

DELAY APPROVAL IN PRIVATE FINANCE INITIATIVE (PFI) PROJECT IN  
MALAYSIA

MOHD ASRUL BIN ADNAN

UNIVERSITI TEKNOLOGI MALAYSIA

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MOHD ASRUL BIN ADNAN

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**Dedication**

To those who have been supporting me unconditionally, without whom, this project would be complete, my family and friends.

My heartiest thanks.

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## **ABSTRACT**

Several studies had shown that many project managers are facing difficulties in predicting the approval of Private Finance Initiative (PFI) Project. This is due to the fact that there are many issue that can be linked to delay of approval in PFI Project. This study is carried out with the objectives to identify the cause of late approval in PFI Project, at the same time the impacts and strategies to minimize delay approval of PFI are also investigate. The main instrument of data collection was questionnaire survey with expects in the construction industry. The results show that there are eight causes, ten impacts and four solutions in the delay of approval in (PFI) Project. The degree of importance for these causes, impacts and the strategies to minor this problem will be determined through the questionnaire survey. From the findings of questionnaire survey the researcher will be able to identify the causes, impacts and the strategies to minor this problem delay approval in (PFI) Project.

## ABSTRAK

Beberapa kajian telah menunjukkan beberapa pengurus projek mengalami masalah kelewatan mendapatkan status kelulusan dasar projek inisiatif kewangan swasta (PFI). Ini berlaku di atas sebab – sebab tertentu, kesan dan strategi di dalam mengurangkan masalah kelewatan tersebut. Kajian ini dijalankan bagi mengenalpasti faktor – faktor tersebut, kesannya dan strategi bagaimana untuk mengurangkan masalah ini. Melalui kajian literasi, terdapat lapan faktor yang mempengaruhi keadaan ini, sepuluh kesan dan empat penyelesaian dalam penyelesaian masalah kelewatan projek inisiatif kewangan swasta ini. Tahap kepentingan kesemua faktor, kesan dan strategi ini ditentukan melalui soalan – soalan kajiselidik yang telah diedarkan. Melalui kajiselidik dilakukan ini faktor – faktor yang mempengaruhi kelewatan kelulusan projek inisiatif kewangan swasta dapat dikenalpasti bersama kesannya dan cara – cara meminimakan masalah ini daripada terus berlaku di malaysia.

## **CHAPTER 1**

### **AN INTRODUCTION TO RESEARCH**

#### **1.1 Introduction**

A Public-finance initiative (PFI) is a medium to long term relationship between government, private sector and public which includes the voluntary and community sector. PFI involves the sharing of risks and rewards as well as the utilization of multi-sectoral skills, expertise and finance in order to deliver desired policy outcomes which are in the public interest (Geddes,2005).

There is none of a legal meaning of the term PFI. The term can be used to describe a wide different of arrangements which involve the public and private sectors who are working together in some way (The World Bank, 2009).

A PFI program is generally being recognized to offer a long-term, sustainable approach to improve social infrastructure, enhance the value of public assets and make better use taxpayer's money. It is difficult to group partnerships in a consistent fashion as it comes in all sizes and types. Since 1990s, the most important PFI have been occurred in the sectors of education, health and transportation (Akintoye, 2003).

Today, PFI is usually formed to carry out a specific business task. Moreover, the membership of today's PFI is no longer restrained to the traditional central government, local government and private sectors. The boundaries between the public and private sectors are very blurred now (Geddes, 2005).

## **1.2 Background**

Construction as defined by Clough et al. (2000) is the process of physically erecting to the project and putting equipment and material into place, and it involve providing the supplies, construction equipment, manpower, material, management and supervision necessary to accomplish the work. Construction is divided into residential, non-residential, educational, recreational structure, commercial, educational, and light industry. Engineering construction , involving works designed by engineers and may be classified as highway or heavy construction for bridges, tunnels, railroads, waterways, marine structure etc; and industrial construction for example power plants, steel mills, chemical plants, factories and order highly technical structures (Merritt and Ricketts, 2004)

