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ABSTRACT

This research is called “Malaysian Private Finance Initiative”. The main purpose of the research is to reveal the process implementation of PFI in Malaysia’s version. By going through the research, the level understanding Malaysia’s version of PFI is identified. Private Finance Initiative (PFI) is implemented in order to help public sector in operate or handle the project with the growth of construction industry in Malaysia. Besides that, the research can identify perception from private sector which involved in construction industry. It is important as the risks are being certified for both public and private sector. The questionnaires surveys are distributed to private sector in Malaysia whether involved or not in handling project under PFI. Questionnaire survey method has been conducted in developing the research because this method is more easy and simple to be analyzed. As a result, the research is done for adding improvement to Malaysia’s version of PFI.

ABSTRAK

Kajian ini bertajuk “Malaysian Private Finance Initiative”. Tujuan utama kajian ini adalah untuk mendedahkan proses pelaksanaan Inisiatif Kewangan Swasta (PFI) di Malaysia. Melalui kajian ini, tahap kefahaman terhadap pelaksanaan Inisiatif Kewangan Swasta di Malaysia dapat dikenalpasti. Inisiatif Kewangan Swasta diperkenalkan untuk membantu sektor awam dalam mengendalikan projek seiring dengan pertumbuhan industri pembinaan yang kini pesat membangun khususnya di Malaysia. Selain daripada itu, kajian ini juga akan dijalankan untuk mengenal pasti persepsi daripada sektor swasta terhadap pelaksanaan Inisiatif Kewangan Swasta di Malaysia. Ini adalah penting kerana kedua-dua sektor awam dan swasta akan menanggung risiko sepanjang kontrak yang ditetapkan. Borang kaji selidik telah diedarkan kepada sektor swasta yang terlibat mahupun tidak dalam mengendalikan projek di bawah kaedah Inisiatif Kewangan Swasta. Kaedah kaji selidik dijalankan kerana lebih mudah dan ringkas untuk dianalisis. Kesimpulannya, kajian ini di harapkan dapat menambah baik pelaksanaan Inisiatif Kewangan Swasta (PFI) di Malaysia.

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LIST OF ABBREVIATIONS

1MDB	–	1 Malaysia Development Berhad
9MP	–	Ninth Malaysia Plan
10MP	–	Tenth Malaysia Plan
BOT	–	Built, operate, transfer
BOOT	–	Built, own, operate, and transfer
BOL	–	Built, operate, lease
BOO	–	Built, own, operate
BLT	–	Built, lease, transfer
BTO	–	Built, transfer, own
CSF	–	Critical Success Factor
DBOM	–	Design, built, operate, maintain
DBOT	–	Design, built, operates, and transfer
EPF	–	Employee Provident Fund
ETP	–	Economic Transformation Programme
EUL	–	Enhanced Use Lease
FBC	–	Full Business Case
KLIFD	–	Kuala Lumpur International Financial District
KPI	–	Key Performance Indicator
MRT	–	Mass Rail Transit
NPV	–	Net Present Value
OBC	–	Outline Business Cases

PBSR	–	Public Sector Borrowing Requirement
PFI	–	Private Finance Initiative
PPP	–	Public-Private Partnership
PLUS	–	Projek Lebuhraya Utara-Selatan
PSC	–	Public Sector Comparator
PWD	–	Public World Department
ROT	–	Rehabilitated, operate, transfer
SPV	–	Special Purpose Vehicle
UK	–	United Kingdom
UK	–	United States
UiTM	–	Universiti Teknologi Mara
VFM	–	Value for Money

CHAPTER 1

AN INTRODUCTION TO RESEARCH

1.1 Background

Construction is one of the advance industries in Malaysia. Nowadays, government find problem due to financing because of the increasing cost needed for development of construction industry. In presenting the 2012 budget recently by the Prime Minister, government is arranging a strategy to boost domestic economy activity especially in public and private investment. The investment is expected to increase at 15.9 percent and 7 percent supported by foreign direct investment, implementation of the ETP and the Second Rolling Plan under tenth Malaysia Plan (10MP). Apart from that, construction industry sector also will increase for 7 percent in 2012.

