



PPP IN MALAYSIA: DOES IT PROVIDE A FAIR INTEREST?

By

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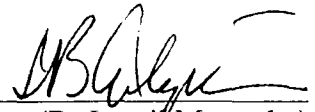
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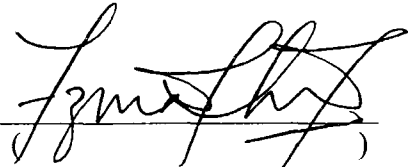
APPROVAL PAGE

I certify that I have supervised and read this Project Paper and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a Project Paper for the degree of Master of Business Administration.



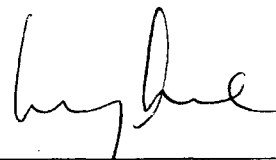
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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Signature:  Date: 22 / 10 / 2010

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DEDICATION

I dedicate this Project Paper to my parents, Mr Jaffar bin Sudin and Mrs Rossinah binti Husin and also to Allahyarham Prof. Dr. Yusof whom deliberately delivered his knowledge to me as well as to other MBA students' in International Islamic University Malaysia.

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ABSTRACT

PPP or PFI system is currently widely practice by the Government in delivering public projects for the purpose of public use. This study would determine whether the Malaysian model is based on the United Kingdom Privatisation model or the PPP/PFI model. Besides that, I will examine the features of Malaysia's Privatisation programme with PPP/PFI system and focusing on how the system gives direct impact to all the parties. This study will try to discover whether Malaysia applies Privatisation or PPP system in projects implemented by government. In addition, the study examines the difference and benefits of the various public-private sector programmes that were previously and currently adopted in Malaysia. This study also will analyse whether the implementation of PPP projects in Malaysia is a win-win policy in all three parties; public services, private sector and the society at large. As a conclusion, the study hopes to find out whether the PPP/PFI model has been successful by looking at the Key Performance Indicator (KPI) as a performance measurement systems, and if so, to identify the challenges and obstacles that has affected the performance of the model.

CHAPTER ONE

INTRODUCTION

1.1 Background

In Malaysia, the term Private Public Partnership (PPP) or Private Finance Initiative (PFI) is generally not well understood by common citizen, even among people with authority such as government servants; not many of them understand its significance. PPP or PFI is a programme in which public and private sectors join together to design, build or refurbish, finance and operate (DBFO) new or improved facilities and services for public use. The crucial objectives of PPP or PFI system are to transfer risk including cost, capital and etc. from public sector to private sector in efficient way (Darrin Grimsey and Mervyn K.Lewis, 2000). Besides that, it has meant that more capital projects have been undertaken for a given level of public expenditure and public service capital projects by the private sector. Finally, it emphasizes value for money (VFM) in contrast to conventional system of procurement.

A PPP or PFI is basically understood as an arrangement between the private and the public sectors to deliver cost-effective and quality services to the public over an extended period of time (PPP Guidelines, 2009). It is focused on government

services instead of how much asset made by the Government. This arrangement looks at introducing private management into public service by means of a long-term contractual bond between operator and the public authority. They call on private know-how and private funding to secure all or part of the public services. On the other hand, "privatization" usually refers to the transferring of a public service or facility to the private sector. This indicates that PPP or PFI is not privatisation effort which PPP or PFI does not share the same attributes with Privatisation system.

A PPP or PFI is an umbrella term for Government schemes involving the private business sector in public sector projects. It has been described as the provision of public assets and services through the participation of the government, private sector and consumers. In reality, there is no exact meaning for PPP. It has different interpretations depending on which country is practicing it. The basic term can mean a variety of transactions where the private sector is given the right to operate, for an extended period, a service traditionally the responsibility of the public sector alone, ranging from relatively short term management contract (with little or no capital expenditure), to concession contracts (which may encompass the design and build of substantial capital assets along with the provision of a range of services), to the financing of the entire construction and operation, and to joint venture where there is a sharing of ownership between the public and private sectors (Grimsey and Lewis, 2005).

