



MALAYSIA

**PUBLIC PRIVATE PARTNERSHIP (PPP)
GUIDELINE**

**Public-Private Partnership Unit
Prime Minister Department
PUTRAJAYA**

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Scope and Purpose

This PPP Guideline does not aim at providing a detailed guide but set out to elucidate the key principles of Malaysia's PPP programme as embodied in the Malaysian Ninth Plan, and addresses some of the key attributes of an equitable PPP structure to serve as guidance to interested parties intending to understand or participate in the PPP programme in Malaysia. This guideline will be revised from time to time depending on requirements as necessary.

1.0 INTRODUCTION

The Private Finance Initiatives (PFI) Programme was announced in the Ninth Malaysia Plan in March 2006, aimed at facilitating greater participation of the private sector to improve the delivery of infrastructure facilities and public service. It sets out many of the key principles on how some of the public sector infrastructure projects will be procured and implemented. PFI will be undertaken as part of the new modes of procurement under the Public Private Partnerships (PPP) to further enhance private sector participation in economic development.

The terms PPP and PFI have often been used inter-changeably throughout the world though there are subtle differences between them. However, for Malaysia, the PFI principles as announced in the Ninth Malaysia Plan form a subset of the umbrella PPP principles. For consistency purpose, the general term PPP will be used throughout this document.

2.0 CONCEPTUAL FRAMEWORK

PPP involves the transfer to the private sector the responsibility to finance and manage a package of capital investment and services including the construction, management, maintenance, refurbishment and replacement of public sector assets such as buildings, infrastructure, equipment and other facilities, which creates a standalone business. In these PPP projects, there is a contract for the private party to deliver public infrastructure-based services over a long period of time. The private party will raise its own funds to finance the whole or part of the assets that will deliver the services based on agreed performances. The public sector, in turn, will compensate the private party for these services. In some PPP projects, part of the payments may flow from the public users directly.

Though ownership of assets plays a less important role in PPPs, nevertheless many of the modalities see a transfer of the assets to the public sector (revertible) as a matter of course. There are some PPP projects where the assets are not transferred to the public sector at the end of the concession period. These usually relate to facilities or projects that have little value at the end of the period due to their technological obsolescence.

2.1 Principles in Adopting PPP Approach

A PPP proposal will only be considered if there is a **need** on the part of the Government for the project after taking into account the benefits/probity as a whole in terms of, inter-alia:

- i. socio-economic impacts
- ii. value for money and cost savings to the Government
- iii. quick delivery of the project and service enhancement
- iv. increased level of accountability, efficiency and effectiveness

2.2 Key Features/Characteristics

PPP is a procurement model in which the value for money as shown in Box 1 is optimised through efficient allocation of risks, whole life service approach, private sector innovation and management skills as well as synergies from inter-linking the design, finance, construction and operations. Some of the key features/characteristics of PPP projects are as follows:

- i. Relationship between public and private sectors is based on partnership;
- ii. Public sector procures specified outputs or outcomes of a service for a concession period;
- iii. Private sector determines the required inputs to achieve the specified output and the private sector is given latitude to introduce innovation into their designs and development to reduce overall costs;
- iv. Payment for services is based on pre-determined standards and performance;
- v. Promotes 'maintenance culture' where the concessionaires will be responsible for the long term maintenance of the assets throughout the operational tenure agreed upon;
- vi. Integration of design, construction, finance, maintenance and operation – total package;
- vii. Transfer of assets at the end of the concession period becomes an option to the Government;
- viii. Optimal sharing of risks whereby risk is allocated to the party who is best able to manage it; and

- ix. Whole Life Cycle Costing ('WLCC') whereby PPP projects are usually awarded based on lowest total cost over the concession period compared to lowest construction costs under the traditional procurement method-a paradigm shift in the form of procurement objectives.

Box 1: Value for Money

The main driver of the PPP Programme is Value for Money (VfM), defined as 'the optimal combination of whole life cost and quality to meet the users' requirements'. Generally, VfM is achieved through:

- risk transfer which allocates risks optimally between the public and private sectors
- long term nature of contracts (which embodies whole life costing)
- the use of output specification which allows bidders to innovate
- competition that provides fair value of the project
- performance-based payment mechanism
- private sector management expertise and skills

2.3 Differences Between PPP and Other Procurement Methods

Generally through the PPP approach, emphasis is given on delivery of services (output driven) and private sector innovation and skills in maintaining the assets/facilities throughout the concession period. Other main characteristics that differentiate PPP with other procurement methods are shown in Table 1.

