

Chapter Six

Soggy Politics:
Making Water 'Public' in Malaysia

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In 2005-2006, the Federal Parliament of Malaysia amended the Constitution and voted in two laws enabling a sweeping reform of the water sector. This reform allowed the federal government to seize all assets previously owned by local water operators, public and private alike, and to fast-track asset development with government funding. Operators would later be offered short lease contracts to manage the revitalised assets, but the objective was to bring the country's water system under tighter public control and oversight.

It is still too early to comment conclusively on the outcome of this long-term restructuring plan, but in-depth interviews with important actors reveal a series of both positive and negative lessons and raise questions about the chosen implementation strategy and assumptions behind the policy change. Malaysia's reform was an attempt at creating a nation-wide public water management system, partly in response to a series of failures on the part of private water companies in the country. At the same time, the reform seeks to create competition among operators and can be seen to facilitate market forces within a unified, and ostensibly de-politicised, governance framework across the country. As such, this nation-wide study of water renationalisation in Malaysia is different from the other municipal-scale cases in this book, but the impacts are felt at the local level and the case raises similar questions about the ideology and politics of moving water from private to public hands.

The chapter begins with a review of the context of Malaysia's water reform and the political dynamics at play. This background helps to explain why prior to 2006, the country's water system was marked by good coverage but uneven technical performance and a controversial track record of private concession contracts. We then examine the ensuing federal reforms in the water sector and the ambitious goals that were set for making water 'public'. While some important gains have been made in this regard, there are troubling questions about the lingering commercialised nature of water management in the country and unrealistic assumptions about depoliticising water.

The political context: One party-dominated democracy

Following its independence from British rule in 1957 and its constitution as Malaysia in 1963, the country became a Westminster-style federal constitutional monarchy, with 13 states and three federal territories. A single coalition of ethnic-based parties called the National Front (*Barisan Nasional*, BN) has dominated political life since independence, under various names, and its member party United Malays National Organisation (UMNO) has played the key role in the coalition (all prime ministers to date have come from this party). Malaysia is a highly multicultural country, with Malays controlling the political system but only representing slightly more than half the population while the

two other large communities are of Chinese (24%, historically the country's economic and business elite) and Indian (7%, mostly Tamils) descent. Political life is partly structured by these demographics, with some pro-Malay policies (*Bumiputera* policies) triggering resentment in other communities.

The Malaysian government has been described by critics as authoritarian and extensively relying on cronyism.¹ Traditional media are mainly controlled by the government and BN parties; however, Internet media is legally protected from censorship and seems to have played a role in reinforcing the opposition in the 2008 elections when it won five states out of 13, including the key prosperous state of Selangor. Organised civil society and social movements exist, but secular organisations are still small and concentrated in the big cities of Kuala Lumpur and Penang, most often involving non-Malay individuals.²

Benefiting from its strategic position along the Malacca Strait, one of the most important global trade routes (carrying a fourth of the world's traded goods), Malaysia has been one of the fastest growing economies in Asia since independence, with an average 6.5% yearly growth rate over the past 50 years. Driven initially by exports of natural resources the country's economy has developed into a more multi-sectoral structure with industry being the main growth driver since the 1980s. This growth and diversity was historically state-oriented, but has more recently been heavily privatised. A growing proportion of the population is urban and middle class, with a relatively high Human Development Index for the region.

Before water sector reform

Water is widely available in Malaysia as the country is home to some of the oldest rain-forests on the planet and receives some of the highest levels of rainfall. In 2009, 85.3% of its raw water supply came from rivers,³ a proportion that is slowly decreasing with more storage dams being built and groundwater exploitation projects underway. Water quality is degrading due to environmental destruction in catchment areas, deforestation and pollution from industry and monoculture crops (particularly palm oil). Available quantities also diminish as a result of climate change. Until 2005, local states had the exclusive responsibility to provide water services to their citizens, often one of their main prerogatives. Overall, water infrastructure development in the country has been technically sound and socially progressive. Since independence, the government has prioritised affordable and universal water supply as a key development objective, and water infrastructure has been included in all of the country's five-year development plans from 1966 onward, enabling drinking water access to jump from roughly 23% of the population in 1950 to 91.6% in 2009 (96.8% for urban users, 86.5% for rural ones).⁴ This wide cover-

age has been achieved thanks to federal government interest-free loans to state governments for capital investments, and to state subsidies that allow keeping water tariffs low.