1.2 Objectives of the Study

Currently, there are only a few appraisals or reviews being done on projects associated with the PPP programme in Malaysia undertaken by the private and public sectors. In contrast, there are many studies and findings about PPP in Great Britain and Australia. Out of the few reports or research done in Malaysia on PPP, the most notable ones were those by Senator Prof Dato' Dr Ismail Salleh and Tun Dr Mahathir Mohamed in 1983.

Hence, below are two objectives that this research paper would like to investigate:

- To determine whether Malaysia adopted the PPP or privatization? Either the two systems are similar or have major differences in implementing the PPP projects.
- To discover the issues that by implementing PPP project will only benefit one party instead of both parties i.e. government and private sector.

Based on the articles and journal reviews on the partnership system that has been used in Malaysia, most of the system in Malaysia adopted privatization system instead of the PPP system. However, many claim that Malaysia is adopting Great Britain PPP system (Jomo K.S and Tan Wooi Syn, 2009). As a result, this research

paper will discover either PPP system does not share the same attributes as Privatisation system that is adopted by Malaysian government.

Basic understanding of PPP is the infrastructure that is built for the public member interest. For example, government will build public hospitals to all levels of society for their utilisation if there is high demand by the public. On top of that, the profit will be divided fairly upon the agreement between the two parties. Many cases that occurred in Malaysia relate with the instability and low quality of the public infrastructure that was rendered to the public. It might harm the public instead of providing interest to the public. Key Performance Indicator (KPI) is important to ensure that the services and material used is preserved and it is meant for long term purposes. KPI is the basic tool in measuring the performance of each employee in an organization. In the case of PPP, the government might use the KPI to measure the performance and quality of the services rendered in agreed time constraint of the stipulated project.

1.3 Significance

This study will examine and analyze how far PPP has created an impact on society with regards to advantages and benefits gained by both public and private sector practitioners. There are not enough findings associated with PPP in Malaysia,

and this study is therefore an attempt to discover and unveil more detailed aspects of PPP. Great Britain, The United States and Australia are widely recognized as leaders among the developed countries in the practice of PPP system. With this study, it is hoped that it would expose Malaysia as a pioneer in PPP among the developing countries.

The purpose of this study is to thoroughly present the existing evidence and facts about PPP in specific projects where it can endure in the long term. For instance, every public infrastructure is built for long term purposes, for example highways, public hospital, prison and etc. Basically, the study approach consists of five segments. Firstly, the study will look at the process taken by practitioners in realizing the projects and determine whether the approaches taken are really suitable in the Malaysian environment. Secondly, we will look at the accusations regarding the inequitable division of wealth between private and public sectors based on value of the contract awards for implementation of certain projects. Thirdly, in response to the lack of evidence that relate PPP with KPI's, this study will attempt to suggest suitable KPI's to evaluate the performances at both the company and overall project levels. Fourthly, to analyze the existing evidence of VFM and other PPP performance measures based on the publicly available projects. Finally, the study would make recommendations that can ensure PPP to survive in Malaysia and can become the lead or role model for developing countries.

1.4 Limitations of the Study

This research study may touch sensitive issues related to the disclosure of the policies and procedures of the government, private sector, Privatisation Company and bankers. This will lead to the bias information that will be delivered by each of the candidates selected for the interview. Most of the candidates may not be knowledgeable in everything about the PPP/PFI systems and projects that are currently being practice in Malaysia. Perhaps, the candidates might encounter the different terms that are being used by the parties.

The candidates or interviewees tend to procrastinate on the interview slot that has been agreed. Therefore, the delay of completion of this project paper has occurred. Besides that, the candidates might not give full cooperation for the interview session and may deliver inaccurate information. This is due to the candidates being non-expert in the PPP/PFI system.

Apart from that, there are lacks of previous research regarding on the PPP/PFI study in Malaysia. PPP/PFI system is very new in Malaysia and it is difficult to search for the previous cases related with the Malaysian issues. Most of the previous cases of PPP/PFI are related to issues relevant to other countries. It is difficult to deduce the results since there are many obstacles and differences according to each country's culture, environment and political issues.