Table 1: Differences Between Conventional, PPP and Privatisation Approach

Conventional	PFI	Privatisation
Procurements are funded directly via public budget.	Funding via private financial resources without public sector's explicit guarantee.	Funding via private financial resources without implicit or explicit public sector guarantee.
Immediate impact on public sector financial position.	Impact on public budget spreads over the duration of the concession.	No impact on the level of public sector expenditure.
Risks are entirely borne by public sector.	Risks are allocated to parties which can manage them most efficiently	Risks are entirely borne by the private sector.
Extensive public sector involvement at all stages of project life.	Public sector's involvement is through enforcement of pre-agreed KPIs.	Government acts as regulator.
Relationship with private contractor is short term.	Long duration of relationship with private contractors.	Long duration of relationship with private contractors.
Applicable for projects with high socio-economic returns and those justified on strategic considerations.	Applicable for projects with commercial viability.	Applicable for projects with high commercial viability.

3.0 DEVELOPING A PPP PROJECT

3.1 Submission of PPP Proposals

All PPP proposals should be submitted directly to the relevant Ministries/agencies. The typical information required for submission of PPP proposals should include, inter alia, the justification for the proposal, business and financial plans, evidence of financial stability and capability, proposed payment mechanism and risk matrix. Elaboration on some of the information needed is shown in Box 2.

Box 2: Typical Information Required for PPP Proposals

- An executive summary of the submission
- An evidence of financial stability and statement of financial capability, including access to capital (debt and equity), and Letters of Support from potential lenders
- A statement of performance capability that includes an overview of overall experience, experience in similar projects, senior management expertise, expertise of those staff members who will work on the project, ability to obtain necessary resources and references
- Results of economic, financial and engineering feasibility studies, including SCBA (socio-economic cost benefit analysis)
- A business plan, including: partnership structure; duration of the proposed partnership; ownership (present and future); terms of payment; maintenance costs; reserves that need to be kept by the private partner; risk management, including that of force majeure; risk transfer from the government to the private sector partner; economic benefits to the government
- A financial plan, including: detailed cost schedule; financial structure; potential partner's sources of funding; how improvements, upgrades and modifications will be financed; pro forma financial statements (include in the submission a softcopy of the financial models)
- The PPP modality options and the preferred option, concession period, risk analysis and allocation and financing scheme
- The proposed payment mechanism based on service-delivery output specifications and KPIs. For infrastructure or service delivery partnerships where public user fees will be a source of revenue, a detailed year-by-year description of future user fees and their justifications. Include results of public interest surveys, if any

(Additional information required will be available in the specific tender document of the project)

3.2 General Criteria

The selection for PPP projects involves a 'filtering process' whereby certain general criteria should be met as follows:

- Output specification can be clearly identified and quantified
- Economic life of the asset or service should be at least 20 years
- Projects with technological obsolescence risk (technology used will be superseded in short term) will not be considered
- Project sponsor must be financially strong with a paid up capital of the special purpose vehicle (SPV) to be at least 10% of the project value