However, some states reportedly abused the federal loans arrangement and used funds for other purposes, a situation translating into high indebtedness⁵ and inadequate infrastructure in some places: the state of Pahang, for instance, still has a high leakage rate with 59.9% unaccounted for water in 2009, almost twice the national average of 36.6%.⁶ The political sensitivity of water tariffs deterred many of these states from imposing hikes – some have not increased tariffs since the 1980s – thus creating a vicious circle of high indebtedness and degrading system reliability where water tariffs revenue was the main financial resource for maintenance.

Other states, when confronted with fast-growing economic needs from industry and unable (or unwilling) to invest at the desired pace, surfed the privatisation wave that hit the country at the end of the 1980s to grant concession contracts to local private water operators, particularly in the richer and more populated Selangor and Johor states where most industries are concentrated. This enabled fast infrastructure upgrades, but led to repeated, unpopular and anti-poor water tariff hikes, general secrecy around the provision of water services (notably about concession agreements) and growing debt by the private operators who could not convince public authorities to impose high enough tariffs to enable them to recoup their full cost. In addition, empirical evidence shows that efficiency did not improve noticeably in these privatised systems.⁷

Some public systems performed well during that period, the best being *Perbadanan Bekalan Air Pulau Pinang* (PBAPP) in the state of Pulau Pinang, a corporatised but publicly controlled company whose excellent management makes it the benchmark for the country: it delivers the cheapest water in Southeast Asia while obtaining the best national performance in terms of leakage control, service to the user and pro-poor policies.⁸

The 1997 Asian financial crisis was a turning point for Malaysia's water sector. Combined with an exceptional drought caused by a strong El Niño in 1997-1998, the crisis revealed that systems were not as environmentally and economically robust as thought. This reinforced a diagnosis of decreasing surface water quality and quantity, uneven technical efficiency, indebtedness and concession contract failures, triggering a debate over broad reforms of the entire sector in the country.

The reform: Political ambitions and a roadmap

The Malaysia Water Association (MWA), the country's water sector professional association, was first to push for reform of the sector; in 2001, it teamed up with federal officials from the Economic Planning Unit of the Prime Minister's Department to sug-

Box 1 The IWK failure

Water privatisation through concession contracts became unpopular in the country because of the magnitude of the tariff increases it caused, but the disastrous experience of the *Indah Water Konsortium* (IWK) also played a role. Wastewater systems in the country were managed before 1993 by local governments and were generally in poor condition, due to the lack of investment and maintenance. IWK, a company created by one of the wealthiest businessmen of the country, Vincent Tan Chee Yioun (also reportedly a close relative of then-prime minister Mahathir Mohamad), approached the government and proposed to take over and upgrade wastewater through a national concession. The concession was awarded in 1993 without tender. IWK's legal basis for invoicing customers was unclear and refusals to pay soon spread throughout the country, endangering the financial viability of the venture and prompting the government to intervene to lower sewerage tariffs and inject hundreds of millions ringgits (1RM=US\$0.25 at 1998 rate) in long-term soft loans (while IWK's shareholders were contractually guaranteed a minimum rate of profit by the government).⁹ The company changed owners three times in its first four years of existence, but in 2001 the government had to buy the company back from Prime Utilities, a listed Malaysian company in which Vincent Tan still owned 30% of the shares.¹⁰ By then, IWK's debt amounted to RM700 million, most of it owed to the government that had lent more than RM1 billion in total to the company. The government nonetheless paid RM200 million to buy it back, a higher price than it had received from the initial concession contract deal.¹¹ The company is still managed by the minister of finance today.

gest a series of measures to the federal government.¹² Some were kept in the Eighth Plan (2001-2005) but in general this initial attempt was unsuccessful given the sensitivities surrounding state competencies. Nevertheless, negotiations went on with states to obtain an agreement in principle. In 2004, the newly-created Ministry of Energy, Water and Communications – water was becoming a ministry portfolio for the first time in Malaysia – launched a series of reforms to tackle challenges that had been identified by the MWA. The ministry tasked business consultancy KPMG in August 2004 to lead the consultation, with the following objectives as worded by the consultant:

- To propose a viable, low-cost industry structure for water and sewerage services in the country
- To help the Federal Government put in place a policy and regulatory framework for the orderly and sustainable development of the water services industry

- To conduct comparative studies based on other international water regulatory bodies as a guideline for the establishment of the proposed National Services Commission
- To conduct a study on amending the Federal Constitution in the event that the Federal Government takes over the regulatory function of water services from the States
- To prepare two sets of draft bills: a Water Services Industry Bill to govern the water industry, and a National Water Services Commission Bill to establish the formation of the regulatory body¹³

