

**08/09/2014 - Public-Private Partnership In Transforming Malaysia's Economic Development - Public Lecture In Conjunction With MTCP Course On Managing Diversity In A Globalising World**

Bismillahirrahmanirrahim,  
Assalamualaikum warahmatullahi wabarakatuh, Salam Sejahtera and Salam 1Malaysia.

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Yang Berbahagia Tan Sri/Dato' Sri/Dato'-Dato'/Datin-Datin/Tuan-tuan/Puan-puan,  
Distinguished Guests, Ladies and Gentlemen.

## **INTRODUCTION**

1. First and foremost, I would like to thank the University of Malaya and International Institute of Public Policy and Management (INPUMA) for inviting me to deliver this lecture, in conjunction with the organisation of the **Malaysian Technical Cooperation Programme (MTCP) Course, "Managing Diversity In A Globalising World: The Way Forward"**. The MTCP which was launched on 7 September 1980, envision to share Malaysia's development experiences and expertise among developing countries under South-South Cooperation.

I wish to welcome all MTCP participants especially to our international participants a warm **Welcome to Malaysia, Selamat Datang ke Malaysia!**

I am indeed delighted and proud to be back to my *alma mater*, the University of Malaya. It has been 35 years since I graduated and had my short stint working in University of Malaya. It is good to be back, albeit in a different capacity today.

2. I have chosen to deliver a topic entitled "**Public Private Partnership in Transforming Malaysia's Economic Development**", as I feel that it is important to share how cooperation between the public sector and private sector in Malaysia has transformed the nation's economic development, whilst accounting for our diversity in a globalised world.

I strongly believe that this topic is a matter of shared interest for the international participants, as well as my fellow Malaysians.

## **BACKGROUND**

**Distinguished Guests, Ladies and Gentlemen,**

3. The basic role of the Government is one in which the **public sector** produces **public goods and services**, such as infrastructure, healthcare,

education, security and telecommunications; whilst the **private sector** produces private goods and services **not traditionally catered by the public sector.**

4. As economic development begins to take place, the **public sector** continued to provide services for the increasing demand of public goods and services. However, its capacity to do so is limited by the availability of resources. When this happens, the **private sector** often comes in to **complement** or to **better provide** for public goods and services, based on economic returns and demand by consumers. The Government's role now shifts from being a "provider" of goods and services, to becoming the "**facilitator**" or "**enabler**" to the private sector. This circumstance where **the role of the public sector is being executed by the private sector** would be referred to as "**privatisation**" or "**outsourcing**" in certain areas.
5. Malaysia embarked on her privatisation journey since 1983 under the Malaysian Incorporated Policy, and it has since evolved to what is commonly referred to now as PPP or Public and Private Partnership. A transformative relationship now exists between the public and private sector in the provision of both public and private goods and services. Therefore, the PPP method has been **successful in transforming public and private goods and services delivery**, by pushing or leap-frogging beyond normal means, in order to advance to the next stage of economic development.

## **MALAYSIA'S DEVELOPMENT PHILOSOPHY AND OBJECTIVES**

### **Distinguished Guests, Ladies and Gentlemen,**

6. Before moving forward, allow me to briefly introduce Malaysia to our international participants. Consisting of 13 states and 3 Federal Territories, Malaysia is a middle-income economy with a vision to achieve **high-income, developed-nation status by 2020.** Currently, Malaysia's multi-ethnic population is estimated at 30 million. An open but small economy, Malaysia is rich in natural resources and has been a major producer of palm-oil, rubber and tin, in addition to petroleum and liquefied petroleum gas. The country is also a major exporter of manufactured goods.
7. As at 2013, Malaysia's total trade was 154% of Gross Domestic Product (GDP), and Malaysia's GDP share of world total GDP stood at 0.4%. Our economic system is based on a mix of free enterprise, with active Government support and directives. Hence, Malaysia's diversities, from the diversity of her people with their different needs, together with our diverse economy versus our development goals, have to be

taken into account when formulating policies at the national level, while managing complex diversities in a globalised world.

