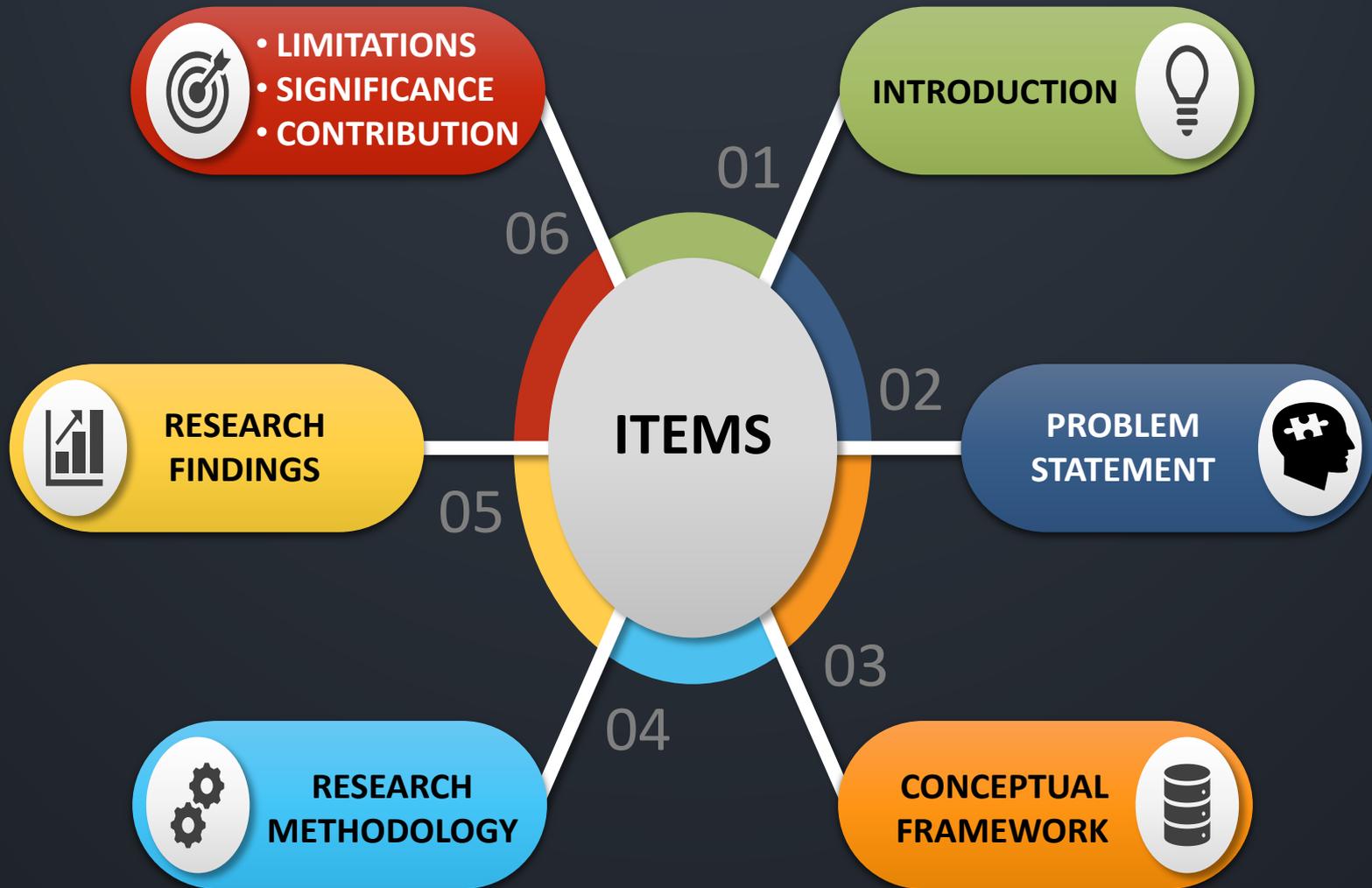


A Framework to Secure Finance for Public Private Partnership (PPP)/Private Finance Initiative (PFI) Projects

