

# The Obstacles of Implementing Private Finance Initiatives in Local Government in Malaysia

Maryadi Hasan<sup>1</sup>, Dani Salleh<sup>2</sup>

<sup>1</sup> College of Law, Government, and International Studies, Universiti Utara Malaysia (UUM), Sintok, Kedah  
[meedy.hasan@gmail.com](mailto:meedy.hasan@gmail.com)

<sup>2</sup> Department of Planning and Properly Development, Universiti Utara Malaysia (UUM), Sintok, Kedah  
[dani@uum.edu.my](mailto:dani@uum.edu.my)

---

## Abstract

Since its introduction in Malaysia, the Private Finance Initiative (PFI) Model has leveraged the government as a form of alternative procurement, primarily to reduce government spending, and to provide public infrastructure more efficiently and effectively. Although the PFI is said to be an efficient model for the implementation of public procurement policies, at the local authority (LAs) level, it is seen less considered. The PFI's procurement method is seen at its initial stage although this model has long been introduced in Malaysia in the ninth Malaysia Plan (2006-2010). This article aims to examine the obstacles on the implementation of PFIs in LAs in Malaysia. In order to achieve the objective of the study, literature review was examined, as well as reports of either government documents or the major reports on the implementation of PFIs in Malaysia were analyzed. The results of the study found that there were mixed views on the adoption of the PFI model as a government procurement strategy in LAs in Malaysia. Implementation of PFIs in LA in Malaysia is seen to have issues related to management, administration, leadership, expertise, knowledge, and experience in managing PFI projects. As recommendations of the study, it is stressed that various parties such as government at various levels, private companies, and researchers should pay attention and take urgent measures if LAs want to be involved in the implementation of the PFI project. LAs also need to be active in exploring new rules and strategies in diversifying their earnings. As a future research proposal, it is important to identify the current private financing method adopted at the LAs. In addition, future research also need to identify the level of awareness, experience, and knowledge of the PFI project in LA, as well as the factors affecting its implementation at the local level are also important.

Keywords: *private finance initiative, public-private partnership, local government, local authority*

---

## INTRODUCTION

Received: 5 May 2018  
Accepted: 29 October 2018  
Published: 23 December 2018

Private sector involvement has been getting increasing attention in recent years. The choice of the public sector policy instrument and the distribution of responsibilities have an influence on the involvement of private sector. The adoption of the Private Finance Initiative (PFI) is one of the private sector involvement models and has become an important tool in government procurement systems at all levels of government and public agencies. PFI can be defined as a long-term contract between the private sector and the government whereby the private sector plays a key role in designing building, financing, and operating the facilities for the provision of public services, and in return,

the government makes regular payments to the private sector provider over the contract period for the capital and operating costs incurred (Ismail, 2011).

In many writings provided, PFI is part of the Public-Private Partnership (PPP) (Li et al., 2005; Akitoye et al., 2003). However, according to Ismail (2011), the term of PPP needs to be understood in its classification. This is because, in most of the previous studies in several countries, the term of PPP has stated two purposes. First is the involvement and cooperation of private and public sector in public service delivery. Second it is second name for PFI. In many writings by Ismail (2011), the acronym of 'PPP' is used to describe the public and private sector partnership, and the acronym of 'PFI' refers the Public-Private Partnership model, which is also the PFI. However, there are studies that use PPP and PFI synonymously (Broadbent & Laughlin, 2003), and in several countries like Malaysia, the PFI and PPP are used interchangeably (Kuppusamy, 2010). PFI is also sometimes referred to as government procurement (Atan et al., 2010), and there are other study that mentioned that the PPP and PFI as types of funding rather than a type of procurement (Hughes et al., 2006).

The PFI model was first introduced in the United Kingdom (UK) in 1992 as the government initiative to use the financial resources of private sector for government development project. Based on the UK model, using the PFI allows the private sector to finance the cost of capital for public projects, which will be reimbursed by the public sector in a set time period or the concession period. Malaysia later adopted the model, and officially announced it through the Ninth Malaysia Plan in 2006. The adaptation of PFI is among the effort by the government to encourage private participation in the local development projects, as well as to reduce government's expenditure in providing public infrastructure and services (Takim, 2009). Fundamentally, at the early stage of PFI introduction in Malaysia, it is functioning as a way to protect infrastructure investment, especially at a time of fiscal constraint. Subsequently, PFI now becomes an establish method of procurement for development of public infrastructure and services (Ismail, 2015). Parallel to the characteristic of PFI, the PFI as a procurement strategy is aimed to curb the burden of government debt; therefore, increasing value for money of constructed assets, managing risk, time, and cost overruns, improving the quality of the final product, increasing the efficiency of public services, reducing the cost of the project life cycle, promoting local economic growth, accelerating the development, and creating economies led by the private sector (Ismail et al., 2011). Numerous studies also show that in certain circumstances, PFI has brought many advantages over traditional procurement systems, and since its introduction in Malaysia, PFI model has shown to provide benefits to the government and the public as an alternative form of procurement, particularly for reducing government expenditure, and promoting efficient public infrastructure and services.

Through PFI projects, Malaysia has experienced many successful projects that can benefit the public as end-user (Ismail & Harris, 2014). The Malaysia government through the Private Public Partnership Unit or *Unit Kerjasama Awam Swasta* (UKAS) has recorded several achievements of infrastructure development through the PPP and PFI project, using the provisions provided under the Enhancement Fund. From 1983 to 2013, the government has managed to save Ringgit Malaysia (RM) 182.5 billion in revenue through the PPP and PFI project (Utusan, 2013). However, since its introduction in Malaysia, much controversy has risen related to PFI implementation. Even though PFI implementation has received criticism and much debate, it has also received much publicity as efficient and effective models of implementing procurement policy (Charles, 2006).

PFI scheme is also used by many local governments in many countries as their alternative form of procurement strategy (Cirell et al., 2003). However, in the context of Malaysia, most of the studies in relation to PFI are within the national perspective, not to a specific context (Ismail, 2013). This is in line with the statement of Janssen et al. (2015), and Wibowo and Alfen (2015), where not all studies at the national level can be applied at the local level as each level requires a different approach due to the influence of different factors.

Mohd Saron et al. (2013) stated that the implementation of PFI in the local authorities (LAs) in Malaysia is said to still be at the early stage even though the concept of PPP has been known quite long time ago. Until today, there exists little empirical study on PFI project at the local level. In particular, little research has focused on the possibility of LAs in Malaysia using PFI model as an effective way of their procurement strategy. As stressed by Charles (2006):

*“...an unsystematic introduction of PPP program in the local government could worsen infrastructure and service delivery, and this situation is not necessarily beneficial to the ‘client’...”*

To look at these shortcomings and the growing importance of PFI implementation as well as the existence of the criticism and weakness in its implementation, the purpose of this article is to review the PFI implementation in the perspective of local government experience of several countries and the influencing factors. Therefore, the purpose of this paper is to examine the obstacles factors that are faced by Malaysia LAs in implementing the PFI project.

