Public–private partnership and its significance for Malaysia

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Introduction
This article provides a review on the implementation of public–private partnerships (PPPs) and assesses their significance to Malaysia. It starts with a brief review on the economic structural transformations that occurred since Malaysia achieved independence in 1957. The discussions move on to the rationale for Malaysia’s adoption of PPP, its modalities, governance and brief analyses of current status and progress of PPP project implementation. The chapter then presents a brief assessment of the significance of PPP to Malaysia followed by identification of issues and problems that require urgent attention and strategies. The article concludes with a contention that PPP is set to stay in Malaysia.

Governance for PPP
Shortly after the launch of the Privatisation Policy in 1983, the government set up a special team, the Privatisation Special Task Force, in the Economic Planning Unit (EPU) of the Prime Minister’s Department to co-ordinate the implementation of the policy. Subsequently, in 1991 the special task force was renamed the Privatisation Section of the EPU. When the government introduced and implemented PFI in 2006, it saw the need for a dedicated agency to plan and implement PPP. Consequently, the Privatisation Section of the EPU was transferred into a newly formed agency known as the Unit Kerjasama Awam Swasta (UKAS) of the Prime Minister’s Department. UKAS was formed on 22 April 2009. The main functions of UKAS are to act as secretariat to PPP Committee in terms of processing and evaluating PPP projects and to propose potential projects to the government for final decision, negotiate the terms and conditions of PPP agreements, supervise the Facilitation Fund and act as secretariat for the government in implementing PPP projects.

The implementation of privatisation, and later of public–private partnerships, requires amendments to laws such as the Employment Act 1995 (Revised 1981) and the Pensions Act 1980. In addition, new legislation was enacted and regulatory bodies established to allow privatisation and public–private partnerships to take place, and to provide the requisite implementation and regulatory frameworks (Khairuddin, 2012). Further efforts to enhance the implementation of public–private partnerships include modernising business regulations, further liberalising the services sector, removing subsidies in an effort to address market distortions, introducing competitive legislation and improving the interface between government and businesses (10th MP, 2010).

From market-led to state-led and back
Table 1 provides an overview on the structural transformations of the economy of Malaysia. The key enabling policies that took place during this time are as follows:

- **PFI**: PFI 2006, Treasury Guidelines 2006
- **PPP**: UKAS Guidelines on PPP 2009, New Wave PPP 2010

Immediately after independence and up to the early 1980s Malaysia adopted a combination of market-led and state-led approaches in the management of its economy. The government undertook rural development directly and was involved in developing the infrastructure of the economy. The development of commerce and industry was left almost entirely to private enterprises (Rugayah Mohamed, 1995, p. 63). The government set up public enterprises – new companies with the government as sole owner, also known as non-financial public enterprises or NFPEs – to complement the ministries and departments and, by the early 1980s, these proliferated in Malaysia. In addition, the government exerted further authority through the setting up of joint venture companies with private entrepreneurs as partners as well as buying a proportion of publicly traded shares of existing companies (Rugayah Mohamed, 1995). The state-led approach in the management of the economy of the 1970s led to a rapid growth in public-sector employment. Thus, by 1981 the number of government employees grew to 757,000 or 15 per cent of total...
employment (398,000 or 11.9 per cent of total employment in 1970). Similarly, by the end of 1985, there were 1,014 public-sector enterprises in Malaysia (22 in 1960; source: Rugayah Mohamed, 1995).

**Crisis and debt management**

The state-led economic management underwent a drastic change when Malaysia was confronted with the fiscal and debt crisis of the mid-1980s. Losses suffered by some of the NFPs, worsening fiscal and debt conditions, and other problems besetting government agencies including inefficiencies, budget constraints and incompetence compelled the government to review its policies (Rugayah Mohamed, 1995, p. 68). The government began cutting down public-sector involvement in businesses as well as public-sector employment and introduced measures to narrow Malaysia’s budget deficits. Further policies, consistent with the worldwide trend in economic liberalisation, were put in place by the government. These included the divesting of government shares, corporatisation of public service or utility enterprises, letting the private sector undertake major new ventures and allowing higher user charges for corporatised or privatised public services (Rugayah Mohamed, 1995, p. 69). These economic liberalisation strategies, in particular when the government introduced the ‘Malaysia Incorporated’ concept in 1983, marked the beginning of PPP in Malaysia.

