Open tender should be the way forward

Sale of Edra’s assets shows that competitive bidding is important

In the past, when approvals to build power plants were awarded directly to individuals and companies without any competitive tender, it was the single most valuable piece of document.

There was an instance when a private company was able to monetise some RM1.6bn from the sale of an independent power producer licence and the company with the mandate to handle the operations and maintenance of the power plant.

Toll roads are the mainstay of the UEM Group. The North-South Highway, which it jointly owns with the Employees Provident Fund, is a major source of revenue for the group as a whole.

At the height of the financial crisis of 1998, Tenmaek Holdings Pte Ltd had expressed interest to acquire a minority stake in the North-South Highway from the Bumino Group.

The proceeds would have helped the cash-strapped Bumino Group. However, the Government rejected the proposal. Today, it may not be the case.

Regulated industries could be opened, but it should be accompanied by other conditions that should be strictly adhered to before this happens. This is particularly to avoid rent-seeking and concessionaires raking in excessive returns.

Firstly, the concessions should be given to companies that offer the best deal on the table. If it is a power plant, then it should be to the proposal with the lowest electricity tariff. If it is highway concessions, then it should be to the company that offers the lowest toll rates or seeks the lowest Government assistance to build the highway.

There should not be any direct awards. It only allows for rent-seeking, especially by the well-connected. Competitive tenders must be the only way of awarding concessions.

In the case of power plants, the reform efforts that started in 2011 have fizzled out.

The past three power plant awards were not on a competitive tender basis. They included one of the power plants in Edra’s stable.

As for highways, it is even worse — not a single award has been on a competitive basis.

The other component is that the returns to the concessionaires should be regulated. It should not allow too much of a return because the risk reduces significantly when the asset is in operations.

When the asset is in operations and cash flows start coming in, the financing risk reduces. Owners of concessions stand to make extra returns from refinancing the asset. It has to be capped.

The ground rules have to be put in place before liberalisation happens.