## LITERATURE REVIEW

### *PFI in Local Government*

Nowadays, local government level is dealing with a challenging situation and dynamics, particularly in the development agenda, and in the wake of the increasing awareness of the important role played by LA, every aspect of it has become spotlight (Ab. Majib et al., 2010). LAs are now experiencing ongoing challenges in the implementation of sustainable development such as the environmental, economic, and social aspects (Mohamed et al., 2013). Private involvement is one of the innovative procurement introduce by the Government to enable public sector procure infrastructure, and offer opportunities to improve service delivery and assure better value for money of government spending (Roe & Craig, 2004; Heinecke, 2002).

Among the reasons local governments require the involvement of the private sector is due to lack of government funds, and at the same time local governments have to carry out its role in providing facilities and services to the people they represent (ESCAP, 2014). Another key reason to consider using PPP and PFI within the local government is due to the ability of the program, particularly in promoting competition in the provision of services, whether between private companies or public sectors (Kwan, 1999). In addition, local governments have also seen pressure on the financial burden, which is to carry out its functions and responsibilities, coupled with the growing gap between income and expenditure (Hunting et al., 2014). In this situation, local government should actively explore how to refocus their self-financing, taking a serious look at how they deliver their services, what resources they hold, and how to make the best use of their financial capacity ((Hastings et al., 2013).

The introduction of PPP, mainly related to the experimental “front runners” or “best run” for the local government, which is trying to explore new ways to deliver better public services with minimal cost (Grave & Ejersbo, 2003). The term PPP was first used to describe the ‘Urban - Renewal’ project, where the local government and city administration is trying to work with private business to create conditions that will support the investment and job creation (Baker, 2012). PPP programs were also said to be a set up to provide procurement advice to local government. PPP program in many countries has demonstrated their ability to finance public projects such as schools, hospitals, transport project, waste and water project, communication, leisure facilities, and others (Roe & Craig, 2004).

In the early introduction, local governments do not see the need for this PPP program, and is sometimes seen as difficult to be involved in. Later, the government has acknowledged that the system is needed, especially at the LAs level on several factors.

Heinecke (2002) has listed several reasons for local governments need to be involved in PPP program as following:

- Local government means very big business
- Local government offers a strong agreement for the confidence of banks and partners as well as to private sector partners that have the potential
- Changes already shows that investment and capital allocation provided by traditional revenues will continue to decline

Furthermore, LAs are the key players in managing the process of urban development, which acts as the decision-makers and service providers. In addition, LAs in a role to responsibility to continue providing infrastructure for efficient operation as well as providing facilities, and in supporting productive activities to enable private companies to operate efficiently (Othman, 2014). Besides that, the cooperation between the public and private sectors hold certain promises for local governments, which among are limiting the local governments' financial situation, and public services can be delivered more effectively at a lower price as well as will lead to innovation (Grave & Ejersbo, 2003).

PFI is a form of PPP, with the aim to achieve a close partnership between the public and private sectors (Li et al., 2005; Wall & Connolly, 2009). PPP program has played an important role in developing the knowledge of PFI in LAs. In the PPP procurement agenda, PFI needs less attention as a concept that can stand alone, and how it can bring Value for Money (VFM) and innovation, particularly to the taxpayer in transactions of LAs (Roe & Craig, 2004). Local government in many countries nowadays see PFI program as a suitable option to be considered as a way of improving the local infrastructure, and as a procurement tool. Based on several studies, there have been many local governments in many countries that have shown success in implementing PFIs especially in the delivery of public infrastructure projects. In the UK, the Conservative Government in UK set out six specific benefit of using the PFI into local government as following:

- i. To promote private investment
- ii. To improve value for money
- iii. To encourage the rationalization and upgrading of local authority property holdings
- iv. To encourage the transfer to the private sector of trading asset
- v. To facilitate joint ventures scheme
- vi. To remove unnecessary obstacles to partnerships

When PFI was launched in the UK in 1992, it is more focused on private sector participation in infrastructure projects which provide financial allocation by the central government, and the failure of the project is at the minimum level (Dutz et al., 2006). However, during the first half of introduction in the UK LAs, the project under the PFI scheme was seen as a disappointment, mainly because there are obstacles in its implementation such as in legal issue and political reservation (Akintoye et al., 2003).

The implementation of the PFI model is said to have changed LAs role not only as the owner and operator of assets for the provision of services, but also to assist LAs and communities for long-term benefits, particularly in terms of expertise and private sector investment (Potts & Ankrah, 2014). PFI also allows LAs to contract with the private sector to provide infrastructure and services, and to provide LAs with sustainable income support for the development of their projects. Among others studies states that, the advantages of implementing PFIs in LAs are as appropriate and successful measures in providing public sector infrastructure and service delivery which are among the key roles of local governments. PFI is also said to be of great advantage to the local government especially financially, innovatively, and eventually the convenience in public service can be further federated to be better communicated to the community as end users (Heinecke, 2002; Broadbent & Laughlin, 2004; Kwan, 1999). According to Liu et al. (2014), the reason why the government implemented the PFI program is because it benefits the quality of service and innovation more effectively through the use of expertise and encouragement of the private sector through performance incentives. However, some studies have shown that the implementation of PFIs in local governments in some countries is still in the early stages although this concept has long been a success in local governments in some countries (Mohd Saron et al., 2013; Ismail, 2013; Khairuddin, 2009).

Apart from the introduction of PFI said to be a model of efficiently and effectively towards the implementation of public procurement policy, PFI also have been inundated by various controversial, criticism, and debate from the very beginning of implementation. Criticized in terms of knowledge, understanding, and experience of the whole concept of PFI (Khaderi & Aziz, 2010; Abdullah & Kalianan, 2009; Ismail & Rashid, 2007; Zawawi et al., 2014), PFI technical issues (Khairuddin, 2009), in PFI implementation in several developed countries like Malaysia are labeled as 'rushed in planning' (Takim et al., 2009). Despite numerous criticisms of the implementation of PFIs; however, there are studies that have shown that the PFI procurement method have resulted in success especially at the local government level. Many local governments in most countries have turned to PFI as their procurement strategies due to their benefits in delivering public infrastructure projects.

Many practitioners and researchers had previously submitted to the challenges faced in the implementation of PFI projects in local government, such as procurement

issues, obstacles in market capacity, political and economic uncertainty, risk management, and integration of facility management, and other issues, but as stated in HM Treasury (2000), success can be achieved if public authorities, government agencies, and the private sector have the spirit of sharing that especially in understanding the purpose of sharing and business that share common goals and vision, knowledge transfer, and the nature of trust among all parties involved. In other words, as stated in the report of HM Treasury (2000), key factors in the success of PFI projects are the establishment of cooperation or partnerships and communication systems that support active, and improve relationships throughout the duration of the agreement.

