

PUBLIC-PUBLIC PARTNERSHIP: AN ALTERNATIVE STRATEGY IN WATER MANAGEMENT IN MALAYSIA

By Charles Santiago

This chapter explores the possibility of an alternative model in organising water management in Malaysia. The experience of the Perbadanan Bekalan Air Pulau Pinang (PBA) in water supply management could be emulated by other state water providers in the country. Specifically, the PBA experience in the state of Penang could provide a basis in which to forge and organise a public-public partnership in water management in the country. The PBA experience in water management serves as an effective alternative to privatisation and makes a strong case against the Malaysian government's plans to hand over the water management to private interests.¹

Why should the PBAs experience in water management in the state of Penang be the basis in which to organise a public-public partnership or arrangement? At present, Penang enjoys one of the lowest water tariffs in the country² as well as the

¹ The state water authorities inherited an efficient management water supply system from the British about 200 years ago. More recently, in January 1973, the Pihak Berkuasa Air Pulau Pinang (PBA), a state statutory authority was established. The role of this authority was to supply treated water within Penang (both the island and the mainland). In 1999 the PBA was corporatised into Perbadanan Bekalan Air Pulau Pinang Sdn Bhd, (PBAPP) a private limited company, wholly owned by the government of Penang through its investment arm, State Secretary Penang. In 2000 PBAHB was incorporated as an investment holding company to carry out all business activities for PBA Group of Companies. See History of Water Supply in Penang, <http://www.pba.com.my/PBAHis.html>.

² From 1993 until the present, the Penang domestic water rates for the first 20 000 litres is 22 sen per 1000 litre and between 20 000 and 40 000 litres is 42 sen per 1000 litres. The tariff rates introduced in 2001 maintained the same tariff structure as in 1993. Based on the 2001 tariff increase, about 75% of consumers in Penang did not have to pay more for their water as opposed to 1993.

world.³ A 1999 comparative study of water charges in 65 cities and towns in 38 countries in Asia, Europe, Africa and the United States showed that Penang has the lowest water rates.

The PBA also recorded the highest profits among all the water providers in the country. In the last few years, the company achieved record profits of between RM40-50 million. Also, water is accessible 24 hours a day and reaches about 99% of the population in the state. The non-revenue water (NRW) is the lowest in the country at 18%, a target attained one year ahead of schedule (2005). The company expects to reduce NRW to 15% by 2010.

Its employee-to-connection ratio is about 1:373. The PBA has attained 99% billing and collection efficiency, another national high. The company's strong operating profit margin of 50% owes a lot to its low NRW and good revenue collection rate of 99%. Furthermore, Penang is the only state in the country which provides an interest-free loan of RM1,000 to poor communities for the purposes of connection. The PBA is the only water provider in the country that can boast a cash reserve or its equivalent of RM223 million.

Currently, Penang shows a remarkable achievement of 99% universal access to drinking water at the lowest prices in the country with a 98% revenue efficiency. It is important to note that the efficiency requirements were met with no substantial tariff increase and with a subsidy and cross subsidy in place.⁴ This was because profits of the water utility were reinvested⁵ and new infrastructure investments are self-financed.

³ The comparison of annual water charges for a family living in a house consuming 200 cubic meter per year shows that the Penang water charge is only ECU 10.13 for a household consuming 200 cubic meter per year. International Water Association's International Statistics for Water Services 1999. Cited in Water Malaysia Issue No: 4. 2003.

⁴ The cost of producing per cubic metre of water is 35 sen. It is sold at 22 sen for the first 20 cubic metres of water.

⁵ In 2002 and 2003 the PBA invested RM61.4 million and RM85 million respectively in capital expenditure for water resource development. Annual report 2002 and 2003.