The proposed reform consisted in unifying water and wastewater services policy and regulation at the federal level, and in setting up a business model enabling an economic transition to full cost recovery as a long-term objective, a pre-condition to end the water sector dependency on uncertain funding based on political decisions. This focus on 'water services' rather than 'water' in general was already an important limitation of the response to the initial crisis diagnosis in the sense that water resource management was not included in the reform and remained the sole responsibility of states. In reality, states did not want to lose control of water catchment areas for political and economic reasons (some had profitable business activities on these lands, logging in particular). Another shortcoming of the reform was the refusal by the eastern states of Sabah and Sarawak (on Borneo island) to join the process.

Despite these concerns, reforms were set in motion with the first step being an amendment to the Federal Constitution that was passed by both houses of Parliament in January 2005, moving water supply and services from the State List of exclusive responsibilities to the shared federal-state responsibilities Concurrent List, and transferring water revenues from the states to the federal government. The only change made to water resources regulation was in the form of the creation of a National Water Resources Council, chaired by the prime minister and tasked with coordinating water resources policies at the national level.

The next steps in the reform process related to the adoption of two laws in 2006: the Water Services Industry Act (Act 655; WSIA), a comprehensive legislation providing the details of the reform, and the National Water Services Commission Act (Act 654) to set up an independent national regulator with vast monitoring and enforcement powers: the *Suruhanjaya Perkhidmatan Air Negara* (SPAN). A new public company was created under the direct authority of the Ministry of Finance, the *Pengurusan Aset Air Berhad* (PAAB), whose primary task was to facilitate fundraising for the entire national water sector at the cheapest rate possible.

The aim of the reform was to use ‘inner benefits’ of both public and private sectors, that is to say, cheap access to funding by the public sector and efficient, commercially sound service delivery by the private sector. On the one hand, PAAB would be tasked with raising funds on the market with government credit rating; on the other, it would buy all water assets in the country from existing operators (except in Sabah and Sarawak) and lease them back to these same operators afterwards. The difference was that they would then become managers of a public federal asset, would be transformed into corporations if they were not already, and would be exposed to competitive pressures (due to the short, three-year duration of the lease contracts).

It was hoped that these measures would prompt delivery of an efficient service. In theory, PAAB was expected to fund capital expenditures and the operators, operational expenses; that is, PAAB would manage major projects such as dams, plants and large development projects, be they for new assets or for their replacement, while operators would take charge of small infrastructure projects in addition to maintenance and management tasks.

One of the remarkable features of this reform was its ambition to develop a new, Malaysia-specific institutional structure for the water sector that would break free from previous models. In the words of Dato’ Sri Dr Lim Keng Yaik, minister of energy, water and telecommunications from 2004 to 2008: “The reform model that we are embarking on is unique and I hope it will serve as a guide to developing as well as developed countries.”¹⁵ The current CEO of SPAN, Dato’ Teo Yen Hua, also explains the rationale behind the change in policy: “Generally, long-term privatisation concessions are not suitable for the water sector. Even the World Bank accepted this fact. There is also no one-size-fits-all solution. No one model can meet the needs of all countries.”¹⁶ MWA’s President, Ahmad Zahdi Bin Jamil, gives further insight into the ambitions of the Malaysian water industry through this reform, which he says are aimed at “making Malaysia THE water hub for developing countries.”¹⁷ Further, KPMG consultant Chin Yoong Kheong, who had a leading role in shaping the reform and facilitating the consultation process, also uses such a bold tone when describing the reform:

To put it simply, we have managed to carve a workable business model for an industry that is currently not at full-cost recovery (or loss making under conventional accounting) to have access to long term AAA rated bonds. Through PAAB, we have widened the breadth and increased the depth of the bond market specifically for the water services industry without undue financial burden to the Federal Government. PAAB is an initiative of a public-private partnership that leverages the strength of both the public as well as the private sector. We are entering into uncharted territory and we know we have a winning strategic plan.¹⁸

Box 2 The National Water Services Commission

The National Water Services Commission (*Suruhanjaya Perkhidmatan Air Negara*, SPAN) was created in April 2007 to become the pivotal independent regulator in the new institutional architecture created by the 2006 water reforms in Malaysia. Between eight and 10 people sit in the Commission in addition to its (non-executive) chairperson and CEO, all appointed by the Ministry of Energy, Water and Telecommunications for a period of two years. Current members are federal government officials (3), private construction firm executives (2), business lawyers (2) and one consumer NGO representative. The Commission meets once a month.