### ***Factors Influencing the Adoption of PFI in Local Government***

Factors that are considered as critical for the success of PFI projects have been investigated in many previous studies, and most of these studies use the concept of critical success factors (CSFs) in their research related to critical factors for the successful implementation of PFI in various projects. Many researchers have identified different lists of critical factors of PFI projects based on review of other literature or through empirical studies. However, while many factors are critical, it is obvious that the level of “criticality” of the identified factors varies in different places (Li et al. 2005; Muhammad et al., 2016).

Based on the review of the literature, some authors hold the view that certain critical factors of PFI projects are common irrespective of the geographic location and it also vary in different administrative settings (Muhammad et al., 2016). There are also literatures that mention several barriers which are related to procurement process, which include the lengthy bidding, negotiation process, and high transaction cost of PPP program (Janssen et al., 2016). A number of research studies have identified different CSFs and influencing factors of PPP/PFI projects in local government (LG) in different countries is shown in Table 1.

**Table 1: Influencing factors of PFI in local government**

<b>Author(s)</b>	<b>Regions of LG</b>	<b>Influencing Factors</b>
Patel & Robison (2010)	UK	Good governance and financial viability.
Carrilo et al. (2008)	UK	LAs not fully independent in decision making, lack of experience, and expertise.
Dutz et al. (2006)	South Africa	Clear regulatory process.
Matthew Nell (2007)	South Africa	Lack of direction, capacity, resources, fiscal, political will, and distrust of private ability.
Bae & Joo (2016)	South Korea	Clear regulatory framework, unfair contract, the power to tax and resources are limited, political interference, and strict regulation at the federal level.
Cuthbert & Cuthbert (2011)	Scotland	Lack of support from central government, limited ability in serving the public and uncertain and fail to access the risk.
Carbonara & Pellegrino (2014)	Italy	Complexity of administration procedure, and transparency in competitive bidding and legal provision.
Wibowo & Alfen (2015)	Indonesia	Legal basis, irrevocable contract, sensible, manageable risk-sharing arrangement, clears defined coordination mechanisms, and strong political support.
Janssen et al. (2016)	Netherland	National and PFI characteristic, procurement process, the roles of LAs and private sector, and the absence of standard framework
Tijhuis (2015)	Netherland	Past experience, business-culture, and transparency of public and private sector.
Otairu et al. (2014)	Nigeria	Lack of skill among LAs servant, corruption issues, lack of consensus among policy makers, political instability, high cost of implementation, and conceptual understanding.

According to Ismail (2013), identifying CSFs of PFI implementation is crucial. Sehgal et al. (2015) stated that the elements of CSFs are significantly important to help the firm or organization in identifying the keys factors that the firm or organization should focus on, in order to be success in a project. There are several studies that indicate there are many critical factors related to the organizational constraints for PFI implementation programs; however, these aspects have been addressed mainly in general, and adaptation of other countries or of previous study without identifying how these factors influence the adoption and implementation of PFI in specifically, either in organization or types of project (Li et al., 2005; Ismail, 2013).

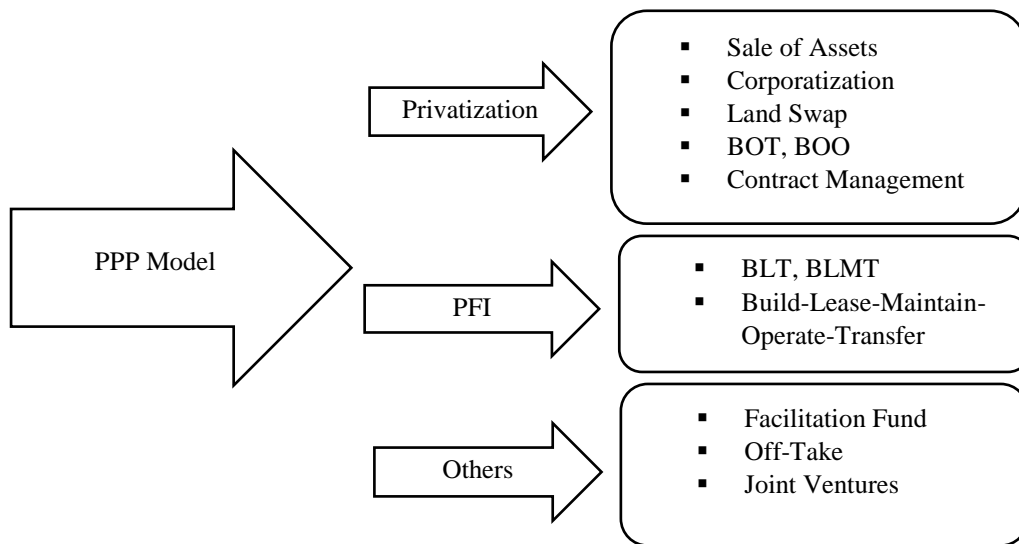
Among the studies of CSFs for PFI implementation in Malaysia is by Ismail (2013), where the study adopted a questionnaire survey from related previous study and

the respondent is composed of different levels of the government (i.e. federal, state, and local government) and private sector companies with various backgrounds (i.e., financier, facilities management, and construction company). Based on the overall respondents' results, the two factors that were ranked as least important for project success are government involvement by providing guarantee and political support. However, his research was seen as relatively limited, because the unique characteristics of PPP/PFI of a particular country, simply adopting success factors of other countries may not provide the exclusive list of CSFs for PFI implementation in Malaysia. In another study of CSFs PFI in Malaysia, Md. Lasa et al. (2015), in relating to CSFs in obtaining project financing for PFI projects in Malaysia by using the interview method to the experienced key players in PFI projects, distributed the questionnaires to respondents which consist of finance, construction, and public agencies, found that four main dimensions of CSF in obtaining finance for PFI projects including project attributes, Special Purpose Vehicle (SPV) attributes, government attributes, financing attributes, and for an external environmental factor affecting PFI financing was the political and economic environment. However, the list of CSFs for the study are also adopting from previous studies, which do not reflect on the real situation pertaining to the subject of the study.

### ***PFI in Malaysia***

PFI in Malaysia was officially announced by the Malaysian government in 2006 through the Ninth Malaysia Plan (9MP). Even though it was officially announced under the 9MP, the PFI has never really taken off, but the idea survived with the establishment of the Public Private Partnership Unit or known as *Unit Kerjasama Awam Swasta* (UKAS), and through the publication of PPP guideline in November 2009 (PPP Unit, 2015).

The introduction of PFI Program is also regarded as enhancing the PPP Program (Hassan & Subari, 2015). PFI in Malaysia are often presented as 'Malaysian version' of PFI (Khaderi & Aziz, 2010; Takim et al., 2009; Abdullah et al., 2014), particularly on the principals and approaches, but in terms of the philosophy and concept, it still has similarity to the UK model (Khaderi & Aziz, 2010; Ismail, 2009). There are many varieties of models for implementing PPP/PFI project in Malaysia, which include sales of equity, sales of assets, corporatization, land development/land transfer, build-operate-transfer (BOT), build-operate-own (BOO), management by contract, leasing, build-lease-transfer (BLT), build-lease-maintenance-transfer (BLMT), listing, and facilitation fund. These models can be analyzed as in the accompanying diagram (see Figure 1).



