Rationales for public private partnership (PPP) implementation in Malaysia

Suhaiza Ismail and Fatimah Azzahra Haris
Department of Accounting, Faculty of Economics and Management Sciences, International Islamic University Malaysia, Gombak, Malaysia

Abstract
Purpose – This paper aims to, first, examine the rationale for implementation of public private partnerships (PPP) in Malaysia. Second, it investigates the differences among perceptions of the public and private sectors, in relation to the rationales for implementing PPP in Malaysia.

Design/methodology/approach – A questionnaire survey captured the perceptions of the public and private sectors concerning the rationales for PPP implementation in Malaysia. Of 250 questionnaires distributed, 122 usable responses were obtained and analysed using SPSS to rank the importance of the rationales and to examine differences in perceptions between the government and private sectors.

Findings – Results show that “to enhance private sector involvement in economic development” is the only rationale that was rated as most important by all respondents. While other rationales were perceived as important, “to reduce the role of the Government in providing public services and facilities” was regarded as the least important rationale by both parties. The results also reveal significant differences between public and private perceptions for the least important rationales.

Originality/value – This paper offers empirical evidence on the concept and the rationales for implementing PPP in Malaysia, and also provides evidence on the differences in the perceptions of the public and private sectors in relation to these rationales.

Keywords Public private partnership (PPP), Rationales, Malaysia

Paper type Research paper

Introduction
Public private partnership (PPP) is a procurement method that has been adopted worldwide. In Malaysia, the concept of PPP is not new, as it started with the introduction of the Malaysian Incorporated Policy (1983), whereby partnership between the public and private sectors was encouraged to foster Malaysia’s economic growth. The relationship between these two parties has continued to evolve with the introduction of the Privatisation Master Plan (1991) during the Sixth Malaysia Plan (1991). Subsequently, under the Ninth Malaysia Plan (2006), a notable form of PPP called the private finance initiative (PFI) was introduced by the Malaysian Government as an alternative procurement method. PFI emphasizes streamlining the privatization policy and the greater involvement of private sector providers in providing public services (Ismail, 2013a, 2013b, 2013c).

The main reason for the government opting to implement government projects through PPP is because the private sector is reputed to have more skills and expertise to efficiently design, construct, operate and maintain projects (Akintoye et al., 2003;
Public private partnership implementation

PPP implementation in Malaysia

The concept of PPP was first implemented in Malaysia in 1983 with the introduction of the Malaysia Incorporated Policy and was further established with the implementation of the privatization policy in 1985, whereby the government started the initiative to rely on market forces by encouraging active participation from the private sector in delivering public services. However, the official introduction of the PPP concept in Malaysia took place under the Eighth Malaysia Plan (2000). Subsequently, under the Ninth Malaysia Plan (2006), that mode of PPP, known as the PFI, was officially launched. The government has continued to emphasize the use of PPP for providing public facilities and services in the current Tenth Malaysia Plan (2010). The chronology of PPP evolution in Malaysia is illustrated in Figure 1.

In general, PPP involves the transfer of responsibility (from the public sector to the private sector) for the design, building, finance and operation of public sector assets, such as buildings, infrastructure, equipment and other associated facilities, according to an agreed concession period (normally 25 to 30 years). The private party will raise its own funds to finance all or part of the assets that will deliver the services based on the agreed performance specification. In turn, the public sector will compensate the private party for these services through a monthly lease payment, or, in some PPP projects, part of the payment may flow from the public users directly (Hodges and Mellett, 1999; Hurst and Reeves, 2004; Koppenjan, 2005 and Hodge, 2004; Ninth Malaysia Plan, 2006; Ismail, 2013a, 2013c).

The contractual structure of PPP arrangement in Malaysia is between the private sector and the government (Figure 2). Specifically, the private sector is represented by a
special purpose vehicle, comprising financiers, a construction contractor and facilities management operator, created mainly for a particular PPP project. The main function of the construction contractor is to construct the facilities according to the contract, while the facilities management operator maintains the facilities throughout the contractual period. The financiers, who are the fund providers, normally consist of equity investors and debt providers (PPP Guidelines, 2009).