What are the critical factors that are responsible for the success of this model of water management? First, a management that is committed to administrative excellence and public service wedded to a commercial outlook helped to create an efficient management of the water system in the state. A strong commitment to public service influenced the management, operations and delivery of services of the organisation. Interviews with workers, unions and management staff indicate that a commitment to public service excellence was inculcated at every level of the company. In fact, working for and serving the *rakyat* (people) was internalised by the staff and represented a key commitment and asset of the organisation. Also, it appears that there was a real sense of commitment among the staff to a work culture that promotes excellence in public service.

Second, interviews indicate that since 1973, the Penang Water Authority operated autonomously and without political interference from the state, albeit the water utility had to follow federal government policies on staff recruitment. The PBA's day-to-day operations and management decisions, including its policies, were free of political interference. Thus, the water utility was able to focus on its core responsibility and commitment to balancing profitability with public interest. In this environment, the senior management could formulate plans and decisions without upsetting politicians or fearing employment transfers or demotions, something that cannot be said for most of Malaysia's state water providers. Politicians acted on the professional advice of the managers.

Interviews with retired senior management staff reveal that the state politicians did not interfere with day-to-day operations of the company nor influence its policymaking. In fact, it was pointed out that the PBA managers exercised their responsibilities and tasks professionally and were led by visionary senior management team committed to public service. In this

sense, the PBA was very much a bureaucracy-led organisation devoid of political encroachment.

Third, in 1973, the Penang Water Authority adopted a “commercial outlook with social obligations” strategy. This involved increasing access to water at affordable prices while ensuring high revenue efficiency. Such an approach ensured universal access to water and yet made the provision of water cost-effective and profitable. The PBA adopted appropriate technology either to enhance water accessibility or for revenue efficiency. Senior and retired managers indicated that PBA embracing of the “commercial outlook with social obligations” strategy early in the 1970s, was the key in realising its aim of providing water profitably yet being socially responsible.

A commercial outlook involved the organisation being budget conscious, adopting a commercial accounting system, instituting internal and external audits, a customer-friendly service, accurate recording of payments, billing and collection system. Also it involved developing a reliable and accurate integrated customer and engineering data system. Such a system allowed for correct recording or identifying burst pipes in different geographical locations. Furthermore, it entailed putting in place a leak detection and rehabilitation system. Essentially, a commercial outlook involved cutting costs and enhancing revenue efficiency. Furthermore, corruption and abuse of power was neither systemic nor prevalent in the organisation, although there were suspicions of corruption involving engineers in 1996.

Fourth, political party rivalry coupled with a vigilant public is said to be another factor that forced the state-owned utility to be efficient, transparent and accountable. Political competition between the various political parties, especially between the parties of the ruling government, contributed to keeping the state’s water supply system efficient, and the provider transparent and

accountable. Interviews with management, workers and NGOs indicate that the political rivalry, especially between the Gerakan and the Malaysian Chinese Association (MCA), resulted in unprecedented levels of scrutiny and demands for transparency and accountability vis-à-vis the performance of the state-linked and owned companies, such as PBA and Penang Development Corporation, the investment arm of the state.

Furthermore, political pressure from the opposition Democratic Action Party (DAP) and UMNO, a ruling coalition partner which has been eyeing the chairmanship of the PBA, forced the utility company’s performance, efficiency, transparency and accountability to improve. It appears that political competition forced a higher demand of transparency, accountability and efficiency levels, and this is a phenomenon that is absent in many other state water utilities in the country.

Since 2001, PBA was legally a privatised entity but one that was owned and controlled by the state of Penang. The state government owns 75% equity of the company. The remainder is owned by PBA workers and staff, by PBA consumers in Penang and the general public.⁶ While PBA, in its operations, is financially and organisationally independent of the state government, the people of the state view the PBA as belonging to the state and that is why its performance is scrutinised closely by the various political parties, NGOs and consumers.