*Figure 1: Model of PPP commonly used in Malaysia.*  
Source: PPP Unit (2015).

Since PFI has been understood as a kind of PPP, PPP framework and guideline has been used as a guide for PFI implementation in Malaysia, and until now there was no specific framework and guideline for PFI in Malaysia (Ismail, 2009; Khaderi & Aziz, 2010). The kind of framework according to several studies is significantly needed for guiding the PFI implementation in construction industry (Md. Lasa et al., 2015; Ismail, 2009; Khaderi & Aziz, 2010). As pointed by Ismail and Haris (2014), the need for clear procedure on PFI is considered important by the key players in the industry, and the government should look closely into the critical aspects of PFI, especially from the point of the existence of a clear framework to facilitate the evaluation process.

The reasons why government adopt PFI in the provision of public infrastructure and services include relieving their financial and administrative burden, improve efficiency and productivity as well as for economic purposes (Khairuddin et al., 2016). Based on Auditor General's Report (2010) regarding the implementation of PFI project under 9MP, the Federal Government has allocated RM20 billion to 17 Ministries/Departments to finance development projects under the 9MP. Until 31 December 2010, a total of RM15.77 billion of funds were received from the company Construction PFI Sdn. Bhd. where RM11.64 billion (73.8%) were spent, and based on the audit analysis of PFI projects expenditure for the period of 2006 to 2010, three Ministries/Departments were found for not complying to the relevant financial where spending exceeds the allocation made. It is also found that the occurrences of weaknesses in planning and monitoring of expenditure where approved budget is not

spent or allocated spent is less than 50%. The PFI project expenses management position for the period of 2006 to 2010 and the analysis of these expenses is shown in Table 2.

*Table 2: Weaknesses in PFI project management expense under 9MP at the end of 2010*

<b>Item</b>	<b>No. of Ministries/ Department</b>	<b>No. of Projects</b>	<b>Amount (RM Million)</b>
<i>Not complying with</i>			
Expenditure exceeded the allocation	3	26	33.88
<i>Weaknesses in planning and monitoring</i>			
Allocation unexpended	2	6	107.61
Allocation spent less than 50%	10	150	1602.19

Source: Auditor General's Report (2010).

## METHODOLOGY

In identifying hindrances factors to the implementation of the PFI model among LAs in Malaysia, the method of obtaining information is done through relevant literature review. Evaluation was carried out on relevant past studies to identify barriers to the implementation of PFIs in Malaysia in general and in the LAs in particular. In addition, reports from the Private Public Co-operative Unit (PPP Unit) or *Unit Kerjasama Awam Swasta* (UKAS) are used, where relevant information is obtained from the UKAS official portal. The UKAS is the central agency of PPP/PFI in Malaysia functioning to spearhead the participation of the private sector and to stimulate private sector investment through PPP/PFI in the national development agenda. This unit is responsible for planning, evaluating, coordinating, negotiating, and monitoring the implementation of PFI projects in Malaysia. UKAS also serves to manage and to evaluate projects that require funding from the Facilitation Fund where the Fund is established specifically to stimulate private sector investment and to bridge the viability gap for projects that have a strategic impact on the country (PPP Unit, 2016). Information regarding the objectives of the study, reports on the implementation of PFI projects in Malaysia was also obtained from newspaper reports, text books, research papers, articles, and the Internet.

In particular, the study was conducted in the following manner:

- i. This research study is an evaluation of previous studies to provide a comprehensive understanding of the PFI in local government perspective, and to also discuss the factors that affect the implementation of the PFI in local government based on the experiences of local governments in several countries.
- ii. The secondary data is collected from different sources such as books, research papers, articles, government portal, newspapers, and the Internet.
- iii. The hindrance issues of PFI implement in LAs in Malaysia are identified and discussed.
- iv. With the help of previous literatures related and the issues highlighted, review findings and discussions is formulated.

## **REPORTING, DISCUSSION, AND RECOMENDATION**

### ***Hindrance Factors***

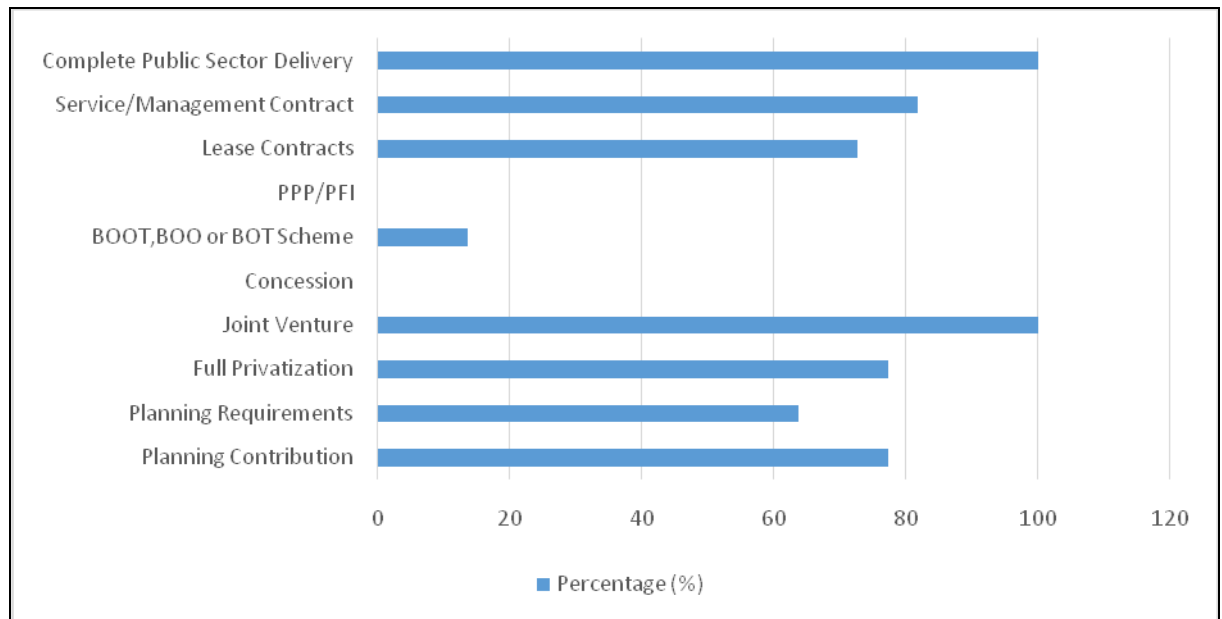
Malaysia government embarked on using PFI as one of the procurement methods to procure public building and infrastructure development projects. PFI nowadays has become one of the new alternatives that are often used by many local LAs for various reasons. Apart from the introduction of PFI to reduce government's expenditure, PFI is also expected to assist in modernizing public services and infrastructure; thus, it helps to achieve the best value of public spending (Takim et al., 2009). While PFI have received much publicity as efficient and effective models of implementing procurement policy; however, little has been considered in the context of local government experiences in Malaysia. This situation has aroused interest for carrying out research on the hindrance factors of PFI implement in Malaysia LAs. In discussing the factors hindering the implementation of PFI in LAs in Malaysia, it is necessary to understand the PFI in Malaysia, and the structure of local government in Malaysia, especially in terms of administrative structure, functions, and responsibilities as well as their financial resources.

