

## **03/03/2015 - Public-Private Partnerships: Nation Path Through The Next Decade**

Bismillahirrahmanirrahim,

Assalamualaikum warahmatullahi wabarakatuh, Salam Sejahtera and Salam  
1Malaysia.

*(salutations to VIP)*

Yang Berusaha Dr. Hamidin Abd. Hamid,  
Chief Executive Officer,  
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Yang Berbahagia Tan Sri-Tan Sri, Dato' Sri-Dato' Sri, Dato'-Dato';

Participants of the International Directors Summit 2015;

Distinguished Guests, Ladies and Gentlemen.

1. First and foremost, I would like to thank the Razak School of Government (RSOG) and the Malaysian Directors Academy (MINDA) for inviting me to deliver this special address on "Public-Private Partnerships: Nation Path through the Next Decade". I am very delighted to be here today for the International Directors Summit 2015 as I believe it is always relevant to share Malaysia's experience on Public-Private Partnership (PPP), and our way forward with the private sector and movers and shakers in the industry.
2. PPP has been pivotal in Malaysia's growth and economic development since the early 1980s, and forums such as this promote dialogue between the public and private sector. Today, I will touch on the brief history of PPP in Malaysia, the current status of PPP and our success stories before explaining

Malaysia's way forward in PPP, particularly in terms of PPP's role in achieving the country's development objectives.

## **MALAYSIA'S ECONOMIC DEVELOPMENT**

Distinguished Guests, Ladies and Gentlemen,

3. Malaysia's economic landscape from 1957 until the late 1980s was very much agriculture-based and labour intensive, with rubber and tin as the main export, and manufactured goods mainly imported from Britain. Today, Malaysia's export also includes palm oil, petroleum and liquefied petroleum gas. The country is also a major exporter of manufactured goods. Trade and industrialisation have largely contributed to Malaysia becoming an upper middle income country, with GDP per capita at RM34,123 as of 2014.
4. Policies introduced by the Government in the 1980s have facilitated the industrialisation of Malaysia's economy. Malaysia realised that in order to develop trade and industry, infrastructure has to be developed too, and there is a limit as to what the Government can do and deliver in order to meet growth and development needs. Realising the importance of the private sector to the economy, policies were put in place to promote private sector growth and facilitate public-private partnership. Hence, the Privatisation Policy and Malaysia Incorporated Policy were introduced in the 1980s. To strengthen its implementation, the Privatisation Master Plan was launched in 1991. Privatisation in Malaysia has evolved and the relationship is now commonly referred to as Public and Private Partnership or PPP.
5. Generally, PPP is characterised by the **sharing of 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. PPP can deliver **value for money** through 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. PPP also provides **better and faster delivery through effective allocation of risks**. Risks

are borne by the party which is better able to manage 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.

6. In terms of economic performance, Malaysia's economy grew by 6.2% for the period from 1970 to 2014. National Incidence of Poverty has declined from 49.3% in 1970 to 0.1% in 2014. In addition, the economy has transformed from agriculture-based into manufacturing and service-based economy. The unemployment rate has been maintained at below 4% since 1994, while the inflation rate remained low and stable. Needless to say, the private sector has contributed significantly to Malaysia's economic growth in Malaysia.

## **PPP IN MALAYSIA**

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7. In the Malaysian context, PPP generally includes Privatisation and Private Finance Initiatives (PFI). Privatisation methods include;
  - i. sales of assets or equity;
  - ii. corporatisation;
  - iii. land swap;
  - iv. Build-Operate-Transfer (BOT);
  - v. Build-Operate-Own (BOO);
  - vi. outsourcing/management contract; and
  - vii. leasing.

As for Private Finance Initiatives (PFI), the methods include:

- i. Build-Lease-Transfer (BLT);
- ii. Build-Lease-Maintain-Transfer (BLMT); and
- iii. Build-Lease-Maintain-Operate-Transfer (BLMOT).