The PBA offers cheaper rates compared to other privatised water providers in the country, ie Syarikat Air Johor Holdings Sdn Bhd (SAJH), which is a wholly-owned subsidiary of Ranhill Utilities. SAJH has been granted rights to carry out water supply services in the state of Johor for 30 years from

⁶ The direct control of the company is exercised through a 55% equity stake through the State Secretary Inc., while 20% of the shares are in the hands of state-owned companies. Santiago, Charles. 2004. *Privatisation vs. Public-Public Partnership in Malaysia. Monitoring the Sustainability of Globalisation.*

2000. The SAJH charges consumers 30 sen for the consumption of 0-15 cubic metres and 95 sen for the consumption of 16-30 cubic metres. The PBA charges consumers 22 sen per cubic metre for 0-20 cubic metres and 42 sen for the consumption of 21-40 cubic metres.

The PBA charges for the first 0-40 cubic metres have not changed since 1993, despite the privatisation exercise in 2001. However, SAJH increased water charges by 40% on January 1, 2001, and a further increase of 30% was made in 2003.⁷ It is interesting to note that a review of the water tariff in 2003 was made before the expiry of the three-year requirement.⁸ In the last 13 years, water tariffs have increased by 82% in the state of Johor.⁹ In the case of SAJH, it exploited its monopoly position to increase water tariffs, shore-up its share value and thus profits. However, the PBA, as a result of its “public although private” approach has not treated water like any other revenue-generating commodity. It has reinvested its profits and maintained highly affordable rates in order to ensure universal access and equity.

⁷ The Federation of Malaysian Manufacturers (FMM) has this to say about the second tariff increase in the state of Johor: “SAJH Sdn Bhd should not treat its water supply business an indiscriminate cash cow to be milked at every three-year interval. As a monopoly, SAJH Sdn Bhd must regard its water supply business as a social responsibility that must be carried out in fairness and in full consideration of the impact on all consumers, including industrial and commercial consumers. SAJH Sdn Bhd should not exploit its monopoly position in order to make obscene profits at the expense of its customers.”

⁸ Under the Concession Agreement (CA), 10 staggered increments of water tariff rates are allowed over the 30-year period. Malaysian Rating Corporation Berhad (MARC) Reaffirms Rating Of AID On SAJ Holdings Sdn Bhd's RM680 Million Al-Bai Bithaman Ajil Islamic Debt Securities (2000/2009). <http://www.marc.com.my/marc/readnews.asp?PID=55>

⁹ FMM Johor Branch Position Paper on the Latest Water Tariff Increase in Johor. Statement by the FMM on the increase of water tariff in the State of Johor. The statement quoted the State Executive Councillor Y.B. Adam Abdul Hamid on May 29, 2003, in *The New Straits Times*: “SAJH could raise the water tariff by not more than 30% every three years.”

There are potential problems in the long run for PBA. The organisation needs to consider conservation seriously given the increasing demand for water in the state, and that 80% of its raw water comes from outside the state. It needs to protect and gazette its catchment areas which are being eyed by business for purposes of commercial farming and other business ventures.

Another serious problem that the water utility provider will have to consider is in relation to its privatised status, although it is owned and controlled by the state government. Various stakeholders have suggested that the commitment to keep the water provider “public although it is private” might not be assured if the government changes to another political party.¹⁰ A privatised utility is vulnerable to foreign take-overs through the General Agreement on Trade in Services, an international trade agreement that is designed to control and regulate trade in services, including water.

In conclusion, the PBA experience refutes the widely-held notion that a state-controlled water utility is inefficient and loss-bearing. In fact, the PBA is a profitable and efficient water provider without imposing full-cost recovery, a phenomenon that turns the privatisation logic upside down. For Malaysia and the developing world the challenge would be to learn from the PBA experience through a public-public partnership, one that can keep the private sector out of the water management business.

Charles Santiago is with Monitoring Sustainability of Globalisation.

¹⁰ At present the Gerakan controls the state government. Their political rivals within the state coalition government include the Malaysian Chinese Association and UMNO. The three parties are part of the Barisan National government at the national level. The three parties compete with each other to lead the state government, albeit the Gerakan has led the state government in the last decades.