The introduction of PFI is part of a procurement strategy which is a contribution of the private sector in developing public infrastructure projects and service delivery which is the main role of the public sector. In Malaysia, even though PFI procurement model has long been introduced which is since 2006; however, at the local level it is seen less used (Salleh & Okinono, 2016), and are seen like it is still at the early stage of introduction (Mohd Saron et al., 2013; Ismail, 2013). There are also little research that focused on the possibility of LAs in Malaysia using PFI scheme as an effective way of

their procurement strategy, even though there have been previous studies showing that the private sector and LAs have a good understanding of the basic concepts of local infrastructure provision; however, this understanding still has weaknesses especially in adopting the best practices and methods of providing local infrastructure (Salleh, 2009).

PFI scheme was used by many LAs in many countries as their procurement strategy to continue their role and functions, especially in the time of financial constrain. The implementation of PFI model is said to have changed the role of LAs rather than just being the owner and operator of the asset to the provision of services, as well as being able to assist the LAs and the community for the long-term benefit, particularly in terms of private sector expertise and investment (Potts & Ankrah, 2014). Past research also suggests that PFI's procurement puts a high demand on managerial skills of public sector managers, particularly in relation to procurement management (Asenova & Beck, 2003), and while the initiative of the government has sought to identify and to improve some of the weaknesses of the public sector as PFI procurer, there are indications that LAs continue to face problems in obtaining and procuring PFI projects.

Apart from survey findings that showed very low level of PFI procurement model adopted by LAs in Malaysia, as well as the use of PFI in LAs in Malaysia seems to be in the early stages of introduction even though it has long been introduced, it was found that there are little research that has focused on the possibility of LAs in Malaysia using PFI scheme as an effective way of their procurement strategy. Figure 3 provides the present practices of infrastructure provision in Malaysia LAs.



*Figure 3: Present practices of infrastructure provision in Malaysia LAs.*  
Sources: Salleh & Okinono (2016) & Salleh (2009).

Besides that, there are also studies indicated the CSFs relation to the organizational constraints for PFI implementation programs in Malaysia context; however, these aspects have been addressed mainly in general, and adopted factors of other countries or based on previous study without identifying how these factors influence the adoption and implementation of PFI in specifically, either in organization or types of project. However, in recent years, the implementation of PFI is widely debated and criticized, particularly in terms of knowledge, understanding and experience of the whole concept of PFI (Khaderi & Aziz, 2010; Abdullah & Kalianan, 2009; Ismail & Rashid, 2007; Zawawi et al., 2014). In the case of PFI implemented in Malaysia, there is criticism that the PFI executed, technically does not coincide with the actual PFI concept (Khairuddin, 2009). Takim et al. (2009b) argued that the implementation of PFI in Malaysia is overly ‘rushed in planning’ and the planning are still unclear. In addition, there are some reports revealing the weakness of the project under the PFI scheme, including weaknesses in the early stages of planning, weakness in implementation, and monitoring stages, as well as weaknesses in the post-project evaluation stage (Berita Harian, 2006). The assertion to this statement can be seen in the report of the Public Account Committee (PAC) in 2015, which reports that although the initiative was a good concept; however, PFI practitioners in Malaysia public agencies did not meet the true concept of PFI (Bernama, 2015). This is in line with the study of Khederi and Aziz (2010), which stated that among the challenges faced in Malaysia is

both the public and private sectors still lack understanding of the actual concept of PFI, and their study also pointed out that, the government 'adopted the PFI Malaysia's own version' but did not provide effective training program to the public officers as well as private sector. Among other issues that arise in the criticisms are the aspects of PFI's management and administration of PFI. Zawawi et al. (2014) stressed the importance of 'management skills by stakeholders' particularly in building the basis of support to ensure the success of PFI projects. Thus, it is important for the public sector client to analyse human capital skill to ensure that it has the kind of expertise to ensure better results in PFI projects.

PPP/PFI in Malaysia LAs were also criticized, and allegedly failing for several reasons such as poor in the delivery of public infrastructure project (Ismail et al., 2012), weakness on administration and management (Berahmin et al., 2015; Muhammad et al., 2015), and also financing issue (Md. Lasa et al., 2015). To reaffirm this statement, the Auditor General's report for the year 2014, revealed that LAs in Terengganu and Pahang were incompetent to manage PFI projects due to the poor corporate governance. The report revealed that, the audit of *Majlis Perbandaran Kemaman (MPK)* and *Majlis Daerah Besut (MDB)*, from July to September 2014 shows their procurement management is less satisfactory, because there is some non-compliance in the procurement procedure, such as procurement tendering and direct negotiations. Other weakness identified by the National Audit Department in audit 2014 include payments made to work that is not done, the project is not completed within the prescribed period, the completed projects that are not utilized, and the contract documents were not available and late signed (National Audit Department, 2016).

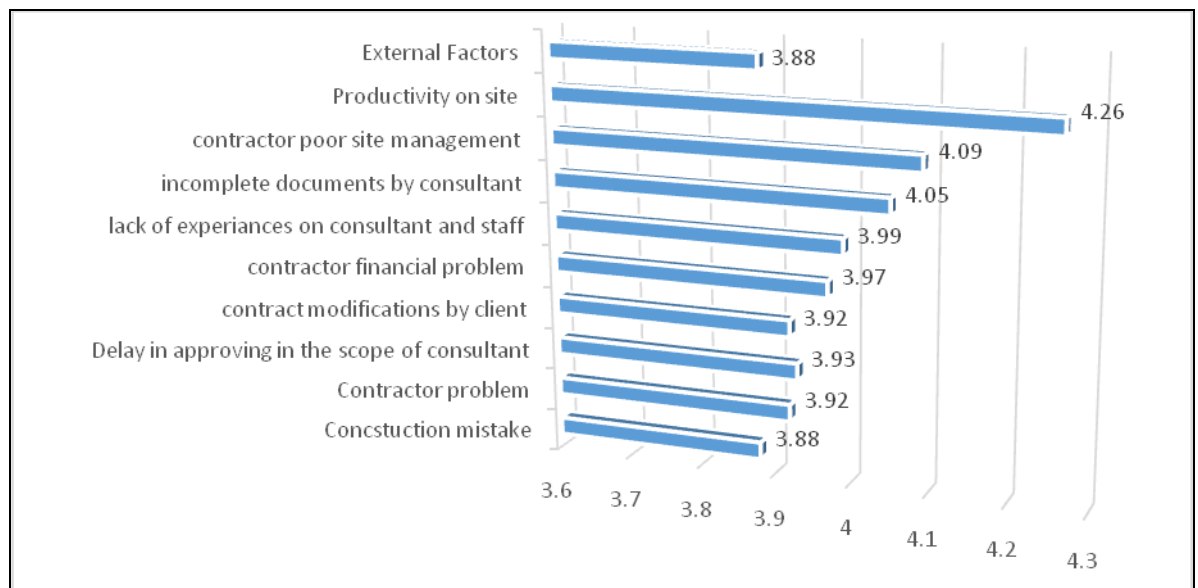
According to Abdullah and Kalainan (2009), the concept of the role of LAs as a producer, is similar to a private entity that is said to be simplistic, inaccurate, and naive. There are also studies that reveal that the lack of private sector participation is also due to the difficulty in obtaining project financing. Md. Lasa et al. (2015) in their study stated that local funding bodies are still relatively inexperienced and less confident to finance PFI projects. This factor is also supported by Takim et al. (2009) in which local funding bodies are still inexperienced and skeptical to provide financing for PFI projects over a variety of reasons, and one of them is the involvement of a large capital investment for a long-term concession.