The Commission itself leads a 149-strong administration based on 2009 figures, with four regional offices in the country and headquarters in CyberJaya, half an hour drive from Kuala Lumpur. SPAN's role is crucial in that it co-delivers (together with the Ministry of Energy, Green Technology and Water) licences and regulates all water industry professionals active in the country (water services contractors, public and private water supply operators, public and private sewerage operators and contractors, manufacturers/suppliers and even plumbers), a legal requirement compulsory since the WSIA states that anyone operating a water system without such a license will face a heavy fine, and possibly even a prison term. Crucially, SPAN is meant to design a "robust, stable and transparent framework for periodic tariffs reviews."¹⁴ The current system forces operators to use industry-benchmarked costs determined by the regulator in order to keep these operators under competitive pressure. This means that tariffs are reviewed within a technical, rather than political, framework.

Water operators, public and private, must submit a business plan to get their license and sign the three-year lease contract with PAAB that allows them to operate the system. SPAN monitors them along Key Performance Indicators that look at water quality, unaccounted for water, pressure, and customer services in a benchmarking approach. SPAN's enforcement powers are important, with the legal ability to take measures as far-reaching as replacing the entire management of an operator in the event it would repeatedly not comply with its assigned targets. SPAN's monitoring also relies on direct consumer input, with an entire department tasked with receiving and handling complaints, in close cooperation with a consumer body specifically created for this purpose and funded by SPAN, the Malaysian Water Forum.

SPAN's role is essential in safeguarding public, social and environmental dimensions through monitoring of operators constituted as corporations whose only structural objectives are to at least reach financial balance within their own accounting scope. The general rationale is that operational efficiency will stem from this arms-length relationship between the regulator and the operators, and that this efficiency will be the source of legitimacy for moving toward full cost recovery.

Indeed, if the public-private partnership concept is not new, the idea to enlarge its application to an entire country in a systematic manner is unheard of. The scope of this reform and its ambition were a subject of pride for the majority of people interviewed for this research, notably consumer organisations, who are given a prominent role in dealing with customer complaints and in advising SPAN, and who insisted that the level of transparency enabled by the scheme is high, breaking with former practice in the country. Other interviewees and sources also point to the large and open consultations that took place prior to the reform in order to obtain as large a buy-in as possible from all players, and mention the fact that the two draft bills were de-classified to allow for public discussion before being voted in Parliament, a move described as unusual in Malaysia's political system. This is not to say that everyone agreed with the reforms, but the process was inclusive enough to allow the reforms to move forward.

The roadmap for the reforms was embedded within the country's five-year plans as follows:

- **Stabilisation (2001-2005):** The Eighth Plan provided for an initial step into the reform with the corporatisation of state water authorities, and oversaw the planning of the national water services industry restructuring.
- **Consolidation (2006-2010):** This plan addressed the operationalisation of SPAN, enforcement of the Water Services Industry Act (WSIA) 2006, the transfer of water-related assets to PAAB at negotiated value and the development of new water infrastructure; it also facilitated service providers becoming asset light to focus on efficiency and effectiveness.
- **Toward Efficiency (2011-2015):** This plan puts in place a tariff setting mechanism to allow full cost recovery to be completely phased in 2013, integrates water supply and sewerage services, and represents initial efforts toward the introduction of integrated water and sewerage tariffs.¹⁹

Reality check: Political and practical problems

As with any reform, the real work began with implementation. It is still too early to adequately assess the outcomes, however, due to delays in the process: only five states had transferred their assets and liabilities to PAAB by mid-2011: Melaka, Negeri Sembilan, Perlis, Johor and Pulau Pinang, the latter having only signed a deal with PAAB in June 2011. According to November 2010 data provided by SPAN,²⁰ technical performance has improved for three of these states (no data was provided on Perlis), with unaccounted for water decreasing as a result of improved metering, maintenance, actions against illegal connections and billing systems efficiency, particularly in Johor where the assets were owned by the current operator, SAJ Holdings, a privatised company (subsidiary of

Malaysian water corporation Ranhill). In these three states, water coverage reached 100% in urban areas and more than 99.5% in rural areas, and tariff revenue increased.

