

**AWARENESS OF APPLYING PUBLIC PRIVATE PARTNERSHIP  
(PPP) IN CONSTRUCTION INDUSTRY MALAYSIA**

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**This dissertation is submitted to fulfill the requirement  
Of Bachelor of Science of Housing, Building and Planning  
(Quantity Surveying)**

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## DECLARATION

This dissertation is submitted for academic research purpose to fulfill the requirement for Degree of Bachelor Science of Housing, Building and Planning (Hons.) (Quantity Surveying), Universiti Sains Malaysia. All the information submitted in this research project is my own work unless it is stated otherwise.

This dissertation has not been submitted and receives full or partially to fulfill any other degree requirement and currently it is not being presented for other degree.

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## ABSTRACT

The use of the Public Private Partnership as procurement in delivery public infrastructure and services in Malaysia began active during the 1990s was much more rapid and widespread than had been expected at the start of the decade. However, these flows peaked in 1997, and have fallen more or less steadily ever since because a variety of problems have been encountered and the financial crisis in the region. These declines have been accompanied by cancellations or renegotiations of some projects, a reduction in investor's interest and pursue for the public infrastructure and services. However, the needs for infrastructure are now greater than ever in emerging and developing countries such as Malaysia. Both government and private sectors are recommending and trying to apply these types of approach for the reasons of it is the best solution to solve the government's problems.

As an important step toward the development of this procurement, this study focused on the awareness of construction industry Malaysia toward Public Private Partnership as procurement in delivery the public infrastructure and services. This study identifies and analyzed the core principles and benefits of adopting PPP as procurement as well as the critical success factors and the suitability of different types of PPP in the various infrastructure sectors in Malaysia in general based on a systematic research approach that includes literature review and case review. The level of awareness of industry players toward PPP was developed; most of them have basic knowledge toward PPP. The awareness of this procurement is examined based on the results of a questionnaire survey of industry players' opinions. A better awareness of this type of procurement is an important step in emerging and developing the country.



## ABSTRAK

Penggunaan “Public Private Partnership” untuk melaksanakan projek infrastruktur dan perkhidmatan kerajaan di Malaysia mula aktif sejak dari 1990-an dan penggunaannya semakin berkembang dan menyebar luas lebih daripada apa yang dijangkakan pada awal dekad. Walaupun demikian, penggunaan PPP merosot dari aras kemuncak pada tahun 1997, ia menjatuh sebanyak sedikit secara berterusan disebabkan menghadapi pelbagai masalah dan krisis kewangan dalam wilayah. Kemerosotan penggunaan PPP telah menyebabkan pembatalan dan perbincangan semula beberapa projek, di samping telah mengurangkan minat pelabur untuk melabur dalam projek infrastruktur dan perkhidmatan kerajaan. Akan tetapi, keperluan membangunkan infrastruktur semakin meningkat berbanding dengan masa dahulu dalam sebuah negara yang sedang membangun seperti negara Malaysia. Kedua-dua pihak kerajaan dan sektor swasta dicadangkan menggunakan PPP kerana ia adalah cara penyelesaian yang terbaik untuk masalah yang dihadapi kerajaan.

Sebagai satu langkah yang penting dalam penggunaan PPP, kajian ini menumpu kepada kesedaran pihak-pihak yang terlibat dalam industri pembinaan Malaysia terhadap penggunaan PPP untuk menjalankan projek infrastruktur dan perkhidmatan kerajaan. Proses kajian yang sistematik termasuk kajian semula kes dan bahan-bahan kesusasteraan dijalankan untuk mengenalpasti and menganalisis secara umum prinsip-prinsip utama dan faedah-faedah menggunakan PPP untuk menjalankan projek infrastruktur, tambahan juga faktor-faktor kejayaan dan kesesuaian pelbagai jenis PPP terhadap pelbagai sektor infrastruktur di Malaysia. Tahap kesedaran pihak-pihak yang terlibat dalam industri pembinaan telah didapati, kebanyakan mereka mempunyai pengetahuan asas terhadap penggunaan PPP. Kesedaran terhadap PPP didapati berdasarkan keputusan kajian soalan daripada pihak-pihak yang terlibat. Kesedaran yang lebih terhadap PPP adalah satu langkah sangat penting dalam sebuah negara yang sedang membangun.

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# Introduction

## **1.0 Introduction**

### **1.1 Background of Research**

In construction industry, most governments were fully responsible in delivery the public infrastructures and the involvements of private sectors are limited to either planning, design or construction contracts on a fee for service basis. However, many countries especially in developing countries, their governments were unable to delivery the services successfully because of the mission increasing complex.

Malaysia as a developing country nowadays also facing the same problems like others developing countries. According to SUEZ (2002), governments nowadays facing problems such as globalization of the economy, demographic explosion, urban growth, greater environmental constraints, health protection, need for security, and depletion of resources. Besides that, governments are facing with more regulatory and budgetary constraints. All over the world, solutions for financing and managing public infrastructures and services are becoming increasingly complex.