In order to enhance construction industry in Malaysia, Private Initiative Finance (PFI) is implemented to involve directly in this sector. Private Initiative Finance (PFI) is one of the strategies to decrease cost of a project which is earlier need high cost for starting the project. Basically, infrastructure project is suitable to use this initiative

compared to other type of construction project. This is because this kind of project is shown the important for people in a country. By implementing Private Finance Initiative (PFI), reveal that how the important of involving private firms in infrastructure construction process. There are high rate of investment from the Private Finance Initiative and the project is done perfectly until the finalized.

1.2 Problem Statement

Increasing number of construction project clearly shown that the growth construction industries especially in Malaysia. Developments of the industries lead to enhancement of 2012 budget in construction sector. That is impossible for the government to encounter public services and to maintain project control at the same time. So, Private Finance Initiative (PFI) is implemented to help public sector in operate or handle the project. The initiative known as a new way in operating and accomplish public project. Moreover, construction is the highest risk compare to other sector. However, there is still to face risks regarding the Private Finance Initiative (PFI).

Besides that, not all project can be operate through the Private Finance Initiative (PFI) because it will induce to weak public accountability. The project amenable to Private Finance Initiative (PFI) also leads to reduction in competition in addition to development monopolies. Thus, specification of project is important to determine first in order to find the feasibility of project in using Private Finance Initiative (PFI). As Private Finance Initiative (PFI) project first is started in United Kingdom in 1992, many countries are following the first step from UK in enhancing construction industries. The signed PFI projects in the UK are 668 until September 2009, with a total capital value of over £ 55 billion (HM Treasury, 2009).

Why PFI in Malaysia still in immature stage? The reason may due to negative perceptions from people especially whose involve in this sector. Since it still in the beginning in Malaysia, the importance of Private Finance Initiative (PFI) is earlier recognized in Department of Finance, Ireland (2000). In Malaysia, Amanah Raya Development Sdn Bhd has forged a greatness fund for a construction through Private Finance Initiative (PFI) on 2007 in press released. The latest project released under PFI in Malaysia is construction of Sky Bridges and covered walkways between buildings in Golden Triangle, Kuala Lumpur with the cost of 100 million. Therefore, Project through PFI in Malaysia clearly able to accomplish with succeed.

However, Private Finance Initiative (PFI) exposed to specific risks have to face by private sector involves. Researchers showed the contributed analysis of risks regarding PFI. Research paper states that the key PFI specific risks including financial risks and disposal risk, besides the public sector also has to bear the risk of wrongly specified requirement and the risk of criticism (Allen, 2001).

Table 1.1: PFI Project in 2010-2011

Year	Types of project	Cost (RM)
2010	<ul style="list-style-type: none"> • Landasan Keretapi Berkembar Kuala Lumpur – Ipoh - Padang Besar • Golden Triangle Kuala Lumpur 	<p>12.5 billion</p> <p>100 million</p>
2011	<ul style="list-style-type: none"> • Construction of 6 kampus UiTM • Academic Medical Center • Menara Warisan Merdeka 	<p>1.8 billion</p> <p>2 billion</p> <p>5 billion</p>

1.3 Objectives

Based on the current issue, Malaysia is able to produce many benefits project especially for high rate return benefits through procurement method like PFI. Although PFI has already state the risks will occur, it still give advantage to government in order to boost construction industry sector in line with other country which are used this procurement method. Yet, in immature stage of PFI in Malaysia, research has been done in order to define lead to private sector in making successful of Private Finance Initiative (PFI) in Malaysia. Therefore, the study is undertaken based on the objectives given;

- i. To study the concept and basic principles of Malaysian's version of PFI
- ii. To identify perception of the companies related to implementation of Private Finance Initiative (PFI)

1.4 Scope of Work

The first phase in this study is about to find information and do some researches regarding the topic. Starting with searching of literature review and case study based on the objectives of the study. In short, this phase is fully used to find primary and secondary data weather using online or manually.