The essential characteristics of PPP implementation in Malaysia include:

- a partnership-based relationship, formed between the public sector and private sector providers;
• the output specification (provided by the public sector for a concession period);
• the private sector being given the flexibility to determine the required inputs to achieve the specified outputs and freedom to introduce innovation into the project designs and development to reduce the overall costs;
• the payment being made based on the pre-determined standards and performance of the service provided;
• the private sector accepting responsibility for the maintenance of the asset throughout the long-term operational concession period;
• the PPP project offering a full package comprising the combination of the design, construction, finance, maintenance and operation of the facilities;
• the government being given the option concerning whether or not the asset will be transferred at the end of concession period;
• the PPP project involving optimal risk-sharing, in which the risks will be handled by parties best able to manage them; and
• Whole life cycle costing whereby the PPP contracts are awarded to a private sector company that is able to provide the services required at the lowest total cost over the concession period (UKAS, 2009).

Under the Ninth Malaysia Plan (2006), RM20 billion (USD6.21 billion) was allocated by the government using the Employees Provident Fund (EPF), whereas, in reality, the private sector is responsible for the projects including their provision of finance. The RM20 billion (taken out from EPF) was allocated as follows: RM9.5 billion for education, RM1.6 for the housing sector, RN878 million for healthcare and RM634 million for the transport sector. Under the Ninth Malaysia Plan, over 425 projects were entrusted to the private sector using the funds (Khairuddin, 2007; Ismail, 2013c). Besides the RM20 billion from the EPF, there were also other parts of the PFI projects that fell outside the RM20 billion allocation (Jayaseelan and Tan, 2007; Ismail and Harris, 2014).

Another 52 high-impact projects worth RM63 billion are to be implemented using the PPP procurement method under the Tenth Malaysia Plan (2010). According to the PPP Guidelines (2009), the PPP projects should only proceed if the following principles are observed. First, the PPP projects must have a high socio-economic impact. Second, value for money can be realized from the projects in terms of providing more efficient services, and, at the same time, can be completed in a shorter period. Finally, the project shows a sufficient level of accountability (Tenth Malaysia Plan, 2010; Khairuddin, 2007; Abdul Aziz and Kassim, 2011; Ismail, 2013a, 2013b; Ismail and Harris, 2014).

**Literature review**

Prior studies have examined various aspects of PPP implementation such as rationales or justifications for PPP (Hurst and Reeves, 2004; Jamali, 2004; Nisar, 2007; Coulson, 2008); critical success factors (Li et al., 2005; Zhao et al., 2010; Zhang, 2005; Chan et al., 2010; Abdul Aziz and Kassim, 2011; Ismail, 2013a); positive, negative and driving factors (Li et al., 2005; Ball et al., 2003; Carrillo et al., 2008; Cheung et al., 2009; Hwang et al., 2013; Ismail, 2013b; Ismail and Harris, 2014); performance evaluation and value for money (Li et al., 2005; Ismail and Pendlebury, 2006; Coulson, 2008; Shaoul et al., 2008; Cheung et al., 2009; Takim et al., 2009; Ismail, 2013c); and risk management (Ball et al.,
2003; Pollock and Price, 2008; Hwang et al., 2013). As the focus of the present study is on the rationales, justifications or reasons for PPP implementation, the remainder of this section reviews relevant literature on rationales for PPP implementations in the context of various countries.

Coulson (2008) provides three objectives of PPP implementation in the United Kingdom. The first rationale is to facilitate the government's capital spending. During the early implementation of PPP, the financial reasons are the most important objective. PPP enables the public sector to reduce its borrowing figure and the projects will be financed using private sector capital. The second UK objective is to have efficient use of resources for delivering public services. The third rationale according to Coulson (2008) is for the public sector to enjoy value for money in the long-term, as the private sector is not only providing the financing but also operating the PPP facilities for the benefit of the public.