Besides that, governments also realized that inadequate infrastructures can restrict the economic growth in a variety of ways. For example, poor transport links increase the cost of goods and the time taken to deliver them to market and poor education and health care affects the economic potential of a population. (Richard Abadie, 2004) Meanwhile, governments notice the potential of private sectors and the success of the privatization of infrastructure services.



Consequently, many governments included Malaysia attempt to increase involvement of the private sector in the provision and financing of infrastructure services. In Malaysia, public private partnerships adopted in four major infrastructure sectors such as energy, transport, telecommunication and water and sewerage.

## **1.2 Research Problem Statement**

In Malaysia, the involvement of private sector in delivery public infrastructure and services began active during the 1990s was much more rapid and widespread than had been expected at the start of the decade. However, these flows peaked in 1997, and have fallen more or less steadily ever since. These declines have been accompanied by cancellations or renegotiations of some projects, a reduction in investor's interest and pursue for the public infrastructure and services.

The declining of PPP projects in Malaysia occurred because the financial crisis in the region during 1997. (The World Bank Group, 2004a) Besides that, these problems also are the result of the inadequate attention and well-prepared before get into the partnership such as lack of clear government objectives and commitment, inadequate legal/regulatory frameworks and low credibility of government policies.

Further more, the wide gaps between public and private sector expectations, poor risk management lack of mechanisms of attract long-term finance from private sources at affordable rates and poor transparency also some of the reasons number of public private partnership projects declined. X.Q.Zhang (2001) emphasized that to establish a successful PPP projects, all of these problem need to solve because well-designed and implemented public private partnership has made a considerable difference in helping countries meet their citizens' basic infrastructure needs.

However, the needs for infrastructure are now greater than ever in emerging and developing countries such as Malaysia. Both government and private sectors are recommending and trying to apply these types of approach for the reasons of it is the best solution to solve the government's problems. Besides that, it is also because of the absolute necessity of fostering access to all basic services.

In Malaysia, PPP still in the learning stage which still need a lot of practices to achieve the successful. There are 81 PPP projects from 1990-2004 in Malaysia, most of the project can conclude as success; however various problems occurred during the whole construction period. Recent success and failures both in developing and developed country should be studied for the procurement improvements in future PPP projects. Increase and improve the awareness of industry players toward PPP and identify the factors of success or failure would help to identify and develop best practices.

### **1.3 Research Main Aim**

The research's main aim is to investigate awareness of applying Public Private Partnership (PPP) among the player in both public and private sectors in construction industry Malaysia.