After finding and summarizing the data, questionnaires can be constructed referred to the issues. Sample of respondents are identified to answer the questionnaires. This is the second phase of the study. Interview is the other method used in collecting data. All the data are analyzed briefly and recommendations are perfectly defined.

1.5 Significant of Study

The study is about understanding the concept and basic principle of PFI in Malaysia. Despite Malaysia, the literature about PFI in other country especially in UK as the first country which implemented the PFI procurement method is reviewed in order to gain suitable data for completing the research. The concept of implementing PFI in Malaysia's version is described variedly in Chapter 2. From understanding PFI concept, the structure of PFI in Malaysia can be determined besides what is the correlation between PFI and Public-Private Partnership (PPP).

On the other hands, the specific risks allocation regarding project under PFI are determined based on reviewing the past and the latest PFI projects particularly in Malaysia. Based on the main objective of implementing PFI in Malaysia that is to encourage private sector to involve in development, the risks of PFI project are be certified for both sectors. From the past literature review, it is found that the public sector still liable to some unforeseen risks during operational stage even though the private sector takes most of the risks according to the contract. Based on the data from questionnaire survey, the perception from private company related to implement of PFI can be determined. In short, the study is done for adding improvement about PFI in Malaysia.

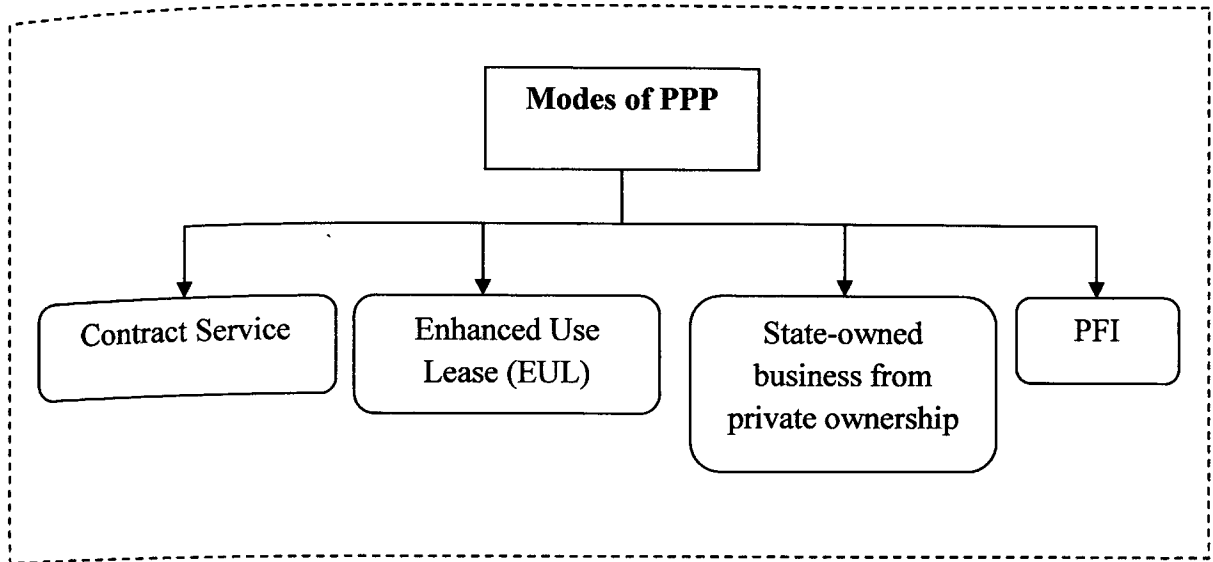


Figure 1.1: Modes of PPP

Source: The US Government Accounting Office (1999), Morledge et al (2006) and Syuhaida (2009)

1.6 Methodology

In general, the study is classified to two stages which are pre-quantitative non-experimental stage. This stage is started from literature or case study review to construct questionnaires for survey. The questions that have been asked are based on the revision of present and past issues in case study. The questionnaires are distributed to private company involved in construction industry around Malaysia. The second stage is quantitative non-experimental stage involves the pilot questionnaire survey to the establishment and further to analysis data. This is predominantly selected as this study includes the numerical input from the respondent via questionnaire survey.