From 1983 a number of public-sector activities were therefore privatised including those related to the health and medical services, transport, storage and communications, construction, agriculture and public utilities. By the mid 1990s some 64 public enterprises had been privatised (Rugayah Mohamed, 1995, p. 70).

The 1990s saw Malaysia aggressively pursuing ‘Vision 2020’. Vision 2020 is a long-term socio-economic development plan, introduced in 1991, that aims to transform Malaysia from a developing country into a fully developed and industrialised country by 2020. In line with the aspiration of Vision 2020, privatisation was accelerated leading to the implementation of private finance initiatives (PFI) in 2006 followed by public–private partnerships in 2010. It should be noted that the terms ‘privatisation’, ‘PFI’ and ‘PPP’ have often been used interchangeably.

The government’s objectives in the implementation of privatisation, PFI and PPP include relieving their financial and administrative burdens, improving efficiency and productivity, facilitating economic growth, reducing the size and presence of the public sector in the economy, and helping to meet the national economic policy targets (EPU, 2006). Other key reasons include the government’s reactive strategy due largely to pressure by the public to reverse earlier public-sector expansion under the state-led economic policies and its attempt to minimise negative consequences that could arise when heavy losses are suffered by public enterprises and when the government is facing budget deficits; the situation worsened when the country was confronted with fiscal and debt crises in the mid-1980s.

**The Malaysian model of PFI**

The growing role of the private sector in Malaysia has been via both privatisation and PFI (UKAS, 2010). PFI concerns ‘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 asset … which creates a standalone business. The private sector will create the asset and deliver a service to the public sector client. In return, the private sector will receive payment … commensurate with the levels, quality and timeliness of the service provision throughout the concession period. The structure of the lease rental payment for PFI projects will guarantee a total return to the concessionaire’s capital investment expenditures including financing cost repayment and profit to investment. The asset and facilities will be transferred to the public sector at the expiry of the concession period’ (9th MP, 2006).

Though ownership of assets plays a less important role in other forms of PPP, nevertheless many of the modalities see a transfer of the assets to the public sector (reversible) as a matter of course. There are some PPP projects where the assets are not transferred to the public sector at the end of the concession period. These usually relate to facilities or projects that have little value at the end of the period due to their technological obsolescence (UKAS, 2009).

Most Malaysian PPP projects were implemented through the sale of equity method, followed by sale of asset method and build–operate–transfer (7th MP, 1996–2000). Other methods of privatisation include land swap, build–lease–transfer (BLT), build–operate–lease–transfer (BOLT), sale of assets/equity, listing, build–operate–transfer (BOT), management contract, management buy-out, and combination of these methods (EPU, 2006). Under the Tenth Malaysia Plan (10th MP, 2011–15) the government plans to intensify the implementation of PPP projects whereby it has identified 52 projects worth RM62.7 billion. Projects identified include seven toll highways, five branch campuses of a public university, an integrated transport terminal, privatisation of a seaport and redevelopment of an existing media centre to become a media city. Modalities for PPP under the 10th MP will include outright sale, joint venture or long-term lease of land with commercial potential. In effect to attract the private sector to invest in PPPs the government has established a facilitation fund amounting to RM20 billion. The aim of the facilitation fund is to bridge the viability gap for private investment in areas given priority by the government i.e. infrastructure, education, tourism and health projects (10th MP, chapter 3, pp. 25–27).

**Procurement for PPP projects**

The government through UKAS has published a set of guidelines on PPP in 2009. Table 1 provides an overview of the guidelines. The focus of the guidelines is on the principles, criteria of projects and justifications and selection of projects. It is a requirement that firms bidding for PPP projects must form Special Purpose Vehicles or SPVs. Table 2 shows a flowchart of the approval process of PPP projects and a typical structure of contract agreement between the government and the SPV respectively.

In the context of achieving value for money or VFM in PPP projects the government (UKAS, 2009) expects the following principles to be adhered: there should be optimum risk transfer between the public and private sector, contract to be long term and to include whole life cycle costing, output specifications is efficient and
effective, competition leading to fair value projects, payments based on performance, and private sector management expertise.