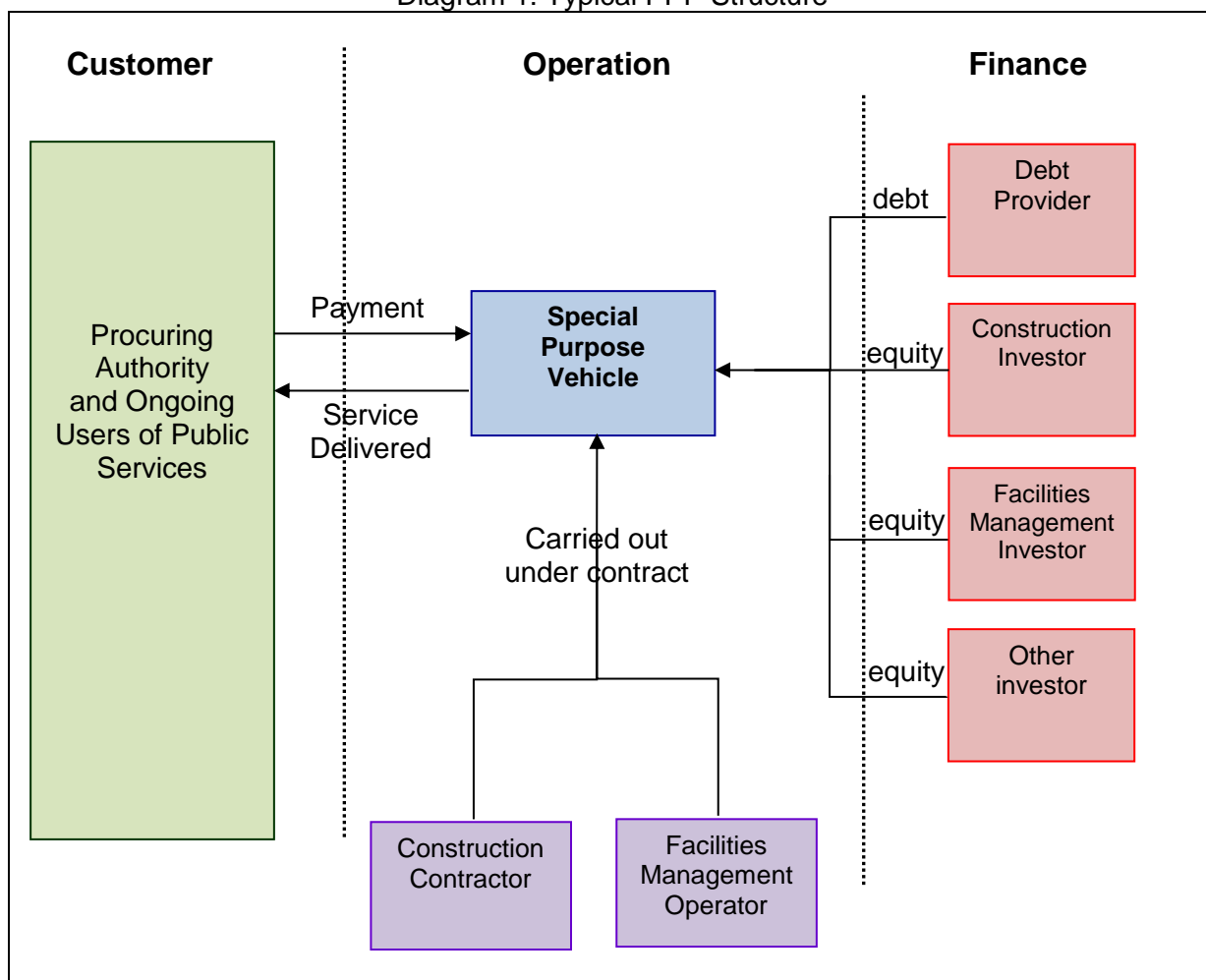
3.3 Structure of PPP Project

Structuring a PPP project involves bringing together relevant private sector parties with clearly defined tasks and risks of the project. The main parties would include:

- the SPV created specifically for the project
- financiers
- construction contractor
- facilities management operator
- the public sector (procuring authority)

The typical PPP project structure as shown in Diagram 1 ensures commitment from the relevant parties and also better control, management and supervision of the project.

Diagram 1: Typical PPP Structure



3.4 Roles and Responsibilities of the Private and Public Sectors in PPP

The roles of the involved parties in a PPP contract are as follows:

SPV:

- raising the funds to develop and maintain the assets
- making payments to the subcontractors, financiers and other creditors
- delivering the agreed services to the public sector according to the levels, quality and timeliness of the service provision throughout the contract period
- ensuring the assets are well maintained and available for use throughout the concession period
- ensuring that revertible assets/facilities are transferred in the specified conditions (good working order) to the public sector at the end of the concession period

Financiers:

- the financing of the project is provided by a combination of equity investors and debt providers

Construction Contractors:

- to carry out construction works according to the contract with the SPV

Facilities Management Operator:

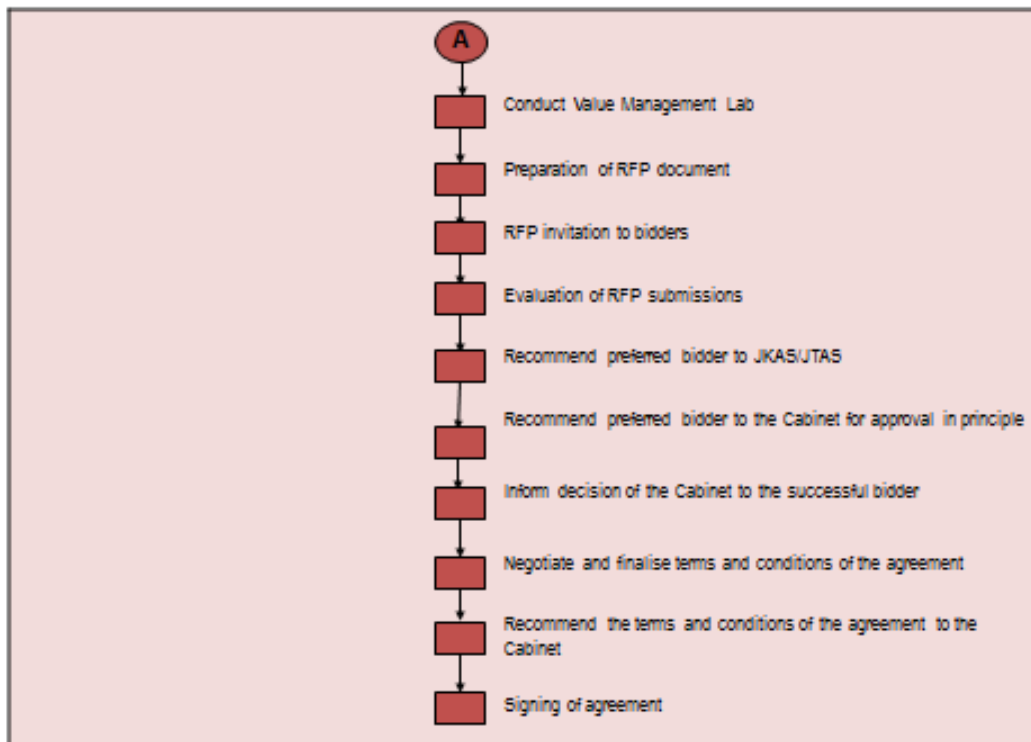
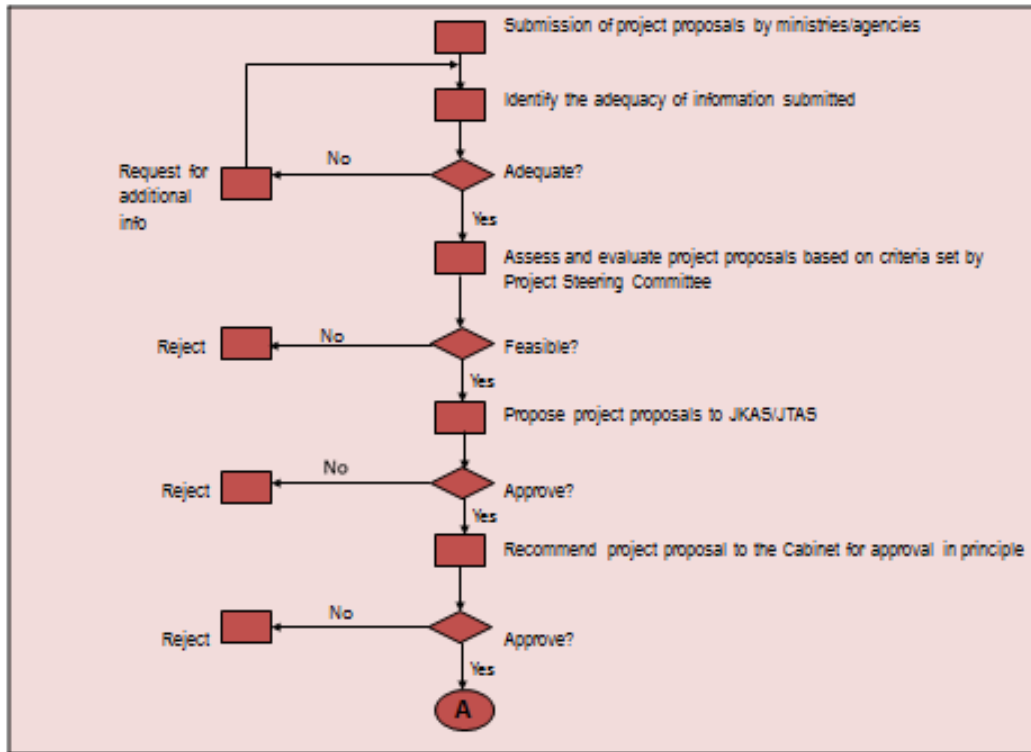
- to carry out comprehensive facilities management of the assets according to the contract with the SPV

The Public Sector is responsible for:

- identifying, assessing and prioritising projects for implementation via PPP
- preparing and managing the projects for competitive bidding process
- providing clear objectives and scoping of the projects, output specifications, payment mechanism and KPIs
- ensuring equitable and optimal allocation of risks
- contract management and performance monitoring
- safeguarding public interests

4.0 PROCESS FLOW

Diagram 2: Process Flow of PPP Projects



ENQUIRIES

5.1 Any enquiries on the PPP Programme can be submitted to the following address:

Director General
Public-Private Partnership Unit
Prime Minister's Department
Level 14, Blok Menara, Lot 2G6
No 18, Persiaran Perdana, Presint 2
62652 Putrajaya

Tel : 603 8880 5935

Fax : 603 8880 5904