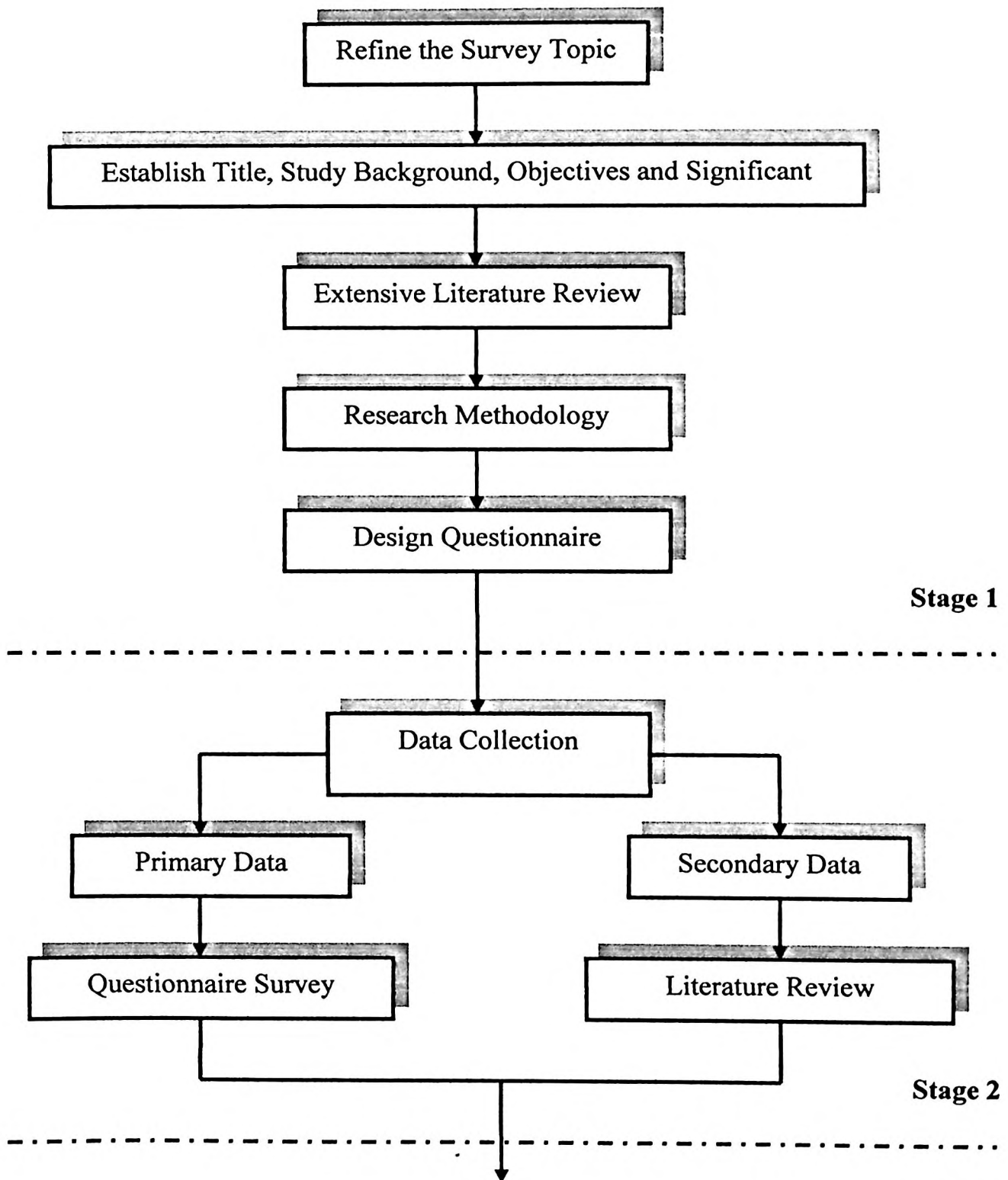
## **1.4 Research Objectives**

The objectives of the research are such as below:-

1. To investigate the application of Public Private Partnership (PPP) in construction industry.
2. To investigate the benefits of applying Public Private Partnership (PPP) in construction industry.
3. To investigate the critical success factors of applying Public Private Partnership (PPP) in construction industry.

## 1.5 Research Methodology

In conducting a research, it consists of a series of steps called the research process such as below:-