The PPP structure implemented in Malaysia is carried out via a Special Purpose Vehicle (SPV) which acts as an operator, and typically implements projects by appointing construction contractors and the facilities management operators.

8. PPP can deliver value for money through 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. However, careful consideration, assessment and review need to be carried out to get the best value for money for the government, and allowing a reasonable return to the private sector due to the complex nature of PPP projects in terms of risk allocation, contract negotiation, detailing output specification and the key performance indicators (KPIs).
9. In Malaysia, the PPP implementation framework is based on:
  - i. centralised planning and processing at the PPP Unit, Prime Minister's Department (UKAS);
  - ii. decentralised implementation and monitoring by the Ministries and State Governments; and
  - iii. negotiation/standardisation of terms and conditions of concession agreement by the Public-Private Partnership Committee (JKAS).

As such, there is a clear structure in terms of inter-agency coordination in the implementation of PPP projects in Malaysia.

10. Coordination is effected via the Public-Private Partnership Committee (JKAS) and High Level Committee on Public-Private Partnership (JTAS). These

committees facilitate coordination between UKAS and other relevant central agencies and stakeholders before project proposals are presented to the Cabinet for decision. The agencies and stakeholders include the Ministry of Finance, the Economic Planning Unit, Prime Minister's Department, the Attorney-General's Chambers, Department of Director-General of Land and Mines (Federal Land Commissioner), Valuation and Property Services Department, and the implementing agency.

11. Collaboration with private sector on PPP projects are based on the **PPP Guideline** which is available on UKAS' website. The Guideline explains and sets out the conceptual framework, payment principle, project valuation criteria, project implementation structure, role of implementing agency, the legal aspect, processing and implementation procedures and guide on preparation of PPP project framework.

## **SUCCESS STORIES**

Distinguished Guests, Ladies and Gentlemen,

12. In Malaysia, the development of toll highways, ports, airports, flood tunnel, and government office buildings, among others, has been made possible through PPP arrangements. Projects like the North South Highway, Port of Tanjung Pelepas, KLIA and Government office buildings in Putrajaya spurred Malaysia's economic growth, created new areas of development as well as improved accessibility and mobility. To date, **31 toll highways and toll bridges** have been built using the Built-Operate-Transfer (BOT) method involving varying concession periods from 30 to 50 years. Under this method, the private sector as concessionaires is allowed to collect toll charges in return. These highways include North South Highway (PLUS), Puchong-Damansara Highway (LDP) and Elite Highway. Apart from facilitation of movement of passengers and goods, new highways create spill-over effects by creating new townships and industrial areas.

13. Among the PFI projects in Malaysia is the **development of Government office buildings** in the Federal Government Administrative Centre, Putrajaya. The method involved is Built-Lease-Transfer (BLT) where the return to the private sector is in the form of lease rental for a 25 year concession period. It creates well-planned integrated administrative township with iconic buildings that also has tourism appeal. In the education sector, **12 UiTM branch campuses** have been built via the Built-Lease-Maintain-Transfer (BLMT) method involving 20 years concession period.
14. As of December 2014 Malaysia has successfully implemented **698 PPP projects**. Overall, the Government has **saved a total of RM211.3 billion**, namely:
- **total capital expenditure** of RM195.65 billion;
  - **total operating expenditure** of RM9.25 billion; and
  - **total proceeds from sales** of Government equity and assets at RM6.5 billion.

As of 31 December 2013, market capitalisation for privatisation was valued at RM292 billion. The main sectoral distribution of PPP programmes are in the fields of **construction** (27.8%), **transportation & communication** (12.3%), **manufacturing** (10.0%), **wholesale and retail, trade, hotel and restaurant** (11.2%), **finance, real estate and business services** (8.3%), **Government services** (7.0%) and **other services** (8.3%) .

