

Contract and Procurement Management Lecture # 4

Public Private Partnership / Private Finance Initiative

by

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Chapter Description

- **Aims**
 - This chapter has discussed the role of Public Private Partnership (PPP) / Private Financing Initiative (PFI) mode of procurement.
- **Expected Outcomes**
 - Understanding the fundamentals of PPP and PFI
 - Differences between conventional and PPP procurement
- **Other related Information**
 - <http://www.pwc.com/my/en/assets/services/ppp-projects-in-malaysia.pdf>
- **References**
 - Ashworth, Allan. Contractual procedures in the construction industry. Pearson Prentice Hall 2006.
 - Broome, Jon. Procurement routes for partnering: a practical guide. Thomas Telfor, 2002.
 - Bockrath, Joseph T. Contracts and the legal environment for engineers and architects. McGraw-Hill Science, 2000.



Content #1

- Introduction
- Key features of PPP/PFI
- Difference between Conventional, PPP and privatization approach

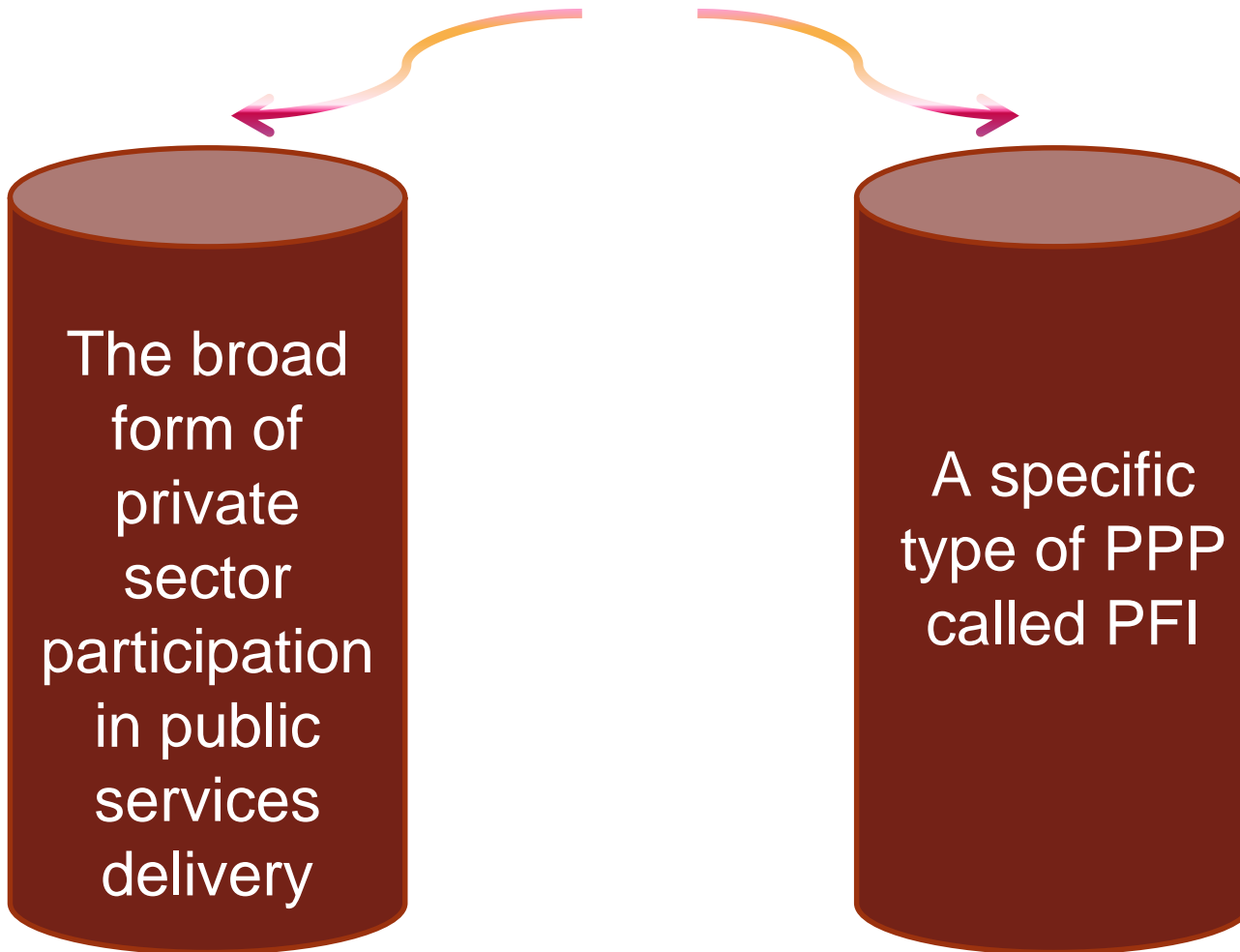


INTRODUCTION

- ❑ The private Finance Initiative (PFI) was launched in the United Kingdom in 1992. Since then it has become an increasingly popular mechanism for procuring public infrastructure in various countries.
- ❑ PFI is one of three categories of public private partnerships (PPP).
- ❑ The aim of PFI is to bring the private sector's finance, management, skills, and expertise into the provision of public sector facilities and services.
- ❑ The United Kingdom has approved more than 700 PFI projects since 1992.



TWO MEANINGS OF PPP



WHAT IS PPP/PFI?

- **What is PFI?**

- Private Finance Initiative (PFI) is an alternative public procurement strategy where the private sector project financing and expertise is being utilized in the delivery of public services (Khairuddin, 2007).
- Was first introduced globally in the UK in 1992 and is rapidly becoming a world-wide trend.

- **Types of projects using PFI**

- Major and complex capital projects with significant on-going maintenance requirements

- **Why there has been a need for PFI in construction projects?**

- Government lacks capital assets and requires the private sector to deliver high quality public services on their behalf.

PPP/PFI IN MALAYSIA

- History
 - First mentioned at the tabling of the Ninth Malaysian Plan (2006 - 2010);
 - PFI in Malaysia is an extension of the Privatization Policy (Khairuddin, 2007).
 - Why was it implemented?
 - To reduce budget deficit (Netto, 2006) and to improve Value for Money through private sector innovation and management skills (Khairuddin, 2007).
- Examples of projects to be undertaken through PFI
 - Projects related to transportation, housing, health care and education (Netto, 2006);

DIFFERENCE BETWEEN CONVENTIONAL, PPP AND PRIVATIZATION

Table 1: Differences Between Conventional, PPP and Privatisation Approach

Conventional	PPP	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.

INFORMATION REQUIRED

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)

Conclusion of The Chapter

- **Conclusion #1**
 - PPP/PFI mode of procurement if executes in an effective can play a pivotal role for the socio-economic development of the country.
- **Conclusion #2**
 - Private sector role is predominant in PPP/PFI projects.



Author Information

Other relevant information (if any)

#author may apply your own creativity and innovation where it is appropriate