The reform must also be seen in light of the general picture of rampant centralisation in the country. As a guarantee, state governments obtained legal protection against any private participation in PAAB or change in the nature of the land where the water systems are located, and thus any of those two occurrences would automatically trigger the return of the assets to the state governments. There is political uncertainty on the horizon, however. In terms of labour relations, the ongoing corporatisation of the public operators (achieved in Negiri Sembilan and Kedah, underway in Perlis, Pahang, Labuan and Perak) has been met with strong criticism from workers' unions, who point to low wages, degraded working conditions and fear that their companies will be privatised once corporatised and made to appear profitable. Other critics point to another weakness of this reform: the exclusion of broader water resource management issues that undermines the possibility of serious action on decreasing surface water quality and quantity.

But other elements tend to show that more fundamental flaws have developed within the model itself, and particularly at the level of the strategic assets-holding public company, PAAB. In order to obtain the funds needed to develop the infrastructure, PAAB raises money on international bond markets. Rating agencies consider that the guarantee given to PAAB by the Ministry of Finance, as well as the strategic nature of its assets, mean that PAAB's credit risk is the same as Malaysia's. PAAB can therefore access funding with an average 2.5-3% yearly interest rate, well below any Malaysian private company's fundraising possibilities. The original idea was that PAAB would act as a financial middleman, only charging the operators its overhead costs plus interest (the lease contract fee was indeed meant to be determined on an affordability principle, not directly based on the assets' value). However, it seems that the general principle changed along the way: operators are now identified by SPAN and PAAB in different categories according to their reimbursement capacities, and the lease fees are now based on a fixed share of the assets' value. The weakest operators having signed a lease contract so far were applied a 3-4% yearly rate, but the Johor operator (SAJ) has to pay a lease fee as high as 6% of the asset value (RM240 million a year for assets valued at 4.03 billion).²⁴ Such an interest level is still lower than what SAJ could obtain on the markets, but it is two times higher than what PAAB itself must repay, so the fee is obviously well above PAAB's operating costs. In sum, the intended 'cheap funding' for the water sector has turned into a money-making venture for PAAB (questioned on the issue, PAAB contends that it needs to raise its rates to meet its operating expenses²⁵). Such an added cost to the funding of water projects is all the more striking given that state governments could apply for interest-free loans for water infrastructure development in the previous system and that this institutional

Box 3 Water fights in Selangor

State-federal government rivalry remains very important even after the sweeping Malaysian water reform. A major political battle on water issues has been taking place in the state of Selangor, the richest and most populated state of the country that was won by the opposition political coalition *Pakatan Rakyat* in 2008. The water systems there had been gradually privatised from 1997 by the former governments. First, the profitable parts of the system (water treatment plants) were handed out to a local private company called *Puncak Niaga*, which got a lucrative concession contract to supply water to the then-public distribution company. Second, two Build-Operate-Transfer contracts were awarded for new water treatment plants, bringing three private companies on board to operate water treatment facilities in Selangor. Then, the entire distribution and billing system was corporatised and eventually privatised by the company *Syabas*, in which Puncak Niaga bought a 70% stake (the state keeping the other 30%).

In late 2008, discussions started between the opposition-led state of Selangor and the four companies to negotiate the conditions of an asset buy-back. Two companies accepted the state offer, but not Puncak Niaga nor its subsidiary. SPAN and PAAB got involved in the discussion, but very quickly the discussion turned into a bitter political fight between the Selangor state on the one hand, and PAAB/SPAN and the water corporations on the other, Selangor reproaching PAAB for valuing assets in favour of Puncak Niaga. It also accused PAAB of ideological preference toward the private sector. But some critics say the reason was political: Puncak Niaga's CEO, Tan Sri Rozali Ismail, who belongs to UMNO (the party in power at the federal level and therefore with influence over PAAB's decisions) has been the treasurer of its local Selangor section²¹ and a likely substantial financial contributor to the party.²² Meanwhile, the state refused a 37% tariff increase to Syabas, increasing these companies' debts to the extent that, in late March 2011, Syabas and Puncak Niaga's corporate bonds were downgraded by rating agencies, prompting a government intervention in June 2011 through PAAB buying these bonds and saving the companies.²³

model was theoretically set up to “bridge the gap between long term sustainability and immediate need of funds.”²⁶ One interviewee suggested that this change of interest rates policy occurred in parallel with the change of prime minister in April 2009 (Najib Razak was finance minister under former prime minister Anwar Ibrahim), suggesting a new set of political priorities, but this allegation could not be corroborated by other sources.