1.5 Organization of the Project Paper

The project paper is organised into five chapters. This introductory chapter provides a brief discussion on the background to the study, an outline of the objectives of the study, a significant issue of the study and the limitation of the study throughout the completion of the research and a guide to the remaining chapters of the thesis.

Chapter 2 presents the case study in Malaysia and throughout the world related with PPP/PFI studies. In this chapter, the paper unveils the starting point of the PPP and Privatisation in Malaysia. Moreover, the study discovers the rules and procedures that are practiced by the Malaysian authorities in organizing and monitoring the smoothness of the projects that are adopted. On the other hand, this chapter also discovers the failures and measure to improve the Privatisation system and what is the performance measurement that is taken by the Government for PPP projects which is being implemented in Malaysia.

Chapter 3 outlines the research methodology that is adapted throughout the study for the research paper. This chapter describes the research methods used; the review of secondary data and the interview session with selected candidates from different backgrounds and justifies the choice of each method. Information on the procedures followed, the techniques adopted to achieve maximum response rate and to analyse the data are also presented.

Chapter 4 presents the data analysis and findings achieved from the research interviewed. This chapter discusses on the background of the PPP and Privatisation projects and system which are experienced by the candidates. Apart from that, it also discusses on the division of the interest, impact of the PPP and Privatisation system in Malaysia and the rate of success of these projects in future based on the individual views and experience.

Finally, in chapter 5, is the conclusion and discussion of the recommendations that can be drawn from the study, acknowledges its limitations and identifies areas for future study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, this project paper is trying to seek the consensus of the system and procedure that has been practised since 1983 in Malaysia following the privatisation system. The significance of introducing the PPP system in the country parallel with the growth of the Malaysian economic and improving the standard quality rendered to public users. It is also aiming to improve the greater relationship between the public and private sector for the country's economy by promoting initiatives for delivering better service and infrastructure for the interest of public users. These private initiatives have taken many forms such as outright privatization of previously state-owned industries, contracting out of services to private firms, agencification and the use of private finance in the provision of social infrastructure. Rhodes (1995: 138) had used the term 'hollowing out of the state' to describe this new public management reform phenomenon.

This chapter begins by outlining the traditional guidelines and procedures that is being practiced by a few countries related with the PPP/PFI system especially in Great Britain, The United States and Australia. Then, it is followed by the concept and reasoning that caused the reformation of the system based on the Malaysian perspective. Subsequently, this chapter will discuss the measures taken to improve privatisation and the criticisms that have been an issue on the systems unsuccessfulness in Malaysia. In addition, this chapter will also seek the measures to improve privatisation and PPP system that are currently adopted to provide better interest and quality services to the society. Continually, this chapter also will discover what initiatives are taken by the Malaysian government in promoting and improving the PPP/PFI system in Malaysia in giving better services and quality in building public infrastructure. Besides that, this chapter will find out what is the performance measurement of PPP in organizing and performing the PPP projects. Finally, this chapter will evaluate the success of implementing PPP/PFI system in Malaysia, by involvement of private and public sector to improve the government services and infrastructure consequently it can to be used by the society.

2.2 PPP Guidelines and Procedures

2.2.1 What is PPP/PFI?

A Public Private Partnership (PPP) or Private Finance Initiative (PFI) is basically understood as an arrangement between the private and the public sectors to deliver cost-effective and quality services to the public over an extended period of time (PPP Guidelines, 2009). Simply, the focus is on government services, and not assets. This arrangement looks at introducing private management into public service by means of a long-term contractual bond between operator and the public authority. It calls on private know-how and private funding to secure all or part of the public services.

A PPP or PFI is an umbrella term for Government schemes involving the private business sector in public sector projects. It has been described as the provision of public assets and services through the participation of the government, private sector and consumers. In reality, there is no exact meaning for PPP. It has different interpretations depending on which country is practicing it. The basic term can mean a variety of transactions where the private sector is given the right to operate, for an extended period, a service traditionally the responsibility of the public sector alone, ranging from relatively short term management contract (with little or no capital expenditure), to concession contracts (which may encompass the design and build of substantial capital assets along with the provision of a range of services), to the

financing of the entire construction and operation, and to joint ventures where there is a sharing of ownership between the public and private sectors.