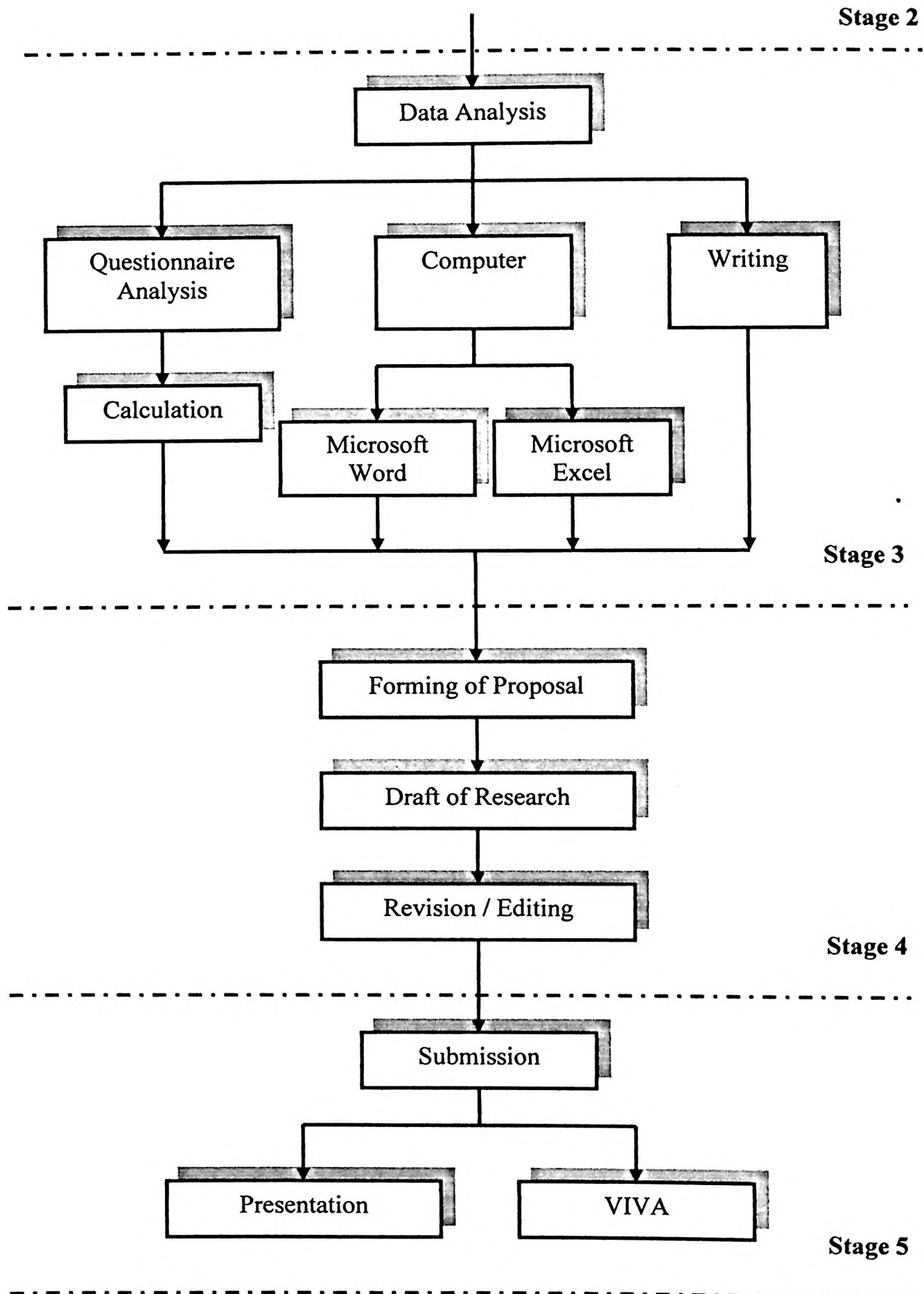


Figure 1.1: Methodology Chart

## 1.6 Research Questions

The research conducted to study the awareness of both public sector and private sector toward Public Private Partnership (PPP) in construction industry Malaysia. The awareness is regarding the core principles, benefits, critical success factors and suitability of adopting PPP as project procurement in delivery the public infrastructure and services. Thus, questions that used in the research are:-

1. What are the core principles of applying PPP in construction industry Malaysia?

This study will explore on the core principles of adopting PPP among the industry players from both public and private sector. It is extremely important for the both sectors to have an appropriate principle when adopting PPP as procurement in order to perform well. The study will be important for both sectors as they can use the results to carry out the project effectively as both sectors know what their partner's principles.

2. What are the benefits of applying PPP in construction industry Malaysia?

This study will focus on the reasons that both sectors choose to adopt PPP as procurement method in delivery the public infrastructure and services. It is important to know the reasons for both sectors choose to co-operation and partnership because through the reasons, indirectly we will know what the both sectors' requirements in construction industry Malaysia are.

3. What are the critical success factors of applying PPP in construction industry Malaysia?

This study will focus on what are the barriers when both sectors choose to adopt PPP as procurement method in delivery the public infrastructure and services. It is necessary to know the critical success factors before get into the PPP because through the barriers, both sectors may improve the current problems to encourage more involvement in PPP.

4. Which types of PPP suitable to apply in various infrastructure sectors in Malaysia?

This study will explore on the suitability of three main type of PPP for the four main infrastructure sectors in Malaysia. Each sector has it own characteristic and it is essential for a sectors to adopt a suitable procurement to have an effective and efficient outcome.



## **1.7 Scope and Research Limitation**

The research based on the application the Public Private Partnership (PPP) as project procurement by the both public and private sectors due to the government mission increasing complex meanwhile the country is developing. The research encompasses 11 respondents from the public authorities and private companies (contractors and developers). The research was limits to who has been involve in the PPP project.

The primary data of the research collected through mail questionnaires. This type of data collection method has been chosen due to the feedback from the respondents will provide reliable data. Reliable data is the data that collected from the selected respondents as a result in supporting the findings due to the limitation of the respondents regarding to the PPP procurement. Besides that, this data collection method provides greater geographic flexibility since it is possible to reach out to spatially dispersed respondents.

The sample of the mail questionnaires focused on the public authorities and private companies have been involved in PPP projects. Only them who have been experienced in this type of procurement will give the best responds that can represent the real situations in construction industry. The secondary data of references is limited to the internet sources, since that this type procurement still in the beginning stage in our country, so that the hard copy sources are limited.



## **1.8 Significance of Research Study**

The research based on the application the Public Private Partnership (PPP) as project procurement by the both public and private sectors due to the government mission increasing complex meanwhile the country is developing.

For the practices purpose, the findings of the research would significance to some of the industry players either for the public sector or the private sector, as it will provide a basic guideline on what is PPP, why to involve in PPP project, how to achieve successful in PPP and to build up their awareness toward this type of procurement. It is important for them to survive in this the industry as the country is developing rapidly.

Besides that, this research could also used for the academic purpose. It will give opportunity for the young generations to realize the important of skills and knowledge in the project procurement that they should mastered in order to become a construction industry players.

## **1.9 Structure of Research Study**

### **Chapter 1: Introduction**

Provide an overview aspect of the dissertation including consideration aspects before until completion of the dissertation.

### **Chapter 2: Literature Review**

1. Defines the definitions and the historical background of the PPP.
2. Discuss the different types of PPP
3. Determine the benefits of applying PPP.
4. Determine the critical success factors of applying PPP.
5. Review the PPP projects in Malaysia.