This complicated relationship with politics can be seen in another domain of PAAB's activities. PAAB is run by executives trained in investment banking and has a limited

staff of about 80 persons, of which only 10% have engineering or other technical backgrounds. As a result, all of its infrastructure investments are done through public tenders. PAAB executives say that they have rigorous internal governance schemes that prevent privileged access and external influence, but as we have seen in the Selangor case (see Box 3) PAAB was not insulated from government pressures when contracting out services. That PAAB is a “wholly owned company under the Ministry of Finance Incorporated”²⁷ and that Malaysia has such a long track record of biased tenders (Malaysia is one of the few countries in the world where political parties own private corporations) does not serve to reassure anyone.

A last potentially serious problem lies in the division of responsibilities between PAAB and the operators for infrastructure works. Various interviewees explained that PAAB was supposed to only take on large infrastructure projects while the operators would remain in charge of the small expansion and maintenance works. However, the threshold between minor and major works is now RM1 million²⁸ (roughly US\$330,000), with a cap at RM10 million a year per operator. The consequence is that most infrastructure works will get outsourced by PAAB, which creates excellent business opportunities for private construction and engineering companies as well as consultancies but raises many questions: how will the high priority works be identified when all 11 states have to go through PAAB to secure investments? How will the works' timing be respected? To what extent is it more efficient to coordinate tenders from the capital city instead of letting local operators organise these in-house? There are no simple answers to these questions but one can already sense the risk of reproducing at the national level what the reforms intended to avoid at the local level: a heavy, technocratic, poorly accountable and inefficient institutional setup managing water assets.

For certain well-performing operators such as PBAPP (*Pulau Pinang*), the reform is counter-productive in the sense that it might increase its financing costs, will delay the implementation of large infrastructure works and considerably reduce its current managerial autonomy – PBAPP eventually signed a deal with PAAB in June 2011. The fact that the reform uniformly applies to all operators no matter their operational performance appears as one of its clear limitations. Despite SPAN's CEO statement that “there is also no one size fits all solution,” the ‘perfect model’ syndrome seems to have struck once again in Malaysia.

Conclusion

The 2006 water sector reform in Malaysia was a bold attempt at defining a new, consistent model for the country's water sector, departing from the old privatisation-through-

concession model. It garnered considerable political attention and put water issues high on the political agenda. It is costlier than the previous system, which benefited from subsidisation of the water infrastructure through central government interest-free loans, but this is meant to be compensated by an institutional framework designed to deliver tighter controls on the way public money is used and to create a performance incentive stemming from competitive pressure to comply with a set of key performance indicators. The level of profit that operators can extract from the assets being leased to them is also meant to be closely regulated. This new framework aims to harmonise water systems throughout the country, potentially reducing discrepancies between rich and poor states and guaranteeing the application of a number of performance indicators and standards.

Central to these reforms have been 'tariff de-politicisation' and 'full cost recovery'. The most immediate consequences have been moving tariff setting decision making from the local political level to a national technocratic level, from an arena where public debate and disagreement are the norm to one where consensus building is necessary, and from the criticism of opposition parties to the cooperation of consumers and NGOs. This is crucial and may have been the main motivation for the reform given the numerous complaints by private operators about state governments refusing to set water tariffs at profitable levels. The full cost recovery discourse, for its part, is a narrow attempt at insulating the water services industry from institutional politics and one sees this ideological trail throughout the reforms. The technocratic assumption is that a carefully defined governance framework can solve all the challenges of the water sector without the messy politics of debate.

Although it is too early to assess fully the outcomes of these reforms, results thus far are mixed. On the positive side, there is broader commitment to a public-led national water services strategy, a mechanism to systematically forward users' complaints to the regulator has been set up and it appears that service coverage and technical reliability are to improve in the short and medium term due to new public capital investments. Nevertheless, cracks are beginning to show. The exclusion of water resource management issues beyond the confines of service delivery are particularly dangerous due to the larger environmental impacts of water systems, and it appears that managers will not integrate this broader dimension into their performance indicators. Moreover, chances are that corporatised water operators will try to increase their profits excessively by degrading working conditions and limiting regulatory compliance to the minimum, as typically happens in public-private partnerships.

Even more problematic is the illusory attempt at de-politicising water management: PAAB's changes in political priorities, as well as its political ties, show that the water

sector is still influenced by politics but that these politics are no longer institutional and therefore no longer regulated by a system of checks and balances of publicly expressed interests and ideas. This places Malaysia's newly centralised 'public' water sector at the mercy of interests that would be powerful enough to influence PAAB's and SPAN's decision making, and shows that, ironically, this public intervention to solve Malaysia's feared water crisis might have weakened the country's ability to respond to it in the long run by widening the gap between open public discussion and policy making.

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