Mohd Saron et al. (2013) among others revealed that most LAs are not interested in PFI projects mainly due to lack of experience and confidence, and influence or impact of failure in public private partnership program in several LAs. This is as disclosed in the study by Kuppusamy (2010), which revealed that *Majlis Perbandaran Kuantan* and *Majlis Perbandaran Batu Pahat* had a bad experience in

implementing PPP/PFI project, especially in the issue of management leadership, human capital skill and expertise, legal issue such land title, and local issue such petty trader.

In many cases, investments on construction projects and facilities in LAs under the PFI project were a failure mainly due to the factors of poor management and administration (Berahim et al., 2015; Muhammad et al., 2015; Kuppusamy, 2010). The Construction Industry Development Board (CIDB) report in 2014 (CIDB is a statutory body which aims to lead the industry strategy construction integrated in Malaysia) revealed that, lack of satisfaction with the overall performance of the 'employer' and also 'employer's agents' especially for projects for the regional or districts councils. The report also mentioned that the management of verification order (VO) and the claim processes for the contractor at local level seems to be difficult.

Ministry of Urban Wellbeing, Housing, and Local Government (MHLG) is reviewing the implementation of the People's Housing Project (*PPR project*) with a private developer through the PFI to be implemented by the next year (Sinar Online, 2016); however, there are also housing projects carried out by PPP program at the local government level that has the issues. There are many cases of abandoned projects under PPP scheme reported at the LAs in Malaysia. Based on the study by Mydin et al. (2014), the delay in development projects of private housing in Malaysia can be divided into four groups: (1) delays due to contractor factors, (2) consultant factors, (3) client factors, and (4) external factors (Figure 4). Based on the finding, Mydin et al. (2014) submitted a recommendation, among are project management (customers and consultants) need to be more professional and responsible, especially in the control of their respective roles, and not rely on contractors or private parties to resolve their problems, especially in matters that involve the LAs.



*Figure 4: Factors of private projects delays in Malaysia.*

Source: Mydin et al. (2014).

Another study by Muhammad et al. (2014) has mentioned that the inefficiencies of management can contribute to the failure of project development. This statement may be parallel with the report by Berahim et al. (2015), whereby a lot of money has been invested in the construction of buildings and facilities in Malaysia LAs, either from the government or private has been wasted because of the failure to utilize property management. This point is revealed based on an audit of thirteen (13) selected projects in LAs, which mentioned that there are some weaknesses, particularly in the planning, implementation, and monitoring by LAs. Other factors revealed in that audit report are poor maintenance, delay of project due to inexperienced contractors, lack of monitoring by LAs, poor documentation and record system, and weakness of enforcement. Among recommendations made by the auditor to overcome the issues are LAs can imitate the marketing strategy adopted by private developers to ensure that the property is managed by giving VFM for each spending, and the need for changes to the administration and management, especially to the councilors (Berahim et al., 2015).

Among other cases related to management and administration issue are the cases in Selangor, where RM2.3 million allocated to LAs in Selangor for infrastructure development have been returned to the Ministry of Housing and Local Government due to the weaknesses of management and administration (Berita Harian, 2015). The contract design also reported to play a crucial role for a successful implementation of PFI project. According to Mansor and Abd. Rashid (2016), it is almost impossible for

the parties to specify all potential contingencies that might occur throughout the 20-30 years duration of the contract. Furthermore, there are also cases of political interference and corruption, especially in tender application procedure (Marx, 2014).

## **RECOMMENDATION**

In line with the Government's approach based on the new economic model in the 10th and 11th Malaysia Plan, the government intends to stimulate its effort in encouraging the private sector to invest in development projects. As such, the Government's allocation for development projects will be reduced and it can then shift its attention to projects that will be implemented and funded by the private sector whether through Privatization and PPP, PFI, or through direct investment of the private sector in country's development program. The government has also set up a facilitation fund under the 10th Malaysia Plan in order to support development projects implemented by the private sector as the government's contribution through the cooperation of the public and private sectors.

This government approach should also involve local government's level. The awareness and priority should be given to developing a well-structured and systematic allocation and development of local infrastructure. However, it is found that one of the biggest challenges in promoting private sector involvement in infrastructure development local is due to unavailable procedures and frameworks. There is yet a special framework for the implementation of PFI at government agencies even though this model has been introduced since 2009 in the 9th MP.

Therefore, besides to create a specific framework, the government should initiate more seminars, conventions, and publish guidelines on project implementation using the PFI method. This will help to disseminate information on PFI's methodology and procedures to be implemented. There is a feedback from the parties concerned with the implementation of PFIs in Malaysia as not clear because the required procedures are not provided. Procedures related to bidding, project financing, performance measurement, and bid evaluation should be emphasized. This is important because the interested participants will examine the procedure and be more prepared.

Additionally, other areas of revenue need to be explored in diversifying PBTs procurement methods. SECTION 39 of the Local Government Act 1976 (Act 171) is the main provision that outlines the financial resources of the PBTs in Malaysia. Under the title of Revenue for LAs, the section states that the source of a LAs revenue consists of: (1) All taxes, ratings, rentals, fees for licenses, charges and charges that must be submitted to PBT under Act 171 and other written laws; (2) All charges and profits from any of the trades, services or undertakings undertaken by the LAs; (3) All benefits from investment and income from any property of PBT; and (4) All other outcomes

from the Central Government, the state or any statutory body as well as from any other sources, such as grants, donations, endowments, or otherwise. LAs in Malaysia are familiar with their financial resources mentioned in clauses (1) and (2). However, when the LAs assess the groups (3) and (4), LAs agree that investment and endowment fields are areas that have not been seriously planned.