2.2.2 PPP in Infrastructure Development

The United Kingdom has been the pioneer in PPP starting since the 1980s. Despite assigning and equally distributing the projects and profits to the public and private interests, the main focus is to provide facilities and added value for the public infrastructure. The infrastructure is usually for public purposes, such as; schools, highways, airports, social housing, hospital facilities, etc. In addition, ‘ancillary services’ are often included in PPP projects, for example, encompassing accommodation services arising out of the infrastructure and building-related services such as maintenance and some support services (Grimsey and Lewis, 2002).

The United Kingdom government, for example, is committed to maximizing the level of infrastructure spending through responsible use of the resources of both the public and private sectors (Grimsey and Lewis, 2002). The choice of projects (from the UK perspective basis) is made based on the assessment of the need of the projects. The testing against scrupulous public interest will affect the inspection of potential impact upon privacy, security, consumer rights, public access and equity (Efraim Sadka, 2006). The term ‘infrastructure’ can extend beyond physical assets to encompass major information technology procurements. It could also include other activities such as the provision of basic services to industry and households, and providing key inputs into the economy and growth. Therefore, based on Grimsey and

Lewis, (2002) some of the activities that are considered investment infrastructure are as follows:

- Energy (power generation and supply)
- Transport (toll roads, light rail systems, bridges and tunnel)
- Water (sewerage, waste water treatment and water supply)
- Telecommunications (telephones)
- Social infrastructure (hospitals, prisons, courts, museums, schools and government accommodation).

In essence, these investment infrastructures have the following common characteristics:

- Duration (infrastructure is long-lived, and has a long gestation process)
- Illiquid (the lumpiness and indivisibility of infrastructure projects makes for a limited secondary market)
- Capital intensive (projects are large scale and highly geared)
- Valuation (projects are difficult to value because of taxation and pricing rules and embedded options and guarantees)

Based on the basic infrastructure guidelines given above, most of the projects involved are complex projects that must provide long-term benefits to the public and the government as a whole. There are also a few features that have to be addressed, such as the existence of:

- Network services, providing integrative activities which bind economic activity together
- Public goods, from which it is difficult and perhaps not desirable to exclude non-payers (the non-excludability principle)
- Externalities, whereby benefits and costs are conferred upon those not a party to the transaction
- Natural monopolies, for which scale economies make it efficient to have only one provider (for example of an electricity grid)

The basic understanding of the private provision of infrastructure has been manifested by the change in mindset, for example, a move from 'taxpayer pays' to 'user pays'. The infrastructure projects are basically intended for long term purposes for the use of public interests. On top of that, most of the ventures in PPP are mainly natural monopolies. For instance electricity generation, telecommunications, and highway operation and maintenance where most of these projects are been monopolized by specific company. In some developed countries, industries which are clearly a natural monopoly, substitution of price-cap regulation for rate-of-return regulation has created vigorous incentives to reduce costs, and third party access to certain facilities has widened competition in the upstream and downstream markets

served by the facilities. This means that the projects have been set up at the maximum prices rather than marked up over the costs of the projects thus creating economic and dynamic efficiency.

2.2.3 PPP Provision

In Malaysia, the PPP arrangement has created confusion when it comes to categorizing which infrastructure is “financing” and which is “investment” type. PPP arrangement actually allows the public sector to consider implementing otherwise unaffordable projects (Grimsey and Lewis, 2002). In this respect, PPP reduces the infrastructure gap between what the government can afford and what the citizens need. For example, PPP can involve long term contracts with private sector entities for the construction and management on behalf of public sector entities for providing the infrastructure to the people. There will be a few forms and features to transfer the projects from public to private sectors (Grimsey and Lewis, 2002):

- The public sector entity transfers facilities to the private sector entity (with or without payment in return)
- The private sector entity build, extends or renovates a facility
- The public sector entity specifies the operating features of the facilities