PFI is an alternative public procurement of strategies. It relates to the delivery of public assets and services that in the past were the realm of the public sector, using private sector project financing and expertise. Malaysia has embarked on using Private Finance Initiative or PFI as one of the methods to procure public



assets and services. This significant public policy statement is contained in the Ninth Malaysia Plan (2006 - 2010), launched in 2006. However, prior to the implementation on PFI, Malaysia has implemented many different private sector participation models, prominently the privatization model. PFI is an alternative public procurement strategy. It relates to the delivery of public assets such as office, educational buildings, hospitals, roads, highways and the associated services that in the past were the realm of the public sector, using private sector project financing and expertise. Conventionally, the government themselves or through consultants initiative and design, finance, own, operate and maintain public assets and deliver services to the public. The assets were normally built or in some cases were designed and built by contractors selected and appointed by the government.

Alternative to the conventional way is when the public sector works in partnership with the private sector under the concept of Public Private Partnership or PPP to deliver public assets and services. Within PPP the two most common public private partnership strategies and privatization and PFI. In PFI the government does not own the capital assets. Instead they specify output requirements and buy services from the private sector. The Private sector entity finances, delivers, owns and operates the capital assets under a concession agreement it entered with the government. At the end of the concession period, typically 30 years or more, the private sector entity transfer ownership of the capital assets to the government in good operating condition.

Through PFI, where the private sector's funding, innovation and corporate management skills will be used, the government expects value for money is achieved in terms of exceptional quality and efficiency in the delivery of public assets services. The government resorts to PFI in the light of continuous upward demands by Malaysians for world class public assets and services as the country becomes more affluent but funding remains inadequate due to lack of corresponding increases in the public purse. In addition, the government hopes that PFI will promote higher growth in the economy through structured contributions by the private sector and the government link companies (GLCs). Furthermore the government sees benefits of

PFI to include reduces upfront payment for project, enhance quality and efficiency in public facilities and services and stimulates growth in the construction sector.

PPP including PFI is not a new public procurement strategy. In Malaysia among the earlier examples of PPPs were in the utility and transport sector for example the supply of electricity in central Perak by the Kinta Electrical Distribution Co. Ltd or KED; and the Slim River-Tanjung Malim tolled-road respectively.

Globally, among the earlier examples of PFI project is the 90 mile long Suez Canal, completed in 1869 with a 99-year concession period. PFI were used by governments in the UK and continental Europe since the 17th century to procure transportation infrastructure including roads and railways and other capital intensive development projects (Owen, 2002; Morledge, 2006).

### **1.3 Problem Statement**

An increasing demand for quality public services is clear in many countries in the world. There are tremendous changes in government's approach of providing infrastructure to the public as the world is facing challenges of modernization, globalization and restructuring of national economies. In the past, government consumed public sector workforce, in-house administration and management as well as capital from tax revenues or bond issue to build public infrastructure.

In spite of this, compliant with Chan (2006), the origin of PFI in Malaysia is rooted from the Malaysia Incorporated Policy 1985 and the Privatization Master Plan (PMP) 1990. Later in 2005, again the Malaysia Privatization Program has been expanded to the National PPP Program in the Economic Planning Unit (EPU) under

the budget 2005 of ninth Malaysia Plan (9MP), which promoting the PPP as an alternative project procurement approach for public infrastructure. Nonetheless, again the term PPP has been change to PFI while tabling the budget 2006. Since 1983 until now, 434 projects ranging from powers utilities, telecommunication, highway, ports, water and TV station to parking fees and rubbish disposal (Matthinas, 2000 and Alex, 2006) have been instigated via Malaysia Privatization Program.

Many research before about (PFI) before discuss the about KPI's and value for money (VFM) and did not include PFI project had late approval to start the project. Why does this thing happened in PFI Project in Malaysia?

From the data and interview from Project manager at client/private base in Malaysia to apply PFI project always results in late approval of PFI Project which is a common issue. What are the cause of client/private related problem of the late approval in (PFI) Project? What are the impacts to client/private related problem of the late approval this (PFI) Project? Thus a study needs to be carried out to minimized client related problem of late approval of (PFI) Project in Malaysia can be assessed and developed thoroughly.