8. Like many other economies around the world, **Malaysia's main development philosophies and objectives** include;
- i. enhancing the standard of living of people;
  - ii. improving distribution of income;
  - iii. developing the main economic sectors;
  - iv. reducing the unemployment rate; and
  - v. achieving a strong Balance of Payment.

Indeed, these philosophies and objectives have been embedded in all Malaysia's development policies and strategies.

## **DEVELOPMENT POLICIES AND STRATEGIES**

### **Distinguished Guests, Ladies and Gentlemen,**

9. In the past, the British colonial administration policies in Malaya confined each race to specific economic activities. Malays were mainly confined to agriculture and fisheries in rural, coastal and inland areas. The Chinese were involved in mining and commerce, and were based in the suburbs and major towns, whilst the Indians were mainly working in rubber estates. This created **disparity in the distribution of economic wealth** between the different races and resulted in distrust and dissatisfaction, culminating in the 13 May 1969 social unrest.
10. As a result of this untoward incident, the New Economic Policy (NEP) was formulated by Tun Abdul Razak, our second Prime Minister, and implemented from 1971 to 1990. The NEP aimed to promote growth with equity, with its two-pronged strategies of **eradicating poverty** and **restructuring society**. To some extent, the NEP has modernised the agriculture sector and brought *Bumiputeras* into the mainstream economy.

11. To further develop the economy, the Industrialisation Policy was introduced in the 1980s by Tun Dr. Mahathir Mohamad, our fourth Prime Minister, **shifting Malaysia's economic path from an agrarian nation to an industrial economy**. The development of the Malaysian ICT industry also steered Malaysia's economic path towards a post-industrial society focused on K-Economy, and driving Malaysia into the most advanced stage of economic growth.
12. In addition to the afore mentioned policies, Malaysia's economic development has also been guided by:
  - the **National Development Policy (NDP)**, which promoted balanced development in order to establish a more united and just society for the period from 1991 to 2000; and
  - the **National Vision Policy (NVP)**, implemented from 2001 to 2010, which focused on building a resilient and competitive nation and aimed to raise the quality of development and generate high sustainable growth.
13. Today, Malaysia is guided by the **National Transformation Policy (NTP)**, introduced by our current Prime Minister, Dato' Sri Mohd. Najib Tun Abdul Razak. The NTP envisions Malaysia to achieve a **high-income advanced economy status by the year 2020** and is based on the **New Economic Model** and supported by the 10<sup>th</sup> Malaysia Plan. The 10<sup>th</sup> Malaysia Plan has targeted **economic growth of 6% per annum** led by the **private sector**, and narrowing of the Federal Government's **fiscal deficit** to a manageable **3% of GDP by 2015**. The NTP comprises of several main policies, which include the **Government Transformation Programme (GTP)** and the **Economic Transformation Programme (ETP)**.

## **PUBLIC PRIVATE PARTNERSHIP**

**Distinguished Guests, Ladies and Gentlemen;**

14. PPP is **smart partnership** between the Government and private sector for the purpose of providing public infrastructure, community facilities and related services. The exact definition differs between countries and organisations, and over time; and can cover **all types of collaboration** between the public and private sector to implement policies, deliver services and infrastructure. Generally, PPP is characterised by the **sharing of investment, risks, responsibilities and rewards between partners**. The main reasons for establishing such partnerships are to ensure efficient design, construction, operation and maintenance of infrastructure for enhanced services.
  
15. As I mentioned earlier, PPP in Malaysia commenced in 1983 with the Privatisation Policy. To strengthen its implementation, the **Privatisation Master Plan** was launched in 1991 to establish Malaysia Incorporated concept. Privatisation was then under the purview of the Economic Planning Unit (EPU). However, with the increasing need for closer PPP collaboration in developing the economy, the Public Private Partnership Unit (3PU) was established on 22 April 2009, which is now known as **UKAS**, under the Prime Minister's Department.  
UKAS acts as the **central agency for planning, facilitating and coordinating PPP programs** in Malaysia.
  