### **Chapter 3: Research Methodology**

Describe the research methodology that used with consideration in the research design.

### **Chapter 4: Results and Analysis**

This chapter emphasize on the analysis and the interpretation of the data from the fieldwork done with the reference to the research questions and the literature review.

### **Chapter 5: Conclusion and Recommendation**

This chapter will conclude the dissertation study by distinguishing summary of the findings from the data analysis and interpretation with the research objectives along the research conclusion and recommendation.

## 1.10 Summary

The Public Private Partnership (PPP) is a new procurement method adopted by the government to partnership with the private sector in delivery the public infrastructure and services with the purpose to achieve more efficient and effective outcome. Besides that, PPP also is one of the better ways to solve government problems because the missions increasing complex as the country is developing.

Thus, this research is a preliminary study to investigate whether the construction industry players from both public sector and private sector in Malaysia aware toward PPP or not. This research will focus on the core principles practiced by the players at the present; as well as the benefits and critical success factors encountered while adopting the PPP as procurement method. The research also tries to discover the suitability of different type of PPP in different infrastructure sectors in Malaysia. The research is hope to be significance to some of the industry players, as it will provide a basic guideline on what is PPP, why to involve in PPP project, how to achieve successful in PPP and to build up their awareness toward this type of procurement.

Chapter 2 will further explain in details about the literature review done on the PPP and this chapter provides an overview on the PPP procurement.



# **Literature Review**

## 2.0 What is Public Private Partnership (PPP)?

### 2.1 Introduction

Public Private Partnerships are adopted since last decade and these types of approach are famous all around the world nowadays. However, the definitions of PPP are different in every country, but most of the definitions have the common characteristics which are often associated with PPP. Some of the definitions as shown below:-

*Public private partnerships (P3's) are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. Such partnerships are characterized by the sharing of investment, risk, responsibility and reward between the partners. The reasons for establishing such partnerships vary but generally involve the financing, design, construction, operation and maintenance of public infrastructure and services.*

**Source: Ministry of Municipal Affairs, British Columbia (1999)**

*A public-private partnership is a contractual agreement formed between public and private sector partners, which allow more private sector participation than in traditional procurement. The agreements usually involve a government agency contracting with a private company to renovate, construct, operate, maintain, and/or manage a facility or system. While the public sector usually retains ownership in the facility or system, the private party will be given additional decision rights in determining how the project or task will be completed.*

**Source: Department of Transportation, United States (2004)**

*A Public Private Partnership is a partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector. PPPs come in a variety of different forms, but at the heart of every successful project is the concept that better value for money may be achieved through the exploitation of private sector competencies and the allocation of risk to the party best able to manage it.*

***Source: Department of the Environment and Local Government, Ireland (2003).***

Generally, Public Private Partnership (PPP) is an approach that adopts by governments to increase private sector involvement in the provision and financing the public infrastructure, community facilities and related services purposely to perform better than ever since the mission increasing complex. The public infrastructure and services include roads (expressway and highways), bridges, tunnels, ports and marines structures, railways, mass rapid transit systems and airports in the transportation sector, power, telecommunication, dams, water supply, water disposal systems in the utilities sector; and schools, hotels hospitals, military facilities and prisons.

PPP is a long-term contractual agreement or long-term co-operation between government and the private sectors in the provision and financing the public infrastructure and services. Traditionally, private sectors involvement in the public infrastructure and services has been limited to either planning, design or construction contracts on a fee for service basis which is based on the government's specifications and requirements. Usually after the contract period, the government will then own and operate the facilities or equipment or engage other maintenance and operation companies to operate the facilities and equipment to deliver the services to the public.

Generally the PPP procurement involves the planning, financing, design, construction, operation and maintenance of public infrastructure and services as traditional procurement. However through PPP, the private sector has chances to involve in a variety of ways and have the flexibility, from the initial design of a facility, systems and works processes, and use of equipment and allocation of manpower to its daily operation and maintenance.

In PPP, the roles and responsibilities of the partners for both public and private sector may different from project to project. For example, in some projects, the private sector partner will have chances involved in all aspects of service delivery such as design, construct, operate and maintenance, in others, only play a minor role in operation and maintenance work.

According to European Commission (2003), Public private partnership (PPP) approaches are arrayed across a spectrum. At one end, the public sector retains most of the responsibility for financing, constructing, operating and maintaining assets, together with the responsibility for assuming all associated risks. At the other end, the private sector assumes all of these responsibilities. The vast majority of PPP approaches fall in the middle of spectrum, with risks and responsibilities shared between the public sector and its private partners according to their strengths and weaknesses.

Ministry of Finance Singapore (2004) expressed that PPP is part of the best sourcing framework, because it can provide more efficient outcomes than those provided by either the public or the private sector alone since that both the public and the private sector have unique characteristics that provide them with advantages in specific aspects of service or project delivery.