#### **1.4 Aim And Objectives**

The public infrastructure and late approval to start (PFI) project for development of those infrastructures are appointed as the bottom line of this study due to the Public/Private sector intention in confronting the weakness of process submission and approval to start (PFI) project in Malaysia. Thus to minimized this problem the process are essential to be established through careful and systematic discussion by various stakeholders involved in procuring PFI of which predominantly include the public criticism. The cause, impact and solution for this problem can be solve and

the success of PFI project can be determined based on the milestone despite the project as a whole. Therefore, with the aim of to minimize the problem of late approval for PFI project in Malaysia, this study is undertaken with the following objectives:

- (1) To identify the client related problems that cause late approval of PFI project.
- (2) To identify the impacts of client related problem late in approval of PFI project to government and Public sector.
- (3) To identify strategies to minimize the client related problem in late approval of PFI project.

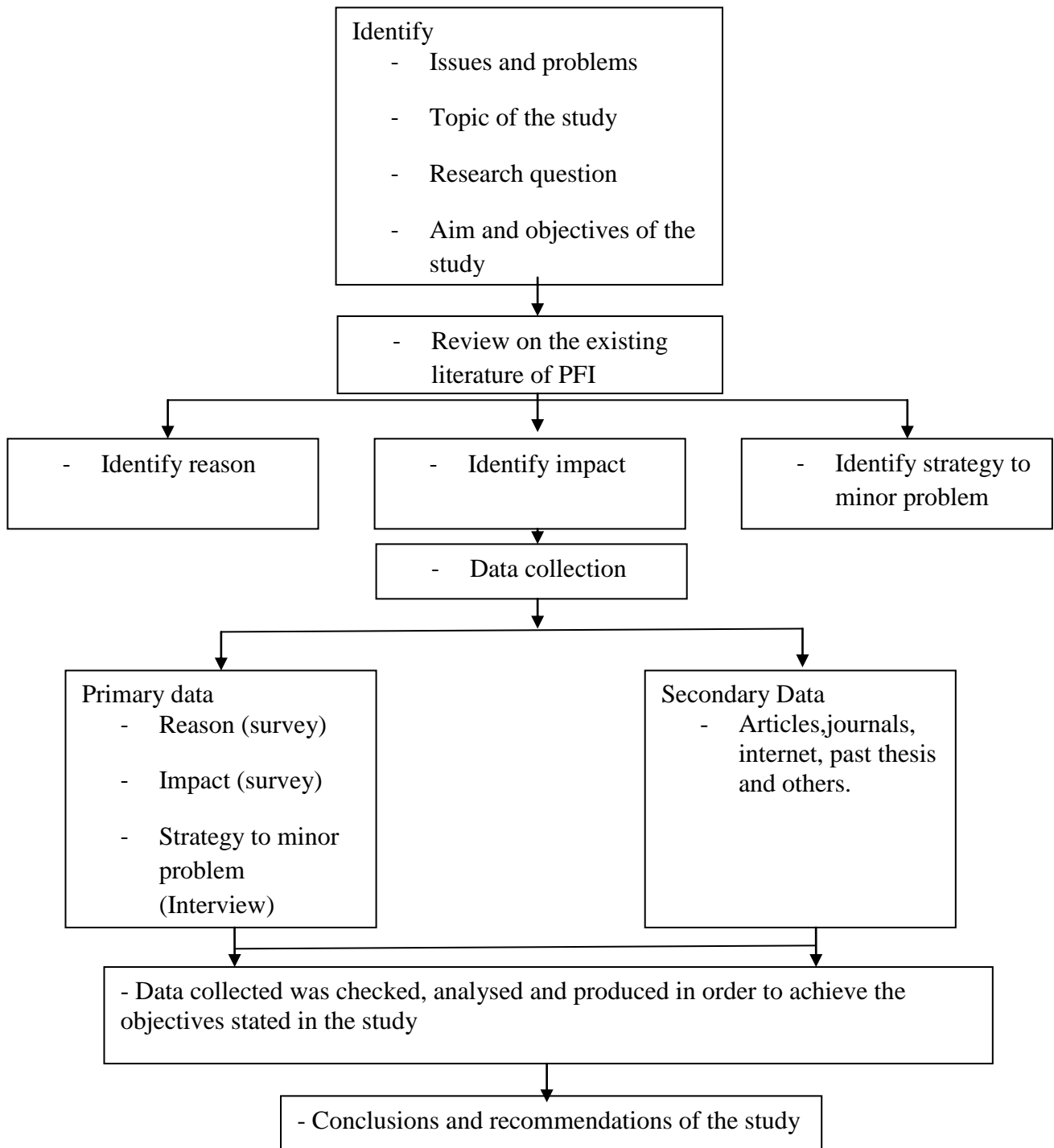
### **1.5 Scopes of Work**

The scope of the research is mainly focus on literature review, questionnaire survey and face to face interview. Project is focus on PFI project in Malaysia. The questionnaire survey would be designed based on the cause, impact and strategy to minimized client related problem of late approval in PFI Project.

### **1.6 Research Methodology**

In general, the study was divided into two phase. The issues, problems, topic, aim and objectives, scope as well as the significance of the study were identified in the first phase. Besides that, literature review and distribution of the questionnaires were conducted in this phase too. This study employed several methods of data collection for the purpose of objective's achievement.

On the other hand, the collection and analysis of the data were conducted in the second phase. Apart from that, the conclusion and recommendation of the study were conducted in this place as well. Figure 1.1 shows the research methodology flows of the study.



**Figure 1.1** Research Methodology Brief

## **1.7 Significance of Findings**

Throughout this study, clear understandings about the cause and effect of delay approval in PFI project is establish. Method of rectification of the delay approval in PFI Project is also established. It can give clear understanding to public sector to build PFI project in Malaysia. Besides, the result and the findings of this study would be beneficial to the researchers in the future who wish to explore more in this area of study.

