checkbox"/>	Diploma
<input type="checkbox"/>	Sarjana Muda	<input type="checkbox"/>	Lain-lain (Sila nyatakan)

4. Berapakah jumlah projek pernah tuan kendalikan?

<input type="checkbox"/>	1-5 Projek	<input type="checkbox"/>	11-20 Projek
<input type="checkbox"/>	6-10 Projek	<input type="checkbox"/>	Lebih dari 20 Projek

5. Berapakah jumlah projek semasa yang tuan kendalikan?

<input type="checkbox"/>	1-5 Projek	<input type="checkbox"/>	11-20 Projek
<input type="checkbox"/>	6-10 Projek	<input type="checkbox"/>	Lebih dari 20 Projek

6. Kebanyakan status projek penswastaaan yang dikendalikan dalam keadaan ?

<input type="checkbox"/>	Banyak Masalah	<input type="checkbox"/>	Kurang Lancar
<input type="checkbox"/>	Bermasalah	<input type="checkbox"/>	Lancar

SENARAI SOALAN (QUESTIONNAIRE)

BAHAGIAN 1

Mengenal pasti kriteria bagi projek penswastaaan di Kemanterian Pertahanan/Sektor Awam.

1	2	3	4	5
Tidak Setuju	Kurang Setuju	Tidak Pasti	Setuju	Sangat Setuju

- a. Memenuhi kehendak pelanggan/perkhidmatan 1 2 3 4 5
- b. Kemampuan menyiapkan projek mengikut tempoh 1 2 3 4 5
- c. Perkara-perkara dalam Perjanjian yang melindungi kepentingan kerajaan 1 2 3 4 5
- d. Mempunyai strategi dan prosedur pelaksanaan yang mantap. 1 2 3 4 5
- e. Pemaju mempunyai pengurusan aliran kewangan yang mantap 1 2 3 4 5
- f. Pihak pemaju mempunyai organisasi yang mantap 1 2 3 4 5
- g. Pemaju mempunyai pengalaman dan kepakaran yang luas dalam projek pembinaan 1 2 3 4 5
- h. Pemaju mempunyai rekod prestasi yang cemerlang 1 2 3 4 5
- i. Tender terbuka kepada pemaju Bumiputra terpilih sahaja 1 2 3 4 5
- j. Masaalah tanah di selesaikan terlebih dahulu sebelum kerja pembinaan dimulakan 1 2 3 4 5

Lain-Lain Cadangan;

BAHAGIAN 2

Mengenal pasti kriteria yang berkesan bagi projek penswastaaan.

Apakah kriteria yang mempengaruhi keberkesanan projek penswastaaan ?

Sila senaraikan / nomborkan mengikut susunan (ranking) bermula dari 1 hingga 10 di mana susunan bermula dari paling kritikal (1) hingga kurang kritikal (10)

- | | | |
|----|--|----------------------|
| a. | Memenuhi kehendak pelanggan/perkhidmatan | <input type="text"/> |
| b. | Kemampuan menyiapkan projek mengikut tempuh | <input type="text"/> |
| c. | Perkara-perkara dalam Perjanjian yang melindungi kepentingan kerajaan | <input type="text"/> |
| d. | Keperluan mempunyai strategi dan prosedur pelaksanaan yang mantap | <input type="text"/> |
| e. | Pemaju mempunyai pengurusan aliran kewangan yang mantap | <input type="text"/> |
| f. | Pemaju mempunyai organisasi yang mantap | <input type="text"/> |
| g. | Pemaju mempunyai pengalaman dan kepakaran yang luas dalam projek pembinaan | <input type="text"/> |
| h. | Pemaju mempunyai rekod prestasi yang cemerlang | <input type="text"/> |
| i. | Tender terbuka kepada pemaju Bumiputra terpilih sahaja | <input type="text"/> |
| j. | Masalah tanah diselesaikan terlebih dahulu sebelum kerja pembinaan dimulakan | <input type="text"/> |

Lain-Lain Cadangan;

BAHAGIAN 3

Mengenal pasti kaedah untuk meningkatkan keberkesanan projek penswastaaan.

Apakah kaedah untuk meningkatkan keberkesanan dalam pelaksanaan projek penswastaan?

1	2	3	4	5
Tidak Setuju	Kurang Setuju	Tidak Pasti	Setuju	Sangat Setuju

- a. Keupayaan pemaju mengenal pasti kehendak pelanggan.

1	2	3	4	5
---	---	---	---	---
- b. Berkeupayaan untuk menyiapkan projek mengikut tempuh

1	2	3	4	5
---	---	---	---	---
- c. Menghalusi perkara-perkara perjanjian untuk kepentingan kerajaan dan pengguna

1	2	3	4	5
---	---	---	---	---
- d. Menghalusi strategi dan prosedur pelaksanaan.

1	2	3	4	5
---	---	---	---	---
- e. Tawaran kepada Pemaju mempunyai aliran kewangan yang mantap.

1	2	3	4	5
---	---	---	---	---
- f. Perlu kepada polisi penswastaan yang lebih telus dan berkesan

1	2	3	4	5
---	---	---	---	---
- g. Melaksanakan secara telus dan berkesan terhadap perkara perjanjian berkaitan pelaksanaan projek.

1	2	3	4	5
---	---	---	---	---
- h. Menawarkan projek kepada pemaju yang mempunyai rekod cemerlang.

1	2	3	4	5
---	---	---	---	---
- i. Anjur Tender terbuka kepada semua pemaju yang melebihi kelayakan

1	2	3	4	5
---	---	---	---	---
- j. Perkara tanah diselesaikan terlebih dahulu sebelum menawarkan atau mencadangkan pelaksanaan projek.

1	2	3	4	5
---	---	---	---	---

Lain-Lain Cadangan;

Terima Kasih di atas kerjasama anda.