## **CONCLUSION**

Based on of the discussion, it can be summarized that most of the hindrance factors that are faced by the LAs in implementing the PFI are weaknesses in terms of LAs management and administration skill in the process of PFI implementation. Other factor that is often raised is the weaknesses in terms of monitoring or post-project evaluation by LAs to the projects under the PFI. Besides that, other factors such as weaknesses of planning, lack of experience, understanding, and knowledge towards PFI are also the factors that hindrance the implementation of the PFI in LAs. Moreover, most of the factors raised by studies in Malaysia PFI are factors produced by other countries or factors adopted by previous studies. This situation shows a lack of accuracy as not all experiences and lessons of other countries are relevant to PFI in Malaysia, especially when their resources, capabilities, socio-political context, as well as institutions in Malaysia are taken into account. Even in Malaysia, the issues and solution at national level and local level are not the same and require a different approach. This is because not all studies on the national level can be applied to the local level. Furthermore, based on the issues and criticism towards the PFI implementation as presented by several report and previous studies, especially on the failures of infrastructure projects in Malaysia LAs, it has raised the question of whether the key factors that influence the adoption of PFI for infrastructure projects in LAs in Malaysia and, how these influenced the factors that have been or are being addressed. Hence, the study related to PFI implementation process in LAs level is a necessary step to fill the gap, especially by investigating the LAs experiences, knowledge, and awareness on PFI procedure and practices in Malaysia LAs as well as the influencing factors, in order to make better use of PFI taking into consideration in the procurement strategies for LAs in Malaysia.

## REFERENCES

- Abdullah, N., Sufian, A., Asenova, D., & Bailey, S. J. (2014). *PPP / PFI in Malaysian Development Plans: Purpose, structure, implementation, financing and risk transfer*. In proceedings of 5th Asia-Pacific business research conference (pp. 1–14). Kuala Lumpur, Malaysia.
- Abdullah, H. S., & Kalianan, M. (2009). From customer satisfaction to citizen satisfaction: Rethinking local government service delivery in Malaysia. *Asian Social Science*, 4(11), 1-87.
- Akintoye, A., Hardcastle, C., Beck, M., Chinyio, E., & Asenova, D. (2003). Achieving best value in private finance initiative project procurement. *Construction Management and Economics*, 21(5), 461-470.
- Atan, R., Raman, S. A., Sawiran, M. S., Mohamed, N., & Mail, R. (2010). *Financial performance of Malaysian local authorities: A trend analysis*. In Science and Social Research (CSSR), 2010 International Conference on (pp. 271-276). IEEE.
- Auditor General's report (2010). *Laporan Ketua Audit Negara Jabatan Audit Negara Malaysia. Laporan Ketua Audit Negara Mengenai Penyata Kewangan dan Pengurusan Kewangan Kementerian/Jabatan Kerajaan Persekutuan 2010*. Retrieved from <http://jan101.audit.gov.my/ebookfiles/2/assets/seo/page2.html>
- Bae, Y., & Joo, Y. M. (2016). Pathways to meet critical success factors for local PPPs: The cases of urban transport infrastructure in Korean cities. *Cities*, 53, 35-42.
- Baker, K. (2012). Understanding strategic service partnerships. *Public Performance & Management Review*, 35(4), 660-678.
- Berita Harian (2006), *RMK-9 bukan sekadar tender, projek. Semua pihak mesti kerja sama pacu ekonomi capai Misi Nasional*, by Abdul Rahman Sulaiman (MenitiArus Colum), 21 July 2006. Retrieved from [http://library.perdana.org.my/News\\_2006/7-Aug-2006/BH/Others/BH-21072006.pdf](http://library.perdana.org.my/News_2006/7-Aug-2006/BH/Others/BH-21072006.pdf)
- Berita Harian (2015 December 4). *PBT kurang berkerja sama punca RM2.3j dipulangkan*. pp. 33.
- Bernamea (2015, June 6). *Inisiatif PFI Gagal Tepat Konsep– PAC*. Retrieved from <http://www.bernama.com/bernama/v8/bm/ge/newsgeneral>.
- Berahir, N., Jaafar, M. N., & Zainudin, A. Z. (2015). An audit remark on Malaysian local authorities immovable asset management. *Journal of Management Research*, 7(2), 218-228.
- Broadbent, J., & Laughlin, R. (2003). Public private partnerships: An introduction. *Accounting, Auditing, & Accountability Journal*, 16(3), 332-341.
- Carbonara, N., & Pellegrino, R. (2014). PPP for public infrastructure in Italy: opportunity and challenges. *Managerial Finance*, 40(11), 1078-1094.
- Charles, N. (2006). *Public private partnerships as modes of procuring public infrastructure and service delivery in developing countries: Lessons from*

- Uganda*. In Proceedings of the International Public Procurement Conference (pp. 693-710).
- Cirell, S., Bennett, J., & Hann, R. (2003). *The PFI and major strategic procurement in local government*. Thomson.
- Cuthbert, M., & Cuthbert, J. (2011). The effect of PFI commitments on local authority finances. *Fraser of Allander Economic Commentary*, 34(3), 53-62.
- Dutz M., Harris C., Dhingra I. and Shugart C. (2006) *Public– private partnership units: What are they and what do they do*. Public Policy for the Private Sector, The World Bank, Washington, D.C., 311.
- Economic and Social Commission for Asia and the Pacific (ESCAP). (2014). *Sustainable development financing: Perspectives from Asia and the Pacific*. Background Paper. Asia-Pacific Outreach Meeting on Sustainable Development Financing Jakarta, 10-11 June 2014. Retrieved from <http://Www.Unescap.Org/Sites/Default/Files/UNESCAP-SDF-Paper-1July2014-Share.Pdf>
- Hastings, A., Bailey, N., Besemer, K., Bramley, G., Gannon, M., & Watkins, D. (2013). *Coping with the cuts: Local authorities and poorer communities*.
- Hassan, A., &Subari, M. D. (2015). Spurring space industry development in Malaysia: The enabling capabilities. *Journal of Science, Technology, and Innovation Policy*, 1(1).
- Heinecke, B. (2002). *Involvement of small and medium sized enterprises in the private realisation of public buildings* (No. 2002, 09). Freiberg working papers.
- H. M. Treasury, H. M. S. (2000). *Public private partnership-the government's approach*. Retrieved from <https://www.gov.uk/government/>
- Hughes, W., Hillebrandt, P. M., Greenwood, D., & Kwawu, W. (2006). *Procurement in the construction industry: The impact and cost of alternative market and supply processes*. Routledge.
- Ismail, A. G. (2015). *Public private partnerships: Lesson from Sukuk*. Islamic Research Training Institute (IRTI) Working Paper (No. 1435-4). Jeddah, Saudi Arabia, 1-19.
- Ismail, S. (2009). The provision of infrastructure via private finance initiative. *Theoretical and Empirical Researches in Urban Management*, (15), 76-86.
- Ismail, S., & Rashid, K. A. (2007). Private finance initiative (PFI) in Malaysia: The need for and issues related to the public sector comparator (PSC). *Jurnal Akuntansi dan Kewangan Indonesia*, 4(2), 137-154.
- Ismail, S., & Harris, F. A. (2014). Challenges in Implementing Public Private Partnership (PPP) in Malaysia. *Procedia-Social and Behavioural Sciences*, 164, 5-10.