Nisar (2007) highlights that the rationale for PPP is their being “off the balance sheet”, as the PPP projects can be run without having to record it as government borrowing. In addition, PPP can enable the public sector to provide services at a lower price. The role of providing the facilities is transferred to a private sector provider that is more competitive and more capable of finishing the project at a reasonable price and pace. Another rationale is that through the PPP procurement method, the private consortium is not only responsible for constructing the facilities, but also accountable for maintaining the operation of the public services throughout the contractual period. This frees up public sector time and resources, enabling them to focus on more vital issues, and reduces the government's role in providing public services and facilities (Hurst and Reeves, 2004; Jamali, 2004).

Advocates of PPP assert that another objective is to improve the efficiency of public services. According to Hurst and Reeves (2004), PPP projects enable the private sector to create innovative solutions (i.e. better design and management), as it specifies the output required, compared to the input specification under the traditional procurement method. The innovation may end up by realizing value for money and increasing the efficiency of public service delivery.

Another justification for PPP is to improve the privatization programme (Ninth Malaysia Plan, 2006). PPP was implemented with the hope that it could solve the problems arising through privatization, such as the difficulty faced by the government to control the end result regardless of whether the service provided fulfilled the needs of the public, because the private sector possesses greater control in managing projects privatized by the government. However, privatization is not the same as the PFI (PPP), as under PPP, both parties have a balanced partnership and work together to ensure successful results (Mitchell-Weaver and Manning, 1991). In addition, PPP is different from privatization, in that the project will be “off the balance sheet” for the government, which results in a massive reduction in a country's debt (Broadbent and Laughlin, 2003).

Cheung et al. (2009) carried out a questionnaire survey to investigate reasons for implementing PPP in three countries – Hong Kong, Australia and the United Kingdom. The study discovered similarities and differences between these countries. The top three reasons for implementing PPP in Hong Kong are “private initiative”, “economic development pressure demanding more facilities” and “high quality of services required”. In Australia, the three key reasons are “high quality of services required”, “economic development pressure demanding more facilities” and “inefficiency because
of public monopoly and lack of competition”. The main motivations for implementing PPP in the UK are “shortage of government funding”, “economic development pressure demanding more facilities” and “to avoid public investment restriction”.

In sum, there are various rationales for governments worldwide to adopt PPP as a method for the procurement of public services. However, to the best knowledge of the researcher, these rationales are only stated or discussed in prior studies but are not supported with empirical analysis, except for the study by Cheung et al. (2009). Due to the dearth of empirical studies in this respect, the present study helps bridge a gap in the existing literature on PPP by empirically examining the rationales for PPP implementation in the context of a developing country.

Methodology

Research instrument

Based on a review of the relevant literature and official documents on government procurement in Malaysia, the main rationales or justifications for using PPP were found to include to facilitate government financial burden, to have efficient use of resources in improving public services, “off-balance sheet” reason and to improve the privatization programme. However, the “off-balance sheet” reason is not applicable to the context of Malaysia, as the Malaysian Government is yet to implement accrual accounting by 2015. Therefore, the questionnaire used for the present study comprises five rationales for PPP implementation that are relevant to the context of PPP in Malaysia. The respondents were asked to rate the importance of each rationale on a series of 5-point Likert items (Holt, 2014), ranging from 1 being “most important” to 5 being “not important”. The reliability test reveals a Cronbach’s alpha value of 0.812, which implies that the five PPP rationales have adequate internal reliability.

Sample and collection procedures

The questionnaires were distributed to participants of the national seminar on Malaysian PPP Framework organized by the Public Private Partnership Unit in February 2011, which was attended by personnel from both public and private sector organizations (UKAS, 2011). The respondents were approached by the researcher to request their participation in the survey and were provided with a cover letter and a copy of the questionnaire. The cover letter explained the purpose of the study and assured the confidentiality of the answers given by respondents. The completed questionnaires were collected at the end of the seminar.

Data analysis

The data were analysed using Statistical Package for the Social Sciences (SPSS) software. The descriptive statistics for the mean score were computed using results from the Likert items introduced earlier. Based on the mean scores, the rationales were ranked according to perceived importance of all respondents combined, as well as by the public and private sector groups independently. An independent-sample t-test was carried out to statistically examine the differences in the perceptions of the two groups of respondents.

