

25/02/2002

IWK needs hefty capital outlay to improve services

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INDAH Water Konsortium (IWK) needs extensive capital investments for upgrading and improvement of its services, but the national sewerage company is finding it difficult to raise funds due to consumers' unwillingness to pay for the services, a government official said.

According to the official, the main issue in the privatization of the sewerage services is related to the high cost of providing the services and the unwillingness of consumers to pay the actual cost for the services rendered.

"Generally, consumers are unwillingly to pay for the services which have been hitherto heavily subsidised by the Government.

"What is not understood by the consumers is that improvements can only be undertaken with extensive capital investments and upgrading of services," the official told Business Times.

In this regard, the official said greater efforts will be undertaken to increase public awareness on the importance of cost delivery of the services.

"The Government has also undertaken a comprehensive study on the privatization of the sewerage services to explore possible funding options as well as to further improve the service delivery," the official said.

The official said this in response when asked what steps will be taken by the Government to prevent it from making the same mistake when it first privatized IWK.

The Government has not dismissed the possibility of handing over the national sewerage company to the private sector after taking over the company two years ago.

In October last year, Prime Minister Datuk Seri Dr Mahathir Mohamad had said that several companies have expressed an interest in taking over IWK.

He had said that the Government has set a condition that the interested company must be willing to bring in its own investment and should not depend on the Government for financial assistance.

"The cost is very high. It runs to about RM8 billion to RM10 billion over a period of time... 10 years. So if you know anyone who has RM10 billion and wants to invest, let me know," the Prime Minister had said.

According to the official, the Economic Planning Unit in the Prime Minister's Department had received proposals from several companies, either to take over IWK or its management and operations.

"As these proposals are currently being evaluated, the identity of the involved companies cannot be revealed.

"The initial proposals from the interested companies are still being evaluated and there is no deadline as yet for the bidding since no invitations have been issued for the submission of proposals to takeover IWK," the official added.

On the criteria which must be met by companies interested to takeover the management of IWK, the official said stringent financial and technical evaluation criteria will apply, similar to that of other privatization proposals.

"Additionally, as indicated by the Prime Minister, interested companies must have the financial means to invest in heavy capital outlays for the upgrading of sewerage services," the official said.

One of the companies which has indicated its interest to take over the management of IWK is Multi Vest Resources Bhd (MVRB) which is headed by

Tan Sri Megat Junid Megat Ayub, the former Domestic Trade and Consumer Affairs Minister.

In its statement to the Kuala Lumpur Stock Exchange on January 3 2002, the company said the Government had issued a letter of intent to a wholly-owned Malaysian consortium comprising MVRB and Nilamas Corp Sdn Bhd for the acquisition of the entire issued and paid-up share capital of IWK.

MVRB said that the proposed acquisition was subject to the submission of a detailed proposal to the Government.

The present two players in the consortium were among the three entities, including UK's third-largest water company, Thames Water Plc, which failed in an earlier bid to acquire the entire stake in IWK.

In August 2001, the three companies, which make up Puas Emas Sdn Bhd, had made a bid for the acquisition which was rejected last month.

Following the proposal, it was allowed to conduct a due-diligence review on IWK and was required to submit a detailed technical and financial proposal.

Until its venture to acquire the national sewerage company, MVRB was primarily involved in oil palm cultivation and processing, with a total planted area of more than 3,000ha, according to company details sourced from the local bourse website.

MVRB, which began as a rubber plantation company, had over the years ventured into property development and investment with its primary asset, Plaza Best World, a shopping complex in Johor.

IWK was set up in 1994 to take over operations of the country's sewerage system from 144 local authorities for 28 years. Since its inception, the company had changed hands three times.

In June 2000, the Government purchased IWK from Prime Utilities Bhd, its previous owner, for RM192 million and had injected RM925 million in support loans to keep the company afloat.

IWK had accumulated debts amounting to hundreds of millions of ringgit. It was reported to have registered losses of RM32.22 million in the year up to April 2000, while accumulated losses stood at RM332.86 million.

To keep track on outstanding arrears by its consumers, the national sewerage company had appointed more debt collection agencies to collect them from this month.

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