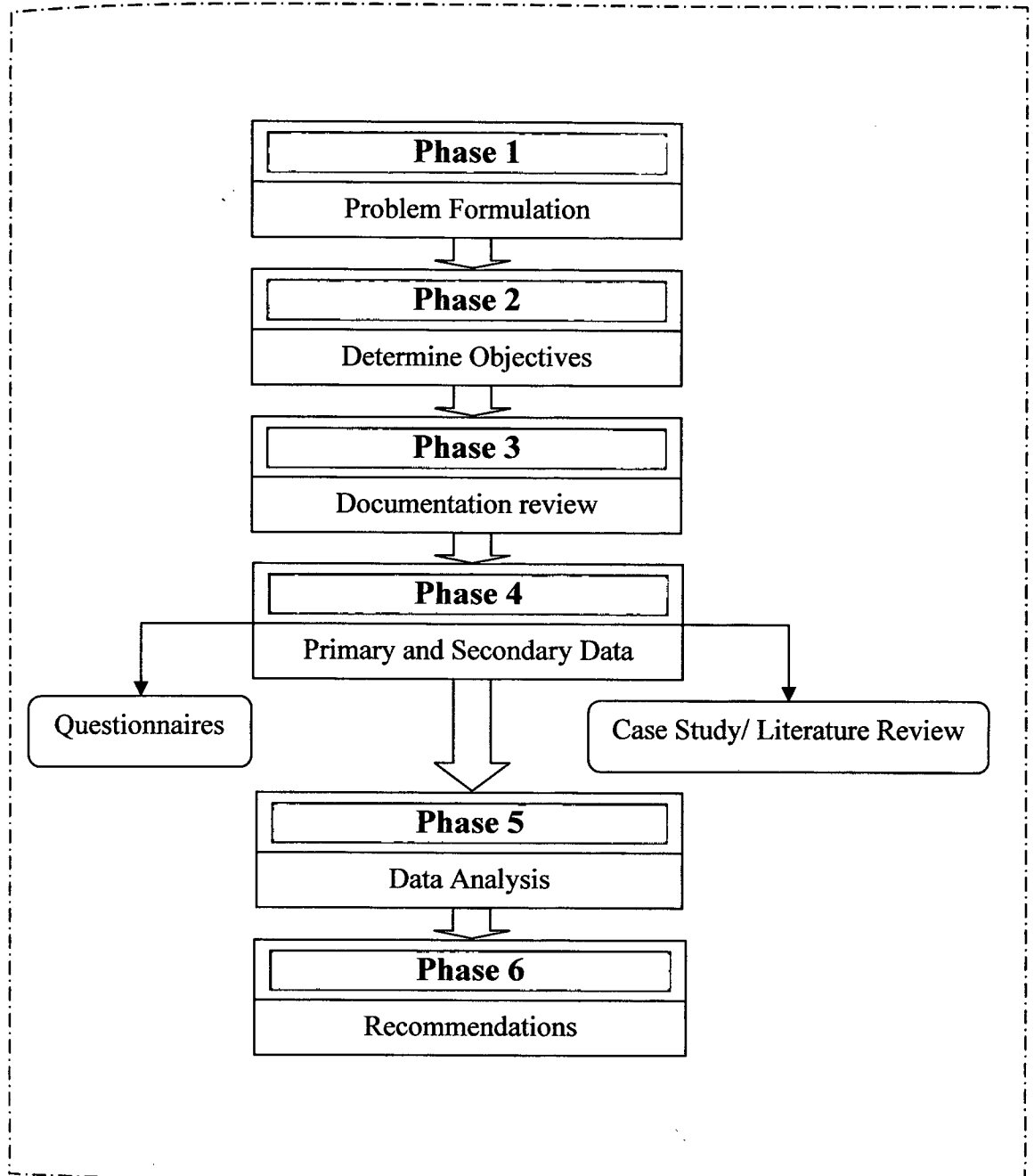


Figure1.2: Research Methodology Framework

1.6.1 Problem Formulation

On the first stage, the study has covered the implementation of PFI in Malaysia. Starting with the history of PFI, the basic principle and concept of PFI are described briefly in Chapter 2. The study problem also covered entails and identification of study area which almost around Malaysia. Before that, the relevant literature review and case study are identified and do the revision in order to determine specific aspect that can be used for the research. By revising the literature review, some information needed is gained and can be used in formulated the problem.