Response rate

Out of the 250 questionnaires distributed, a total of 185 respondents completed the questionnaire. Six questionnaires were excluded, as they were incomplete. To ensure the
credibility of the findings, an additional 52 responses from respondents who claimed that they had no experience in PPP projects were also excluded from the analysis. Hence, there was a total of 122 usable questionnaires representing a usable response rate of approximately 48.8 per cent.

Findings and discussion

Demographic profile of respondents

Fifty-two (42.6 per cent) respondents were engaged in the public sector and 70 (57.4 per cent) in the private sector. Table I illustrates that there are respondents from different levels of the government (i.e. federal, state and local government) and private sector companies with various backgrounds (i.e. financier, facilities management and construction companies). The majority of the respondents are either attached to the public sector at the federal level (44 respondents) or serving in construction companies (36 respondents).

Respondent sample included experienced practitioners from the industry. As shown in Table II, 74 per cent possessed more than five years working experience, with over 20 per cent having over 21 years’ industrial experience. In addition, out of all respondents who possess experience in PPP implementation, 31 per cent have previously been involved in more than five PPP projects. Overall, the background of the respondents reflects their credibility in providing reliable data for the study.

<table>
<thead>
<tr>
<th>Roles of respondents</th>
<th>Frequency (%)</th>
<th>Sector</th>
<th>Total Frequency</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>44</td>
<td>36.1</td>
<td>Public sector</td>
<td>52</td>
</tr>
<tr>
<td>State government</td>
<td>4</td>
<td>3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local government</td>
<td>4</td>
<td>3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financier</td>
<td>9</td>
<td>7.4</td>
<td>Private sector</td>
<td>70</td>
</tr>
<tr>
<td>Facilities management</td>
<td>25</td>
<td>20.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction company</td>
<td>36</td>
<td>29.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>122</td>
<td>100</td>
<td>122</td>
<td>100</td>
</tr>
</tbody>
</table>

Survey respondents’ characteristics

<table>
<thead>
<tr>
<th>Years of experience (years)</th>
<th>Frequency (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>32</td>
<td>26.2</td>
</tr>
<tr>
<td>6-10</td>
<td>28</td>
<td>23.0</td>
</tr>
<tr>
<td>11-15</td>
<td>19</td>
<td>15.6</td>
</tr>
<tr>
<td>16-20</td>
<td>18</td>
<td>14.8</td>
</tr>
<tr>
<td>21 above</td>
<td>25</td>
<td>20.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of PPP projects</th>
<th>Frequency (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>36</td>
<td>29.5</td>
</tr>
<tr>
<td>2</td>
<td>31</td>
<td>25.4</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
<td>9.8</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>4.1</td>
</tr>
<tr>
<td>5 and above</td>
<td>38</td>
<td>31.1</td>
</tr>
</tbody>
</table>

Table I. Distribution of respondents

Table II. Characteristics of respondents
Overall perception concerning the rationales of PPP

Table III shows the mean scores and mean score rankings of the five PPP rationales for the overall sample and for public and private sector respondents, respectively. The mean scores for overall results range from 1.46 to 4.04, which indicate that, on average, the respondents are of the opinion that the five rationales are of markedly different importance.

The rationale “To enhance private sector involvement in economic development” was ranked first and rated as the most important (mean score, 1.46) rationale of PPP implementation in Malaysia. This result is consistent with the government’s agenda to continuously encourage private sector participation in (and contribution to) the development activities of the country. This is evidenced by the continuous emphasis in the Malaysia Plans, since the Third Malaysia Plan (1976) up until the recent Tenth Malaysia Plan (2010). The government continues to encourage the private sector to invest in the development of the country with an emphasis on the improvement of basic infrastructure, and upgrading of public transportation, particularly in Kuala Lumpur city centre. The result is also in line with claims made by Hurst and Reeves (2004), Jamali (2004) and Nisar (2007), but is contradicted by the findings reported by Cheung et al. (2009) on the top ranked reason for PPP implementation in Hong Kong, Australia and the United Kingdom.