**Examination of PPP projects implemented in Malaysia**

Malaysia has implemented PPP for almost three decades. Table 3 shows the achievement in PPP project implementation since its inception in 1983. Table 4 shows the distribution of PPP projects, according to economic sectors, between 1983 and 2010. Table 5 provides a brief on three successful PPP projects in Malaysia that are currently in operation.

Implementation of PPPs in Malaysia has, to a certain extent, achieved its intended objective of facilitating a significant reduction in public capital expenditure: between 1983 and May 2010 the government implemented 513 PPP projects. Through these projects the government eliminated 113,487 jobs from its payroll, saved RM163.8 billion in capital expenditure and earned RM6.50 billion from the sale of government equity and assets (Malaysia Economic Report 2011/12). In addition, the implementation of PPP projects has led to economic growth through greater investment that subsequently led to corporate expansion and efficiency gains as more output was produced using less resources. PPPs have resulted in the generation of multiplier effects to the economy. Furthermore, the savings, proceeds from the sale of equity and assets, and incomes generated from corporate tax and from lease rentals enable the government to reduce borrowing, resulting in a more balanced budget leading to stronger public sector finances and better reallocation of resources to more needy sectors of the economy (7th MP, 1996–2000).

**Concluding observations: Issues and problems in implementing PPPs in Malaysia**

There are issues and problems that require urgent attention and solutions if Malaysia is to excel in PPP. Topping the list of issues and problems are:

- The need for a more robust scheme to evaluate PPP projects, including the need for a Public Sector Comparator and mechanism to determine VFM.
The lack of standardised forms of contract for PPP projects

The general reluctance of private sector financial institutions to fund PPP projects and the perception that the government prefers only government-owned pension funds or government-linked financial institutions

The lack of capacity building needed to equip civil servants and professionals in the implementation of PPP projects

The number of experienced and capable SPVs is very small, causing PPP projects to be monopolised by companies that are familiar with the PPP mode of procurement

### REFERENCES


### Table 5: A sample of three successful PPP projects in Malaysia

<table>
<thead>
<tr>
<th>PPP project</th>
<th>Project description</th>
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<tr>
<td>North–South Expressway</td>
<td>The North–South Expressway (NSE) is Malaysia’s ultra-modern 973 km highway that spans peninsular Malaysia from the border with Thailand in the north to the border with Singapore in the south. Completed in 1988, the NSE is operated by the concessionaire, Proek Lebuhraya Utara Selatan Malaysia Berhad or PLUS. It is implemented via the build-operate-transfer mode of PPP. The concession period is 48 years.</td>
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<td>SMART Tunnel</td>
<td>The SMART Tunnel project (Stormwater Management and Road Tunnel) is a special project that combines a system of traffic dispersal (in an effort to reduce congestion in downtown Kuala Lumpur) and a flood mitigation initiative (to reduce the occurrences of flash floods in Kuala Lumpur). The project was awarded to a joint venture between MMC Corporation and Gamuda Berhad and was completed in 2007. The tunnel component of the project, built at a cost of RM1.9 billion, will be recovered by the concessionaire via collection of toll for a period of 40 years.</td>
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<tr>
<td>Putrajaya</td>
<td>Putrajaya, since 1999, is Malaysia’s new administrative capital. Putrajaya is situated 25 km south of Kuala Lumpur. The project is undertaken by Putrajaya Holdings, a company with PETRONAS (the National Petroleum Corporation of Malaysia), Khazanah Nasional Berhad (a Malaysian Government investment arm) and Kumpulan Wang Amanah Negara as shareholders. The project was implemented via the build–lease–transfer mode of PPP. The development, covering an area of 4,930 hectares, includes modern buildings for government offices as well as residential and commercial facilities that would cater for a population of 500,000.</td>
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### ENDNOTES

1 Notes on the UKAS were taken from UKAS (2010) Public Private Partnership Unit Prime Minister’s Department. In Proceedings Seminar on Malaysia’s Public Private Partnership, Organized by IIUM in collaboration with UKAS, Petaling Jaya, 5 August 2010.

2 Malaysia’s budget deficit stood at 24 per cent of GNP in 1982 but shrank to 12 per cent in 1985. Between 1980 and 1985, public enterprises accounted for some 64.3 per cent of the public sector deficit (Rugayah Mohamed, 1995, p. 68 citing the works of Salleh, 1987 and Nair and Fillipides, 1988).

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