15. With these in mind, Malaysia is willing and able to share our experience in PPP implementation with other countries, particularly developing countries that are interested in learning from Malaysia and perhaps adopt or adapt the practices and mechanisms which have been successfully implemented in Malaysia. In this regard, the **PPP Centre of Excellence** under the Public-Private Partnership Unit, Prime Minister's Department Malaysia has been established as a vehicle for such experience sharing, which includes capacity building, consultancy and advisory programmes. UKAS is currently looking into the possibility of entering into a formal cooperation with the Commonwealth Association of Public Administration & Management (CAPAM) in establishing

the **Commonwealth PPP Centre of Excellence**. Indeed, as a developing country, Malaysia understands the constraints faced by fellow developing countries in PPP implementation, such as balancing economic development and growth needs with fiscal constraints, and also minimising the financial risks to the government that comes with PPP commitments.

## **THE WAY FORWARD**

Distinguished Guests, Ladies and Gentlemen,

16. Malaysia's main development philosophies and objectives include;
  - enhancing the standard of living of people;
  - improving distribution of income;
  - developing the main economic sectors;
  - reducing the unemployment rate;
  - achieving strong Balance of Payment;
  - ensuring fiscal sustainability; and
  - achieving price and currency stability.

These are relevant to Malaysia in the quest to achieve high income advanced economy status by the year 2020 as outlined under the prevailing development policy, the National Transformation Policy (NTP) and which is being implemented from 2011 to 2020. The NTP is based on the New Economic Model which is guided by the principle of 1Malaysia: People First, Performance Now. In addition, **private investment is expected to play a more significant role in economic development**, contributing a total of 17.5% of total GDP in 2014. In this regard, Under the 10th Malaysia Plan (2011-2015), the Government has established a **Facilitation Fund of RM20 billion** to bridge the viability gap for private investment as a tipping point in priority areas such as infrastructure, education, tourism and health.

17. PPP will continue to be one of the key instruments in achieving growth and development not just until the year 2020 but also beyond, because of the significant contribution which PPP has made to the growth and development of the country. Furthermore, the interest in PPP 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. Market liberalisation and globalisation also compounds the relevance of PPP to Malaysia. This is because Malaysia realises that it needs to maintain its competitiveness in order to attract investors. Thus, PPP projects which improve production, efficiency, access and connectivity would maintain and improve Malaysia's competitiveness to investors.
18. Nevertheless, it ought to be noted that any PPP project selection has to be based on **value for money and affordability assessments**; otherwise, PPP can be risky for fiscal sustainability due to their complex nature in terms of risk sharing, costing, contract negotiation, affordability, as well as budget and accounting treatment. In this regard, 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 the private sector capabilities. In this regard, infrastructure projects shall remain relevant in PPP, albeit with focus on new areas for instance green technology and energy-efficient designs as well as selecting projects such as opening up of new and strategic townships, areas and cities like Malaysia's development corridors and sectors.
19. It ought to be noted that **PPP is only possible through smart partnership ventures between private and public sector with high level commitment from the Government**. The Government's commitment is clearly manifested with the establishment of UKAS as a dedicated agency responsible for PPP implementation in Malaysia and the allocation of RM20 billion for the Facilitation Fund to encourage private sector investment in strategic key economic areas.

## **CLOSING REMARKS**

Distinguished Guests, Ladies and Gentlemen,

20. Before I conclude, I would like to reiterate that PPP has been proven to be a useful tool in stimulating economic growth and development in Malaysia. This is evident from the rapid growth which Malaysia has achieved since the 1980's when privatisation was aggressively pursued and promoted by virtue of Malaysia's development policies. Indeed, through the next decade, Malaysia's faith in PPP in delivering the country's developmental objectives shall not wane. Nevertheless, pragmatic improvements would have to be made to meet the challenges in PPP implementation in a more globalised world, to be able to withstand market and financial volatility, and to adapt to business and market innovations. I am not promising an easy path ahead but as a country with sound economic fundamentals and commendable experience in PPP implementation, Malaysia shall persevere.

Thank you.

Wabillahitaufik Walhidayah Wassalamualaikum Warahmatullahi Wabarakatuh.