Three rationales “to improve the efficiency of public services delivery”, “to improve the privatization programme” and “to reduce government spending in providing public services and facilities” were perceived as important rationales, as their mean scores range from 1.67 to 2.11. In terms of mean score, the rationale, “to improve the efficiency of public services delivery” ranked second. A study by Abd Aziz and Kassim (2011) claims that given the same duration of time, private sector expertise and business skills help the private sector to deliver its services more efficiently by completing more low-cost house units compared to the performance of the public sector. This is supported by Walker and Smith (1995), who state that the private sector can help the public sector to improve the efficiency of the public services, as it possesses better mobility, which can improve the project in the planning, design, construction and operation phases.
Improving efficiency of public services delivery is among the important reasons for PPP implementation in Hong Kong and Australia but not in the context of the United Kingdom (Cheung et al., 2009).

The third highest-ranking rationale is “to improve the privatization programme”, which has long been introduced in Malaysia to accelerate the rate of economic growth. The Privatisation Policy introduced in the early 1980s has received continuous emphasis in the Fifth (1986), Sixth (1991) and Eighth Malaysia Economic Plans (2000), and remains an important feature of the Tenth Malaysia Plan (2010). More importantly, in the Ninth Malaysia Plan (2006), it is explicitly stated that one of the objectives of PPP is to streamline the current privatization policy.

Another important rationale is “to reduce government spending in providing public services and facilities”. This is consistent with one of the rationales for PPP implementation in the UK, as outlined by Coulson (2008). Likewise, Cheung et al. (2009) reported that shortage of government funding is the most important reason for PPP implementation in the UK. In contrast, the reason is of lesser importance for PPP implementation in Hong Kong and Australia (Cheung et al., 2009). In the context of Malaysia, it is an important justification especially during the early inception of the private sector in providing public facilities and services when the country was severely affected by economic crises in the early 1980s. Furthermore, the rationale for having PPP help solves the government’s financial burden was proven with the success of the privatization policy; it was reported that during the period from 1996 to 2000, the total amount of savings in government capital expenditure amounted to USD16.3 billion (Eighth Malaysia Plan, 2000).

Of the five rationales, “to reduce the role of the Government in providing public services and facilities” was perceived least important overall. This might be because even though the PPP projects were run by private sector providers, the public sector still needs to monitor the project throughout to ensure successful implementation. However, the finding is in contrast to the government’s agenda under the mid-term review of the Fourth Malaysia Plan (1981), in which the government decided to reduce its role in the economy by making the involvement of the private sector a vital economic mechanism. Likewise, the evidence is inconsistent with the argument highlighted by Hurst and Reeves (2004) and Jamali (2004) on the justification for PPP implementation in Ireland and Lebanon, respectively.

Differences in the perceptions between the private and public sectors with respect to the rationales of PPP

In terms of the perceptions based on the public and private sector groups of respondents, Table III shows that, on average, the public sector respondents rated all rationales as more important than the private sector group. In addition, the results of the respondents from the public sector mirror the results of the overall respondents in terms of ranking. None of the rationales was perceived by the private sector respondents as “most important”. Four of the rationales were perceived by respondents of the private sector group as “important”, while the remaining one factor was rated as “not important”. For the mean score rankings, the minor differences in the results of the private sector group compared to the public sector group are in the third and fourth rankings of the rationales.
To statistically examine the differences in the results between these groups, an independent *t*-test was carried out for which the results are presented in Table IV.

As shown in Table IV, the significant differences were evidenced for three of the five rationales (the bottom three ranking rationales). Results reveal that the public sector respondents perceived “to improve privatization programme” and “to reduce government spending in providing public services and facilities” as being statistically more important than did the private sector respondents. The results are expected, as PPP is a government agenda for the country’s development and the two rationales are the main objectives for the adoption of PPP in Malaysia. Therefore, the government’s civil servants perceived these two rationales as being more important.

On the other hand, the rationale “to reduce the role of the Government in providing public services and facilities” was perceived as being significantly less important by the private sector respondents than their public sector counterparts. This finding could be because the private sector respondents realize the importance of the government taking an active role throughout the PPP contract, although, theoretically, significant responsibilities and risks are transferred to the private sector. The role of the government is still important in ensuring the success of the PPP projects to better serve the public at large, as it is concerned with delivering public facilities and services.