X.Q.Zhang (2001), in his research paper, stated that the private sector with its wide range of managerial, commercial, and technical skills, encourage by the profit motive and unencumbered by layers of bureaucracy, can reputedly perform certain task more efficiently than government, thereby solve the governments failure in terms of slow and ineffective decision making, derived externalities, unworkable organizations and institutional frameworks, lake of competitions, monopoly, allocate inefficiency, and dysfunction between output and payment encourage the public sector seeks to bring together the private sectors to provide services to the public at the best value for money through PPP.



## 2.2 Brief history of Public Private Partnerships

According to G. Hamilton (2000), government had already conceded many of the public works such as public markets and the collective infrastructure to private sectors since ancient time. Book 50 of the *Digeste* (public and private law book published in A.D.530) is one of the evidences to show that concession already appeared since long time ago as the law book was especially dedicated for public works.

However, this type of approach was disappeared during the 5th century with the fall of the Roman Empire. This approach appeared again during the Middle Ages for the construction of new fortified towns. Within the 12th and 13th centuries, this approaches used for the occupation of new lands in the south western region of France. Occupancy contracts purposely to strengthen the towns against the attacks. Under this type of approach, the whole villages were conceded to their occupants under collective emphyteutic contracts which compelled the occupants to improve the village.

During the 16th and 17th centuries, European sovereigns, especially in France, passed their responsibility in delivery the public works to their “financial investors” generally called entrepreneurs under concession contract. The public works included riverbeds and canal construction, numerous public services such as road paving (actual road concessions), waste collection, public lighting, mail distribution, public transportation, general stores, and even opera houses. This approach existed in several European countries: e.g. the canal concessions in Britain (Oxford canal concession of 1791) and Spain (the longest concession being to Von Thurn und Taxis which lasted four centuries).

During 19<sup>th</sup> (1800-1899) century, concessions truly took off in Europe and developed quickly and successful in public works not only for railroads, but also urban services which expanded rapidly as a consequence. However, this type of approach only at the learning stage in other regions such as Asia. We can recognize a liberal convergence of approaches in Europe, especially for the creation of railways which took place under concessions in all European countries. In the North and the South, liberal ideas developed by the French revolution and the principle of free enterprise played an influential role in the systematic choice of the concession. However, this period was one of weak administrative structures in all fields of delegated public action.

During 20<sup>th</sup> century, the government's role and responsibilities in delivery public infrastructure and services was increased by world wars, both in preparing for them as well as in dealing with their consequences. The disruption of countries, economies and long-term contracts was strongly felt in most of the countries. Besides that, the inflation and its effect upon contracts became clear by 1918. Various public management methods were developed such as state-owned companies and nationalization. Such ideas were born to avoid the financial vulnerability of traditionally very long-term contracts. This movement grew throughout during the two post-war periods.

However, according to Clive Harris (2003), in many countries especially in developing countries, the results were disappointing. Public sector failed to deliver the infrastructure and services effectively and efficiently. Many were strapped for resources because governments succumbed to populist pressures to hold prices below costs. By and large publicly owned utilities failed to expand services to meet rapidly growing demand and did not do a good job of providing service to poor and rural households. Fiscal pressures and the success of the pioneers of the privatization of infrastructure services provided governments with a new paradigm. Many

governments sought to involve the private sector in the provision and financing of infrastructure services again.

The shift to the private provision that occurred was much more rapid and widespread than had been anticipated at the start of the decade. Public private partnership was actively adopted in electricity, natural gas transmission and distribution, telecommunication, transport and water and sewerage. However, these flows peaked in 1997, and have fallen more or less steadily ever since. These declines have been accompanied by high profile cancellations or renegotiations of some projects, a reduction in investor appetite for these activities and, in some parts of the world, a shift in public opinion against the private provision of infrastructure services.

The current sense of disillusionment stands in stark contrast to what should in retrospect be surprise at the spectacular growth of private infrastructure during the 1990s. Behind the details of individual projects, much of the disappointment has a common cause. In many cases the expectations of investors and governments were out of step with reality. In particular, both groups underestimated the challenges involved in sustaining reforms in these sectors in order to place them on a commercial footing, most importantly breaking with traditional practices of pricing these services well below costs.