Besides that, information from literature review also used in constructing questionnaire. All the information from literature review or case study is described related information that used in completing the study. In fact, the case study from the past project which has delivered under PFI is determined. Based on the case study, the positive or negative perception from people who involved in PFI project will be defined together with different reasons given. As a result, the information gathered is important and provide correct data for the study.

1.6.2 Determine Objective

The research done is based on the two objectives given. This is the second stage in finishing the studies. The objectives also are as guidance for researchers in identifying the significant of studies. In addition, the objective of study includes the overall part of research. The first objective of the study is about study the concept and basic principle of PFI in Malaysia version. Therefore, literature reviews are required in order to finish the first objective. Besides that, personal understanding about the concept of PFI will be examined or asked in questionnaire form. Normally, the objective is determined through the literature review that covered problems and any situation happened for such topic.

The second objective of study is about identifying perception from private sector regarding implementation of PFI in Malaysia version. Based on the case study, there are some problem occurred during construction or in operation stage. By distributing questionnaire to private sector, perception about implementation PFI in Malaysia will definitely identified. At last, the research is concluded the objectives which prepared earlier for the study. Thus, this step becomes the important one in creating new researches.

1.6.3 Documentation Review

Research for PFI is done for deeper understanding about implemented of PFI especially in Malaysia. The data reviewed from other sources from other country as benchmarks of implementing PFI in Malaysia. Since it was implemented in Malaysia Plan (9MP) in Mac 2006, most of the research has done to describe more about concept and principle of PFI. Mostly, the information about PFI in Malaysia's version is gathered from official government website.

In addition, the research is done to determine the perception from private sector who involved in construction for project under PFI. The data from the past researched are reviewed in completed this study so that all data provided are suitable and relevant to the studied. Understanding the perception is essential to make sure process implementation of PFI in Malaysia will finally reached successfully to the main objective of implementation. For instance, both sectors and also citizen will together getting the benefits of PFI.

1.6.4 Primary and Secondary Data Collection

In the phase, there are two types of data selected in completing the research which divided into primary data and secondary data. The appropriate data needed in delivered correct facts related to research title. Summarizing of literature review defined the concept and basic principle of PFI in Malaysia which is one of the objectives of the study. In addition, the data from literature review are used for constructing questionnaire survey. Besides that, the case study and past thesis also used for data collection in order to get more helpful data or information related to implementation of PFI.

On the other hands, questionnaire survey method is selected in finding data. The data from questionnaire is about personal thinking from respondents. The questionnaire forms are distributed to private sector in Malaysia involved in construction. Moreover, this method is quite accurate in delivered second objective of the study to identify perception from private sector about implementation of PFI in Malaysia version. The structure of questionnaire is briefly explained in chapter three.

1.6.5 Data Analysis

The data from questionnaire survey method are analyzed using average index formulae which is the one suitable method in analyzing questionnaire survey. After calculating process, the data is tabulated in graph and chart. Mostly, bar chart is used to show differences answers given by respondent. The average index formula is stated in chapter three whereas the data that has been analyzed are tabulated under a table in chapter four. In short, the data also verified two objectives for the research.

1.6.6 Recommendation

Based on the data, research is successfully completed without any confusion. In hope that the research be as a benchmark for government in observing the development of project under PFI so that it is obeyed the objective of implementation PFI. Rapidly development in Malaysia brings to stand in line with other developed countries. Therefore, the research can be as a reference in upgrading the Malaysian PFI in future.