### Conclusion

Generally, the results reveal that the “most important” Malaysian PPP rationale among all respondents is “to enhance private sector involvement in economic development” and the “less important” rationale is “to reduce the role of the Government in providing public services and facilities”. From the analysis of the differences in the perceptions between the public and private sector groups, the former rated all rationales as more important than their private sector counterparts. In addition, a statistical test revealed that differences in perceived importance between the public and private sectors were significant for three of the five rationales presented.

The finding that “to enhance private sector involvement in economic development” is the most important rationale for PPP implementation in Malaysia, while “to reduce the role of the Government in providing public services and facilities” is the least important rationale, imply that although greater participation of the private sector in the

<table>
<thead>
<tr>
<th>No.</th>
<th>PPP rationales</th>
<th>Levene’s test</th>
<th>Independent <em>t</em>-test</th>
<th>Significance</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To enhance private sector involvement in economic development</td>
<td>0.406</td>
<td>−0.929</td>
<td>0.525</td>
<td>0.355</td>
</tr>
<tr>
<td>2</td>
<td>To improve the efficiency of public services delivery</td>
<td>0.033</td>
<td>−0.412</td>
<td>0.857</td>
<td>0.681</td>
</tr>
<tr>
<td>3</td>
<td>To improve the privatization programme</td>
<td>1.567</td>
<td>−3.451</td>
<td>0.213</td>
<td>0.001***</td>
</tr>
<tr>
<td>4</td>
<td>To reduce government spending in providing public services and facilities</td>
<td>3.289</td>
<td>−3.610</td>
<td>0.072</td>
<td>0.000***</td>
</tr>
<tr>
<td>5</td>
<td>To reduce the role of the government in providing public services and facilities</td>
<td>4.749</td>
<td>−3.094</td>
<td>0.031</td>
<td>0.003***</td>
</tr>
</tbody>
</table>

**Note:** ***significance at 1% level

**Table IV.** Summary of the Levene’s test and independent *t*-test results
development activities of the country is encouraged, the government’s role in this matter is not minimized. Although the private sector is expected to assist the government in delivering public facilities and services, the government should still play an active role in monitoring and regulating the implementation of the PPP projects.

Moreover, as “to enhance private sector involvement in economic development” was rated highest in terms of importance, the government may want to consider offering PPP projects to a variety of private companies rather than to the same few large companies. Although it is understandable that large companies may have greater credibility and resources to successfully deliver PPP projects, giving the opportunity to small- and medium-sized companies to experience handling PPP projects may be advantageous to many parties. Perhaps, one practical way is via partnering the large companies with small- or medium-sized companies, thus applying the mentoring system to deliver PPP projects. This is crucial to the long-term economic growth of the country, as a significant portion (90 per cent) of Malaysia’s construction companies are of smaller size.

“To improve the efficiency of public services delivery” was also among the top ranking rationales for PPP implementation in Malaysia, which indirectly reflects the inefficiency in the traditional service delivery of the government. It provides a clear indication to the private sector providers that they are called upon to assist the government by sharing their skills and expertise to overcome the issue of inefficiency of public service delivery. To help ensure the objective of improving the efficiency of public services delivery is achieved via PPP, relevant authorities, such as the evaluation and monitoring committee of the Unit Kerjasama Awam Swasta (2011), may want to consider developing measures to evaluate the increase in the efficiency of public service delivery since the implementation of the PPP initiative.

This study is not without its limitations. First, it used a questionnaire survey to examine the rationales. To obtain richer data, future studies may benefit from a qualitative approach using interview and case study methods. Second, the respondents for the present study are the government and private sector providers. As PPP is meant to deliver public facilities and services, seeking the opinion of the general public may provide additional input from a different perspective. In addition, although there are rationales for adopting PPP, its implementation involves various types of risks. Hence, future study may also want to consider risk assessment and management aspects of PPP project implementation in Malaysia.

References


Further reading


Corresponding author

Suhaiza Ismail can be contacted at: suhaiza@iium.edu.my

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