16. So this brings us to the question: "**Why PPP?**". The answer is simple: **PPP can deliver value for money**, by harnessing the private sector's expertise in combining the design and operation of an asset, thereby **providing services in a more efficient manner** compared to traditional forms of procurement. Based on Malaysia's experiences in dealings with conventional procurement over the years, cost and time overrun, and late delivery were issues which had to be frequently dealt with.
  
17. PPP on the other hand, provides **better and faster delivery through effective allocation of risks**. Risks are borne by those who are better able to deal with them. There is zero completion and rework risks to the Government since design and construction risks are borne by the private sector. It **enhances quality delivery of services** to the public, where build quality responsibilities are borne by the private sector. The Government sets the Key Performance Indicator (KPI) for minimum service level to ensure uncompromised service quality. Additionally, a sinking fund is set up throughout the concession period for heavy maintenance, refurbishment and upgrading works.
  
18. PPP also realizes **Value for Money (VfM)**. A whole life cycle approach through integration of design and services incentivises the private sector to undertake careful planning at the design stage, as it has direct impact on service quality in accordance

to the KPIs set. Furthermore, VfM can be intensified by leveraging on project selection and structuring as well as through procurement strategy and contract management.

### **Distinguished Guests, Ladies and Gentlemen,**

19. In the Malaysian context, PPP generally includes Privatisation and Private Finance Initiatives (PFI). **Privatisation methods** include Sales of Assets or Equity; Corporatisation; Land Swap; Build-Operate-Transfer (BOT); Build-Operate-Own (BOO); Outsourcing/Management Contract; and Leasing. As for **PFI**, the methods include Build-Lease-Transfer (BLT); Build-Lease-Maintain-Transfer (BLMT); and Build-Lease-Maintain-Operate-Transfer (BLMOT).
20. Under the PPP structure implemented in Malaysia, it is carried out via a **Special Purpose Vehicle** (SPV), which acts as an operator comprising the construction contractor and the facilities management operator. The SPV company may be financed through equity and debt, and delivers services to customers and users of public services in return for payment for services rendered.
21. At this juncture, I would like to share with you a few of **Malaysia's PPP success stories**.
  - i. **Privatisation of Toll Highways**
    - To date, 27 toll highways have been built using the Built-Operate-Transfer (BOT) method, involving varying concession periods from 20 to 40 years. Under this method, the private sector as concessionaires is allowed to collect toll charges in return.
    - Examples of highways include the North-South Highway (PLUS), MEX, DUKE, AKLEH, and etc.
    - New highways also create spill-over effects by creating new townships and industrial areas.
  - ii. **Privatisation of Government Office Building**

- The development of the Government office buildings in Putrajaya, the Federal Government Administrative Centre was done through the **Built-Lease-Transfer** (BLT) method.
  - The private sector benefitted in the form of lease rental for a 25- year concession period; whereas the Government received a well-planned, integrated administrative township with iconic buildings with tourism appeal.
- iii. **PFI in Education**

- **6 UiTM branch campuses** have been built via the **Build-Lease-Maintain-Transfer** (BLMT) method involving a 20-year concession period. It ensured Value for Money where the Government-pay principle is based on established KPIs.

## **ECONOMIC DEVELOPMENT ACHIEVEMENT**

### **Distinguished Guests, Ladies and Gentlemen,**

22. Since 1983, Malaysia has successfully **planned, evaluated and implemented** more than **641 PPP projects** involving total capital expenditure of **RM182 billion** (US\$55 billion). Overall, the Government has:
- **saved RM193.4 billion in capital expenditure and RM9.3 billion in operating expenditure;**
  - **generated RM6.5 billion from proceeds from sales** of Government equity and assets; and
  - **transferred 113,500 jobs** from the Government payroll.
23. As at 31 December 2013, **market capitalisation for privatisation** was valued at **RM287.9 billion**. The main sectoral distribution of PPP programmes are in the fields of construction (22%); transportation and communication (13%); manufacturing (11.8%); wholesale (10%); finance, real estate and business (9.5%); Government services 8.3%; and others services (25.4%).
24. Needless to say, the **private sector** has very much **led the economic growth in Malaysia**, as evidenced from the following: for the period from **1970 to 2013**, Malaysia's **economic growth** was on average at **6.2% per annum**, and the **National Income per capita** expanded from **US\$389 to US\$10,106**. **Average Household Income** increased 6.4%, from **RM678 in 1980 to RM5,000 in 2012**. Incidence of **poverty in rural and urban** areas has decreased from **49.3% in 1970 to 1.7% in 2012**. In addition, the economy has transformed from an **agriculture-based** economy into a **manufacturing and**

