



**BENCHMARKING THE IMPLEMENTATION OF
PRIVATE FINANCE INITIATIVE (PFI) IN MALAYSIA**

BY

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**A thesis submitted in fulfilment of the requirement
for the degree of Master of Science
(Built Environment)**

**Kulliyyah of Architecture and Environmental Design
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ABSTRACT

Private Finance Initiative (PFI) is a partnership between the public sector and the private sector that takes advantage of private resources and expertise particularly in the provisioning of public infrastructure and services projects. In Malaysia, PFI was formally introduced under the Ninth Malaysia Plan (2006-2010) as an alternative procurement method and by 2010; the practice was reformed under the new wave of Public Private Partnership (PPP). Current practice has developed distinctive features however whether the Malaysian PFI is in line with the global implementation of PFI is unknown as studies relating to it are scarce. This is evident as the practice of PFI in Malaysia is still considered in the early development stage compared to other PFI implementing countries. This dissertation therefore brings attention towards the implementation of PFI in Malaysia through the process of benchmarking whereby the Malaysian PFI features is compared against an appropriate standard of measurement comprising eight benchmarked PFI features such as responsibility of the parties involved, right of asset ownership, output specification, legal and regulatory framework, Value for Money (VFM), payment due to the private sector, Special Purpose Vehicle (SPV) and risk allocation. Methods used for collecting data include literature review, content analysis and questionnaire survey. The survey was conducted in order to collect responses on the comparison of PFI features from the perspective of the public sector as well as the private sector. Findings indicated that the Malaysian practice of PFI is considered to be similar to the benchmark.

ملخص البحث

مبادرة التمويل الخاص (PFI) هي شراكة بين القطاع العام والقطاع الخاص التي تستفيد من موارد خاصة وخبرة خاصة في توفير مشاريع البنية التحتية والخدمات العامة. وقد تم تقديم هذا المشروع في ماليزيا رسميا تحت إطار خطة ماليزيا التاسعة (2006-2010م) باعتبارها طريقة الشراء البديلة وبحلول عام 2010م تم إصلاح هذه الممارسة عند موجة جديدة من الشراكة بين القطاعين العام والخاص. وقد طورت الممارسة الحالية السمات المميزة غير أنه لم يعرف مدى تماشي المبادرة الماليزية مع التنفيذ العالمي لحماية المصالح المالية وذلك لقلّة الدراسات المتعلقة بها. وهذا دليل على أن ممارسة هذه المبادرة في ماليزيا لم تنزل في مرحلة النمو المبكر مقارنة بالبلدان الأخرى التي تمارس هذه المبادرة. وهذه الورقة تلفت الانتباه نحو تنفيذ مبادرة التمويل الخاص في ماليزيا من خلال عملية القياس حيث تتم مقارنة ميزات مبادرة التمويل الخاص الماليزية بناء على معيار مناسب للقياس، ويتألف القياس على ثمان ميزات المبادرة، وهي: مسؤولية الأطراف المعنية، والحق في ملكية الأصول، ومواصفات الإنتاج، والإطار القانوني والإطار التنظيمي، والقيمة المقابلة للمال (VFM)، والدفع المحدد إلى القطاع الخاص، والوسيلة لأغراض خاصة (SPV)، وتوزيع المخاطر. وتشمل الطرق المستخدمة لجمع البيانات مراجعة الدراسات السابقة، وتحليل المحتوى، والاستبيان. وقد أجري الاستبيان من أجل الحصول على الاستجابة نحو مقارنة ميزات هذه المبادرة من وجهة نظر القطاع العام وكذلك القطاع الخاص. وأشارت النتائج إلى أن الممارسة الماليزية للمبادرة تعد موافقة للمعايير.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science (Built Environment).

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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATIONS

3PU	Public Private Partnership Unit, Ministry of Finance Malaysia
ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
BLT	Build-Lease-Transfer
BOLT	Build-Operate-Lease-Transfer
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
BOT	Build-Operate-Transfer
BT	Build-Transfer
BTO	Build-Transfer-Operate
CAPEX	Capital Expenditure
CBI	Confederation of British Industry
DB	Design-Build
DBM	Design-Build-Maintain
DBO	Design-Build-Operate
DBOM	Design-Build-Operate-Maintain
EOI	Expressions of Interest
EPF	Employee Provident Fund
EPU	Economic Planning Unit
ERIA	Economic Research Institute for ASEAN and East Asia
FLC	Federal Land Commissioner
FM	Facilities Management
IISD	International Institute for Sustainable Development
IUM	International Islamic University Malaysia
ITPD	Invitation to Participate in Dialogue
IIGF	Indonesia Infrastructure Guarantee Fund
JETRO	Japan's External Trade Organization
JKAS	Jawatankuasa Kerjasama Awam Swasta
JKK	Jawatankuasa Kecil Kewangan
JKT	Jawatankuasa Kecil Teknikal
JKR	Jabatan Kerja Raya
JPP	Jawatankuasa Pemandu Projek
KKR	Kementerian Kerja Raya Malaysia
KPI	Key Performance Indicator
KICGF	Korea Infrastructure Credit Guarantee Fund
LLM	Lembaga Lebuhraya Malaysia
MIFC	Malaysia's International Islamic Financial Centre
NAO	National Audit Office
NESBD	National Economic and Social Development Board
OJEU	Official Journal of the European Union
PFI	Private Finance Initiative
PF2	Private Finance 2
PPP	Public Private Partnership
PIN	Prior Information Notice
PTF	Pension Trust Fund
PQQ	Pre-Qualifying Questionnaire

PSC	Public Sector Comparator
RICS	Royal Institution of Chartered Surveyors
UKAS	Unit Kerjasama Awam Swasta
UK	United Kingdom
SPC	Special Purpose Company
SPV	Special Purpose Vehicle
SIGMA	Support for Improvement in Governance and Management
UNECE	United Nations Economic Commission for Europe
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UiTM	Universiti Teknologi MARA
VFM	Value for Money
WLCC	Whole Life Cycle Costing

CHAPTER 1

INTRODUCTION TO THE RESEARCH

1.1 BACKGROUND OF THE STUDY

Public Private Partnership (PPP) is the term used commonly to describe public projects involving a partnership between the public sector i.e. the government and the private sector. Meanwhile, PFI is the term used for the partnership that takes advantage of private resources and expertise particularly in the provision of public infrastructure and services (ACCA, 2012; HM Treasury, 2011; Serco, 2011; UNISON, 2011; Khairuddin Abdul Rashid, 2009; Syuhaida Ismail & Aminah Md. Yusof, 2009 and Roshana Takim et al., 2009). Confusion regarding the terms; PFI and PPP may arise as Royal Institution of Chartered Surveyors (RICS) in their 2011's publication on the future of PFI and PPP reported that both terms have become synonymous in countries where projects are implemented solely based on PFI whilst those with more developed practice, apply PPP which encompassed various business structures and partnership arrangements including PFI, joint ventures and outsourcing for public services and infrastructures projects (RICS, 2011). Cartlidge (2006) nevertheless emphasised that the terms are applied to suit individual implementation based on different governments' interpretation. PFI and PPP are thus applied in this research according to the Malaysian government whom interpreted PFI as a subset of PPP (UKAS, 2009).

In Malaysia, PFI was formally introduced under the Ninth Malaysia Plan (2006-2010). The practice of PFI was later reformed in 2010 through the new wave of PPP whereby privatisation and PFI projects are incorporated under a comprehensive

framework of PPP implementation (Economic Research Institute for ASEAN and East Asia [ERIA], 2012). Subsequently, a dedicated government agency known as Unit Kerjasama Awam Swasta (UKAS) was established to govern the Malaysian PFI project implementation. The following is the definition of the current implementation of PFI in Malaysia as provided in the PPP guideline published by UKAS (2009);

PPP involves the transfer to the private sector the responsibility to finance and manage a package of capital investment and services including the construction, management, maintenance, refurbishment and replacement of public sector assets such as buildings, infrastructure, equipment and other facilities, which creates a standalone business. In these PPP projects, there is a contract for the private party to deliver public infrastructure based services over a long period of time. The private party will raise its own funds to finance the whole or part of the assets that will deliver the services based on agreed performances. The public sector, in turn, will compensate the private party for these services. In some PPP projects, part of the payments may flow from the public users directly.

Although the Malaysian PFI has been formally implemented since 2006, whether the practice is in line with the global implementation of PFI is unknown. One way of knowing is through benchmarking the implementation of PFI in Malaysia. The overall process of benchmarking in this research involves developing an appropriate standard of measurement to compare against the Malaysian PFI in order to know where the practice of PFI in Malaysia is good and where the practice of PFI in Malaysia is not so good.