Apart from that, the information on the barrier and motivation factor in adopting PFI was also obtained. This information would enable the related parties to improve the condition where more client/public sector or relevant parties will understand more and more willing to take part in PFI.

## **1.8 Report Structure**

This report consists of seven chapters which gives a better understanding about the propose title, project progress and the achievement of the project. The seven chapters are:

1. Chapter 1: *An Introduction to Research* gives the overall view on the project including the objective, scope and project methodology of the project paper.
2. Chapter 2: *Overviews of Private Finance initiative*
3. Chapter 3: *Malaysian PFI - Concept and Method of Procurement*
4. Chapter 4: *Research Methodology* describes the methods used in this research.

5. Chapter 5: *Questionnaire Survey Analysis* shows the results of interviews and questionnaire survey conducted, together with the related analysis and discussion.
6. Chapter 6: *Identify cause. Impact and strategy to minimized problem* from client related problem for late approval for PFI project.
7. Chapter 7: *Conclusions and Future Recommendations* conclude the overall works and activities of this research. Recommendations for further work are briefly discussed.

## **1.9 Summary**

This chapter covered the introduction to the problem of cause and effect of delay approval in PFI project. Furthermore it states the objectives, scopes, methodologies used. It continues with the significance of findings, and explains the report structure.



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**LIST OF ABBREVIATIONS**

PFI	-	Public-finance initiative
PPP	-	Public Private Partnership
4MP	-	Forth Malaysia Plan
5MP	-	Fifth Malaysia Plan
6MP	-	Sixth Malaysia Plan
8MP	-	Eight Malaysia Plan
9MP	-	Ninth Malaysia Plan
AI	-	Average Index
KPI	-	Key Performance Index
BLT	-	Built-lease-transfer
BOT	-	Build-operate-transfer
BOOT	-	Build-own-operate-transfer
BTO	-	Build-transfer-operate
BOO	-	Build-own-operate
DBFO	-	Design-build-finance-operate
DCMF	-	Design-construct-manage-finance
DBFOM	-	Design-build-finance-operate-maintain
VFM	-	value for money
GLC	-	government link companies
SPV	-	special purpose vehicle
SPC	-	special purpose company