**service** based economy, and the **unemployment rate** has been maintained at below **4%** since 1995.

## **CHALLENGES AND PROSPECTS: THE WAY FORWARD**

### **Distinguished Guests, Ladies and Gentlemen,**

25. I strongly believe that PPP will continue to be one of the key instruments in implementing Government projects, particularly in light of market liberalisation and globalisation. **Inclusiveness**, not only in terms of ethnicity, gender and geographical location, has always been the underlying principle of Malaysia's development policies since the 1970s. Malaysia realises that it must maintain its competitiveness to investors in the globalised world of today.

In this regard, **infrastructure projects shall remain relevant in PPP**, albeit with focus on new areas such as green technology, energy-efficient design, opening up of new and strategic townships and cities, and sectors which generate high spill-over effects.

26. It must be noted that PPP is only possible through **smart partnership ventures between the private and public sector**, with a **high level of commitment from the Government**. The Government's commitment is clearly manifested not only through Malaysia's five year development plans, where privatisation or PPP has been one of its significant features, but also with the establishment of UKAS and the **RM20 billion Facilitation Fund** to encourage private sector investment in strategic key economic areas.

27. In recognizing the importance of PPP, I have outlined Public Private Partnership as one of the 6 Principles in "*Merakyatkan Perkhidmatan Awam*" (MPA) or "**Humanising the Public Service**". In this principle, the Government and private sectors work in smart partnership in enhancing and transforming public service delivery for mutual benefits.

28. As I have explained, PPP has been implemented in Malaysia for more than 30 years and has contributed significantly towards Malaysia's rapid economic growth. With this in mind, **Malaysia is ever-willing to share our experience in PPP implementation with other countries**, particularly developing countries that are interested to learn the best practices from Malaysia and emulate our humble successes. Hence, I would like to urge our friends to take advantage of the capacity building,

consultancy and advisory programmes offered by the **Excellence under UKAS**.

**PPP Centre of**

29. The interest and demand in PPPs has been growing in recent years across the world and the need for fiscal restraint in some countries is expected to further increase their use. As such, Malaysia is now looking into ways to **minimise the fiscal risks to the Government** without jeopardising incentives to the private sector in PPP. This may be by way of **developing a set of public sector indicators** in the assessment of PPP projects and implementing innovative PPPs which efficiently utilises Government expenditure.

### **CLOSING**

Distinguished Guests, Ladies and Gentlemen,

30. I do hope that you have found my lecture today useful, and given you a sense of the importance of PPP for economic development in Malaysia. I trust you will be able to apply what you have learnt and gained from this training programme, not only in terms of the advancement of your professional career but also in the service of your respective Governments and countries.

31. Before I conclude, let me once again thank University of Malaya and INPUMA for inviting me to deliver this lecture as part of its public lecture series and also to the Ministry of Foreign Affairs Malaysia, the MTCP Secretariat.

32. I would also like to take this opportunity to thank all individuals and parties who have in one way or another contributed to the success of this lecture. Last but not least, I wish all participants the very best in your training. May it be a time of fruitful learning and that you have an enjoyable experience during your stay here in Malaysia.

With that, **I now officially declare the MTCP Course on “Managing Diversity In a Globalising World: The Way Forward” open.**

Thank you.

Wabillahitaufik Walhidayah Wassalamualaikum Warahmatullahi Wabarakatuh