1.2 STATEMENT OF PROBLEM

According to Roshana Takim, Kharizam Ismail, Abdul Hadi Nawawi & Aini Jaafar (2009) and UKAS (2009), the current practice of PFI in Malaysia has developed several key features that are distinctive to the country's own implementation of PFI. Among them; asset ownership at the end of the concession period and the allocation of risks to project parties are looked at. Nonetheless, studies that can help in determining whether the Malaysian practice is in line with the global implementation of PFI remains scarce as the Malaysian PFI is considered still in the early development stage (Nurshuhada Zainon, Lou, Mohd Suhaimi Mohd Danuri & Faizul A. Rahim, 2013 and Khairuddin Abdul Rashid, 2009). Studies done on the Malaysian practice of PFI also showed that relevant understanding and skills among key players in Malaysia are lacking (Nurshuhada Zainon et al., 2013; Roshana Takim, Abdul Rahman, Kharizam Ismail & Egbu, 2008 and Nursyazwani Mohd Sofi, 2008).

Previous studies of benchmarking by Deloitte (2008), Duffield (2008), HM Treasury (2007) and Kaiser Associates (2005) nonetheless demonstrated that PFI practices can be compared against a standard of measurement in order to improve future implementation. Furthermore, the previous studies provided insights on how PFI implementation is being practiced in different countries such as Australia, South Africa and the United Kingdom (UK). Such studies prompted this research to benchmark the implementation of PFI in Malaysia as the outcome provide better understanding of the Malaysian PFI through a comparison of PFI features in Malaysia and the developed benchmark in this research.

1.3 AIM AND OBJECTIVES OF THE RESEARCH

This research aims to benchmark the practice of PFI in Malaysia vis-a-vis as practiced by others internationally. In order to achieve the research's aim, several sub-aims or objectives have been set forth. The following are the objectives together with their respective research questions.

Objective 1: To identify and describe the features of PFI in Malaysia.

Research question: What are the features of PFI in Malaysia?

Objective 2: To develop an appropriate benchmark for the purpose of assessing the Malaysian practice of PFI.

Research question: What is an appropriate benchmark developed for?

Objective 3: To assess the practice of PFI in Malaysia against the developed benchmark.

Research question: How is the practice of PFI being implemented in Malaysia?

Objective 4: To make recommendations for improving the practice of the Malaysian PFI where appropriate.

Research question: What are the recommendations for improving the practice of the Malaysian PFI?

1.4 SIGNIFICANCE OF THE RESEARCH

This research is significant towards filling in the gap of knowledge regarding the implementation of PFI in Malaysia. Roshana Takim et al. (2008) pointed out that the presences of such gaps were caused by the scarcity of relevant information or guidelines accessible to the public at large. Moreover, benchmarking is included in this research and outcomes from the overall process served two-folds. First, the

Malaysian practice of PFI can be compared against an appropriate PFI related standard of measurement and second, recommendations towards PFI development in Malaysia can be strategized. According to Deloitte (2013), RICS (2011) and Cartledge (2006), PFI is adapted by different governments to suit individual implementation which resulted in the absence of a standard of measurement otherwise known as a benchmark. Therefore, an appropriate benchmark is developed in this research in order to provide a universally accepted basis for the benchmarking process to take place. The developed benchmark also ensure that improvement strategies for future implementation of the Malaysian PFI are made possible based on practice differences between the practice of PFI in Malaysia and the benchmarked practice of PFI.

1.5 SCOPE OF THE RESEARCH

This research is focused on the implementation of PFI in Malaysia since 2006 until the current practice under the new wave of PPP. The Malaysian PFI however is an extension of previous privatisation programmes embarked by the Malaysian government and therefore relevant data pertaining to the practice before its formal introduction under the Ninth Malaysia Plan (2006-2010) are included. Furthermore, the practice covers project implementation from the conceptual phase until the completion of physical construction and service provisioning. Special attention is given towards the development of PFI features that are distinctive to Malaysia's own implementation.

1.6 OUTLINE METHODOLOGY OF THE RESEARCH

The methods used for data collection in this research are as follows;

1.6.1 Literature review

Literature review in this research was divided into three parts to ensure a better conceptual understanding of PFI. The first part presented a global overview of PFI with specific reference to the practice in the UK, Japan and Thailand. Whilst, the second part elaborated on the Malaysian PFI and the third part was dedicated towards understanding the process of benchmarking. Essentially, the method was used to collect secondary data in order to achieve the first research objective.

1.6.2 Content analysis

The purpose of content analysis in this research was to achieve the second research objective. The method involved secondary data collection published by international institutions which are recognized for their PFI related contribution.

1.6.3 Questionnaire survey

In order to achieve the third research objective, a questionnaire survey was used in this research for primary data collection. The method involved empirical responses from individuals possessing experience or skills related to PFI implementation in Malaysia.