Finally, two contractual systems emerged. Two major systems of contracts exist side by side throughout and nearly at all times. Their goals are on one hand the creation of public wealth and on the other, public estate management and the creation of infrastructure and permanent services for the public. Major characteristics of these two systems are summed up along with their fundamental differences. The PPP system is based upon three fundamental elements which are *long-term contracts, investment dedicated to the project and/or corresponding services and complex*

*responsibilities phased over time: design, construction, finance, technical and commercial operation, maintenance and transfer to the public sector at the end of the contract.* The non-PPP systems of contracts have completely different characteristics such as *non-dedicated investment, short-term, easy and simple services and close administrative control.*

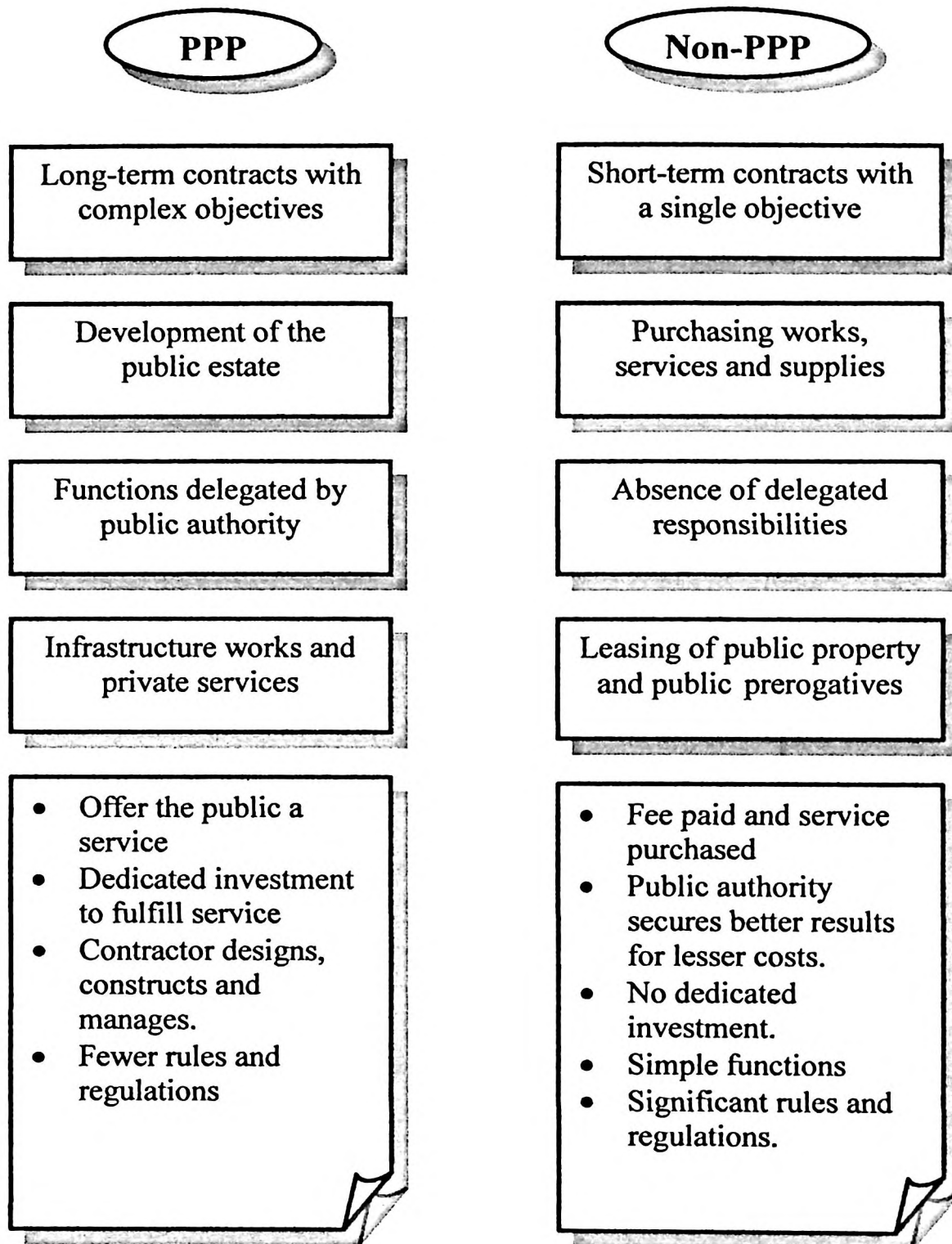


Figure 2.1: Public contracting: a historical topology

Source: G. Hamilton (2000)



## 2.3 Forms of PPP

Basically, public private partnership is a partnership between the public and private sector for the purpose of delivering a public infrastructure and services which traditionally provided by the government. Public private partnership recognizes that both the public sector and the private sector have certain advantages and benefits relative to the other in the performance of specific tasks. By allowing both sectors to do their best, public services and infrastructure can be provided in the most economically efficient manner. The main aim of the government adopt public private partnership is therefore to increase the involvement of the private sector in delivery the public infrastructure and services, so that to achieve a better performance through the exploitation of private sector skills and competencies.

According to Ministry of Municipal Affairs, British Columbia (2001), many forms of PPP have been introduced in the construction industry and are continuously being developed to suit various project characteristics after experienced and studied from the previous projects. Public private partnerships can be different in the degree of private sector control over and involvement in financing, the degree of risk allocated between the partners, the amount of expertise required on the part of each partner to negotiate contracts and the potential implications for ratepayers. There is no 'unique and best' model nor do the guidelines suggest as procurement in development of public infrastructure and services. Each project will define what is suitable and what is required. The allocation of risk between the partners is a key consideration that affects various other aspects of partnership agreements, including rewards, investments and responsibilities. This criterion will then also allow each type of PPP to be defined and related to the relevant legislation and methods for selecting private parties.