- Ismail, S. (2011). A systematic review of research on private finance initiative (PFI) and public private partnership (PPP). *International Journal of Economics, Accounting, and Management*, 19, 33-60.
- Ismail, S. (2013). Critical success factors of public private partnership (PPP) implementation in Malaysia. *Asia-Pacific Journal of Business Administration*, 5(1), 6-19.
- Ismail, S., Yusof, A. M., & Han, W. S. (2012). Elements of Relational Contract in the Delivery of Public Infrastructure in Malaysia. *IBIMA Business Review Journal*, 1, 2012.
- Janssen, R., Graaf, R. D., Smit, M., & Voordijk, H. (2015). Why local governments rarely use PPPs in their road infrastructure projects: Understanding the barriers. *International Journal of Managing Projects in Business*, 9(1). 1-27.
- Khairuddin Abdul Rashid (2009). *Understanding private finance initiative (PFI)*, pp. 45-91. Selangor: Scholar Mind Publishing.
- Khairuddin Abd. Rashid, Sharina Fariyah Hasan, Puteri Nur Farah Naadia, Mohd Fauzi, Srazali Aripin, & Azila Ahmad Sharkawi (2016). A review on the Malaysian public private partnership (PPP). *Journal of Scientific Research and Development* 3(4), 112-117.
- Khaderi, S. S., & Aziz, A. R. (2010). *Adoption of private finance initiative (PFI) in Malaysian public works projects: Are we ready?* In TG72-Special Track 18th CIB World Building Congress, Salford, United Kingdom (p. 105).
- Khaderi, S., Adnan, S., & Bakri, A. S. (2008). *Risk management perception for private finance initiative (PFI) project in Malaysian construction industry / Shamsida Hj. Saidan Khaderi, Dr. Hjh. Hamimah Hj. Adnan, & Hjh. Anis Sazira Bakri*. Research Reports. Institute of Research, Development and Commercialization, University Technology MARA.
- Kuppusamy, S. (2010). PPP: The right marriage between local government and the private sector in Malaysia. *International Journal of Institutions and Economics*, 2(2), 142-166.
- Kwan, J. (1999). *Public private partnership: A guide for local government*. British Columbia.
- Li, B., Akintoye, A., Edwards, P. J., & Hardcastle, C. (2005). Critical success factors for PPP/PFI projects in the UK construction industry. *Construction Management and Economics*, 23(5), 459-471.
- Liu, J., Love, P. E., Smith, J., Regan, M., & Davis, P. R. (2014). Life cycle critical success factors for public-private partnership infrastructure projects. *Journal of Management in Engineering*, 04014073.
- Marx, H. J. (2014). *Results of the 2014 survey of the CIDB construction industry indicators*.
- Mansor, N. S., & Rashid, K. A. (2016). Incomplete contract in private finance initiative (PFI) contracts: Causes, implications, and strategies. *Procedia-Social and Behavioural Sciences*, 222, 93-102.

- Matthew Nell & Assoc (Pty) Ltd. (2007). *Key challenges to public private partnerships in South Africa*. Summary of Interview Findings for the Support Programme for Accelerated Infrastructure Development (SPAID).
- Md. Lasa, Y., Ahmad, N., & Takim, R. (2015). Critical success factors in obtaining project financing for private finance initiative projects in Malaysia. In: A. B. Raidén & E. Aboagye-Nimo (Eds.). *Proceeding 31 Annual ARCOM Conference, 7-9 September 2015, Lincoln, UK, Association of Researchers in Construction Management*, 1239-1248.
- Mohd Saron, N. N., Jaafar, M. N., & Razali, M. N. (2013). Implementation public private partnership (PPP) in Malaysia: A review on participation of local government and private sector's in land development. *Proceeding of the Global Conference on Business. Economic and Social Sciences (GBSR, 2013)*, 1-19.
- Mohamed, S., Seow, T. W., & Goh, K. C. (2013). *The management of sustainable development: Malaysian local government's role*.
- Muhammad, Z., Sik, K. K., Johar, F., & Sabri, S. (2016). An overview of critical success factors of public private partnership in the delivery of urban infrastructure and services. *Planning Malaysia Journal*, 14(4).
- Mydin, M. O., Sani, N. M., Taib, M., & Alias, N. M. (2014). *Imperative causes of delays in construction projects from developers' outlook*. In *MATEC Web of Conferences*, 10, 1-6.
- National Audit Department, Official Portal (2016). *Auditor general's report federal 2014*. Retrieved from <https://www.audit.gov.my>
- Otairu, A., Umar, A. A., Zawawi, N. A. W. A., Sodangi, M., & Hammad, D. B. (2014). Slow adoption of PPPs in developing countries: Survey of Nigerian construction professionals. *Procedia Engineering*, 77, 188-195.
- Patel, M. & Robinson, H. (2010) Impact of governance on project delivery of complex NHS PFI/PPP schemes. *Journal of Financial Management of Property and Construction*, 15(3), 216-234.
- Potts, K., & Ankrah, N. (2014). *Construction cost management: Learning from case studies*. Routledge.
- Public Private Partnership Unit (PPP Unit) Official Portal, Prime Minister Department. (2015). Retrieved from <http://www.ukas.gov.my/>
- Roe, P., & Craig, A. (2004). *Reforming the private finance initiative*. London, UK: Centre for Policy Studies.
- Salleh, D. (2009). *Improving off-site infrastructure provision through the planning approval system in Peninsular Malaysia* (Doctoral Thesis), University Technology Malaysia.

- Sinar Online (2016). *Pelaksanaan PPR menerusi PFI dikaji*. Retrieved from <http://www.sinarharian.com.my/nasional/pelaksanaan-ppr-menerusi-pfi-dikaji-1.556841>
- Takim, R., Ismail, K., Nawawi, A. H., & Jaafar, A. (2009). The Malaysian private finance initiative and value for money. *Asian Social Science*, 5(3), 1-103.
- Tijhuis, W. (2015). Managing public–private partnerships: Dealing with business-culture influences. *Built Environment Project and Asset Management*, 5(1), 22-34.
- Utusan Online (2014, October 15). *Projek bernilai lebih RM50 juta perlu tapisan*. Retrieved from [http://ww1.utusan.com.my/utusan/Parlimen/20141015/pa\\_05/Projek-bernilai-lebih-RM50-juta-perlu-tapisan](http://ww1.utusan.com.my/utusan/Parlimen/20141015/pa_05/Projek-bernilai-lebih-RM50-juta-perlu-tapisan).
- Wall, A., & Connolly, C. (2009). The private finance initiative: An evolving research agenda? *Public Management Review*, 11(5), 707-724.
- Wibowo, A., & Alfen, H. W. (2015). Government-led critical success factors in PPP infrastructure development. *Built Environment Project and Asset Management*, 5(1), 121-134.
- Zawawi, N. A. W. A., Umar, A. A., Aziz, A. R. A., Crouzier, O., Khamidi, M. F., & Idrus, A. (2014). PFI procurement skills: A cross-sector survey of practitioners. *Procedia Engineering*, 77, 170-178.