1.6.4 Analysis of data

Primary data collected from the questionnaire survey was analysed in order to achieve the fourth research objective. Outcome of the method or information was then compiled in a descriptive report presentation for clearer understanding.

1.7 STRUCTURE OF THE DISSERTATION

There are a total of seven chapters in this research. Figure 1.1 illustrates the relationship between each chapter.

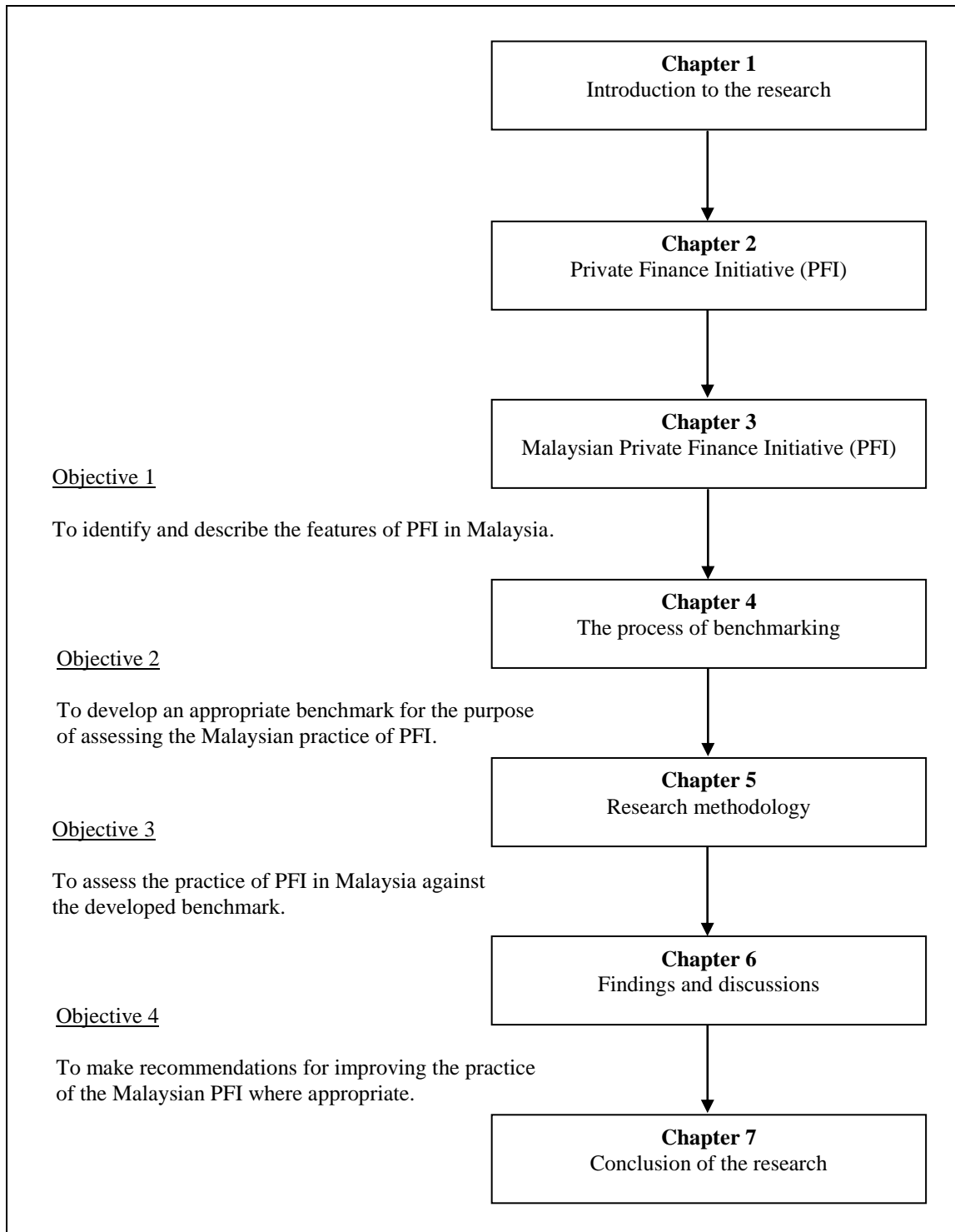


Figure 1.1 Flowchart of relationship between chapters

1.8.1 Chapter 1

The first chapter serves as an introduction to the research's main content by providing the research rationale, aim, methodology as well as the dissertation structure.