Various form of Public Private Partnership relationship which the degree of the involvement and responsibilities of private sector is increasing from transferring tasks normally done in house to the private sector to combining typically separate services into a single procurement or having private sector partners assume owner-like roles. There are three main types of Public Private Partnership;

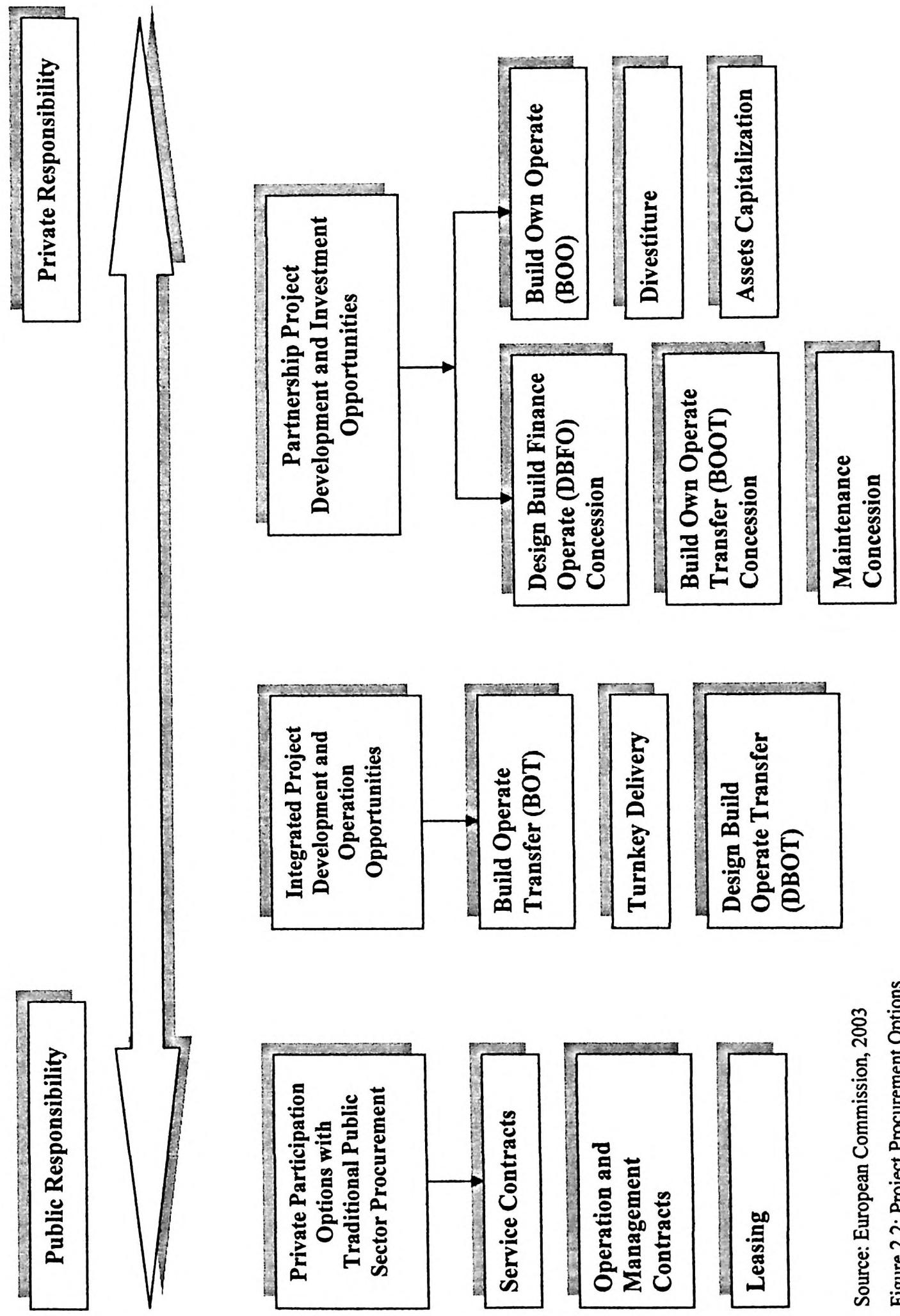
**1) Private Participation Options with Traditional Public Sector**

**Procurement,**

**2) Integrated Project Development and Operation Opportunities**

**3) Partnership Project Development and Investment Opportunities.**

All the definitions are based to internationally recognized nomenclature and the extent of risk and responsibility transfer to the private party.



Source: European Commission, 2003  
Figure 2.2: Project Procurement Options