This chapter describe about the two objectives of study and the significant in conducting research entitled Malaysian Private Finance Initiative. Successfully achieved the goals at the end are essential for a completed study. In order to smooth the process finishing the study, a flowchart represented the phases to be done in study is produced. Six phases required to finish in time in order to make sure the research is completed without any critical mistakes happened. Besides that, the study contain five chapter starting with an introduction to research, literature review, methodology, data analysis and lastly summary of findings, recommendation and conclusion so that better decisions will be made by those who involves in construction industry development.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Differences of government political and structural allocated their own vision in providing facilities and services for community to the challenges of modernization and globalization of national economies. A wide thinking from government can approach the implementation of Private Finance Initiative in Malaysia. Based on types of construction this grows up year by year, Private Finance Initiative has contribute the successful view of government. As part of PFI function, development in Malaysia raised a good achievement from both public and private sectors. This research is done for the first phase including concept, objective and mission of implemented PFI as it still in the initial stage in Malaysia and was merely start used in 2006.

Studies of PFI is almost undertaken internationally because Malaysia has focused to other concession like built operate transfer (BOT). Most construction project in Malaysia prefers to use this concession as it has an extensive in implementing BOT. The example project under the built operate transfer is Projek Lebuhraya Utara-Selatan

(PLUS) which is the biggest Highway Concessionaires Company in Malaysia. Yet, since the PFI is still in immature stage in Malaysia, the Malaysia researchers have done the research based on abroad. A research has been done about trend of PFI in UK in terms of VFM and affordability, risk transfer and credibility of the public sector comparator (Suhaiza, 2005) where this study is more contribute to PFI economics.

Since the interest in PFI researches has arisen, many kinds of research are done and shows more detail about what is Private Finance Initiative and why its contribute to success especially in industry sector in Malaysia. The first research is about PFI study on Malaysia perspective (Khairuddin, 2007) which stated that Malaysia is in the initial phase in implemented of PFI. The study covers definition of PFI, concepts, methods and future trend implementing in Malaysia based on PFI in UK as a benchmark because the trend implementing by UK is the first generally established.

2.2 History of PFI

The private finance initiative is a form of procurement where the public sector is funding a project under public sector. PFI implemented since 1983 yet but the term used is not acknowledged origin of PPP which was introduced in Australia in 1988. PFI was introduced in Malaysia because the number of project in construction industry has increased year by year. Construction is distributed as a larger sector involved in privatizing. In 1992, UK Conservative Government introduced the PFI and has been successfully functioned. The focus was to reduce the Public Sector Borrowing Requirement (PBSR). The rapid development of UK construction industry is become as a benchmark for other country to start uses this type of concession.

However, PFI is not a famous concession chosen among the contractor. For example, Malaysia has experienced in implementing built operate and transfer (BOT)

even had to use all of their capital to carry on a project. The study about partnering, privatization and concession is done by Malaysian's Researchers (Helmi, 2005) who assess the barriers of implementing PFI in perspective Malaysia, misunderstanding of concept and the lack of experience among the participants. Besides that, profiles, strategies and results of privatization in Asia and Pacific region including Malaysia has revealed by (Syed and McMaster, 1996). There are many researchers from Malaysia who had finished the research about the potential of globalization and smart partnership in Malaysia. All of the studies were highlighted the first implemented of PFI in Malaysia.

Apart from that, some studies have found that the PFI is not new a form of concession in Malaysia since it was introduced in 1983 under Privatization Programmed. Nevertheless, Malaysia still have less of experienced in conducting PFI rather than other concession in delivering social infrastructure by government such as hospital, school, highway and etc. In Malaysia Plan (9MP) of 2006-2010, PFI is fully implemented and more studied had focused on the basic principle of PFI in Malaysia which become a fundamental thrust in worldwide in the hope that the development of construction industry in Malaysia will increase rapidly.

Besides that, understanding the concept Malaysian version of PFI is essential for both private and public sector in order to involve in project under PFI which has to fairly face the risks during construction process. There are differences between project conducted under PFI and traditional. Nevertheless, construction industry in Malaysia is familiar with the other types of concessions as PFI is still in starting point introduced in the country. Table 2.1 below shows types of concessions commonly used in Malaysia.