DR. YATI BINTI MD. LASA

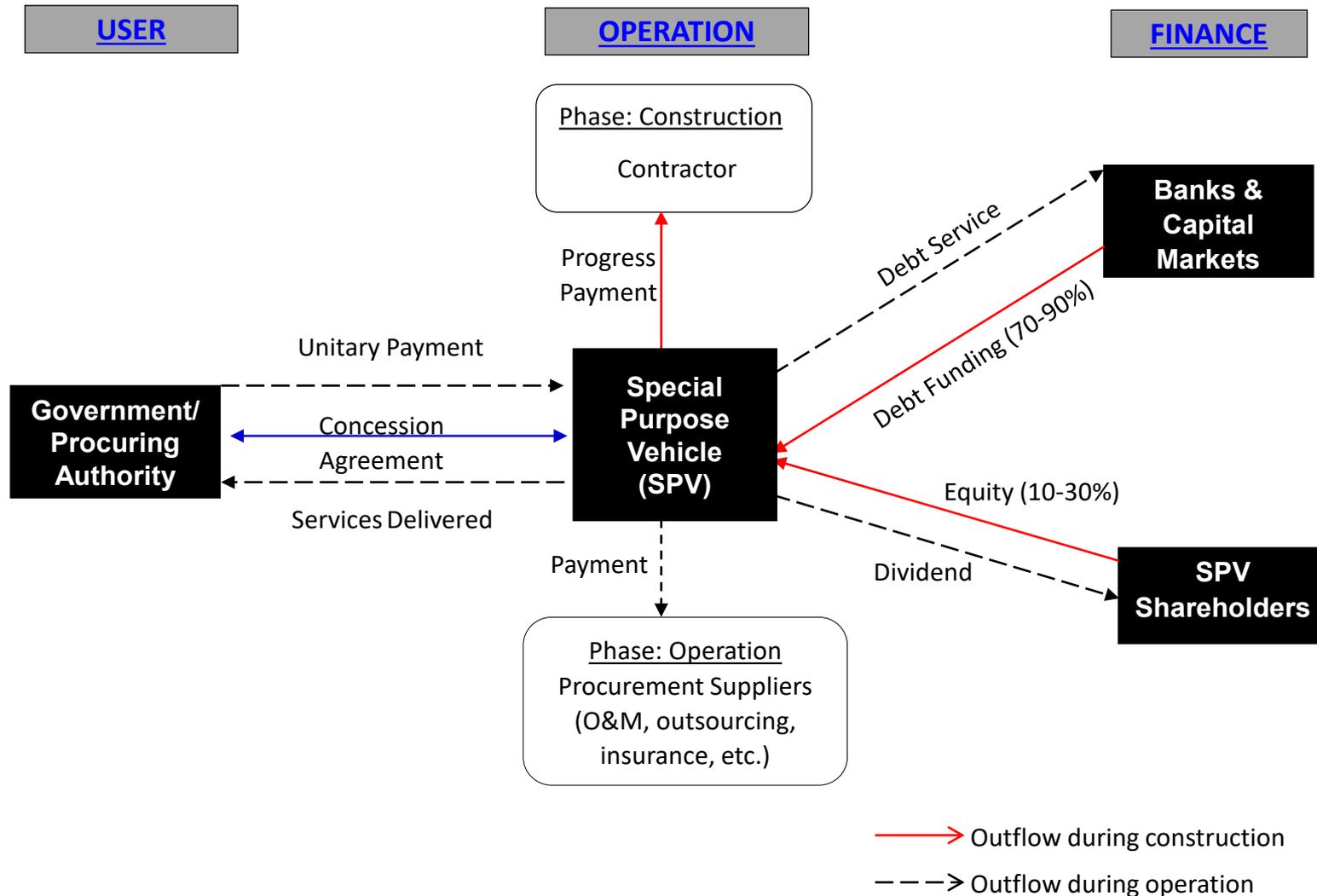
KOLOKIUUM PENYELIDIKAN 2020

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Introduction

WHAT IS PPP/PFI? - Public Private Partnership/Private Finance Initiative



(Source: Adapted from Engel et al. (2014) and Sarmiento and Renneboog (2016))

The Concept and Nature of PPP/PFI

Concept of PPP/PFI

Nature of PPP/PFI



Issue: Difficulties in Securing Financing

(Odevinka et al., 2008; Saidan-Khaderi & Abdul-Aziz, 2009; Chiang & Cheng 2009; Asenova & Beck, 2010; Cheung & Chan, 2011; Ngugi, 2014).

Problem Statement



CURRENT STATE & DRIVING FACTORS

- PPP/PFI approach too risky;
- Malaysian financial institutions reluctant to invest;
- lack of government initiatives;
- no specific legislation and policy transparency

(Zainon et al., 2013; Ismail & Haris, 2014; Abdul-Rahman et al., 2014; Hashim et al., 2017; Muhammad-Said, 2017; Hasan & Salleh, 2018).



LOAN/CREDIT ASSESSMENT

- unviable project due to weak project structure, poor contract design and lack of risk analysis (Yan et al., 2017; Abel et al., 2018).
- private company lacking in financial capacity, inexperienced in construction and weak in management (Chiang & Cheng, 2011; Ngugi, 2014).



SOURCES OF FINANCING

- bank unprepared to provide loan due to high risks;
 - equity shareholders and limited long-term funding
- (Abdullah et al., 2014; Tsunoda et al., 2014).



ACCESS IN SECURING FINANCING

- ability to repay debts; high-interest rate; mismatch tenure and long-term concession period (Meng & McKeivitt, 2011; DBRS, 2015; Kurniawan et al., 2015; Kamil et al., 2018).
- delays in reaching financial close (Demirag et al., 2015).

Research Gaps:

Difficulties in securing financing for PPP/PFI projects

Research Questions and Research Objectives

R
Q

current state of financing?



driving factors?



key credit factors?



sources of financing?



access in securing?



framework for securing finance?



R
O

To explore the current state of financing for PPP/PFI projects .

To investigate driving factors in financing for PPP/PFI project.

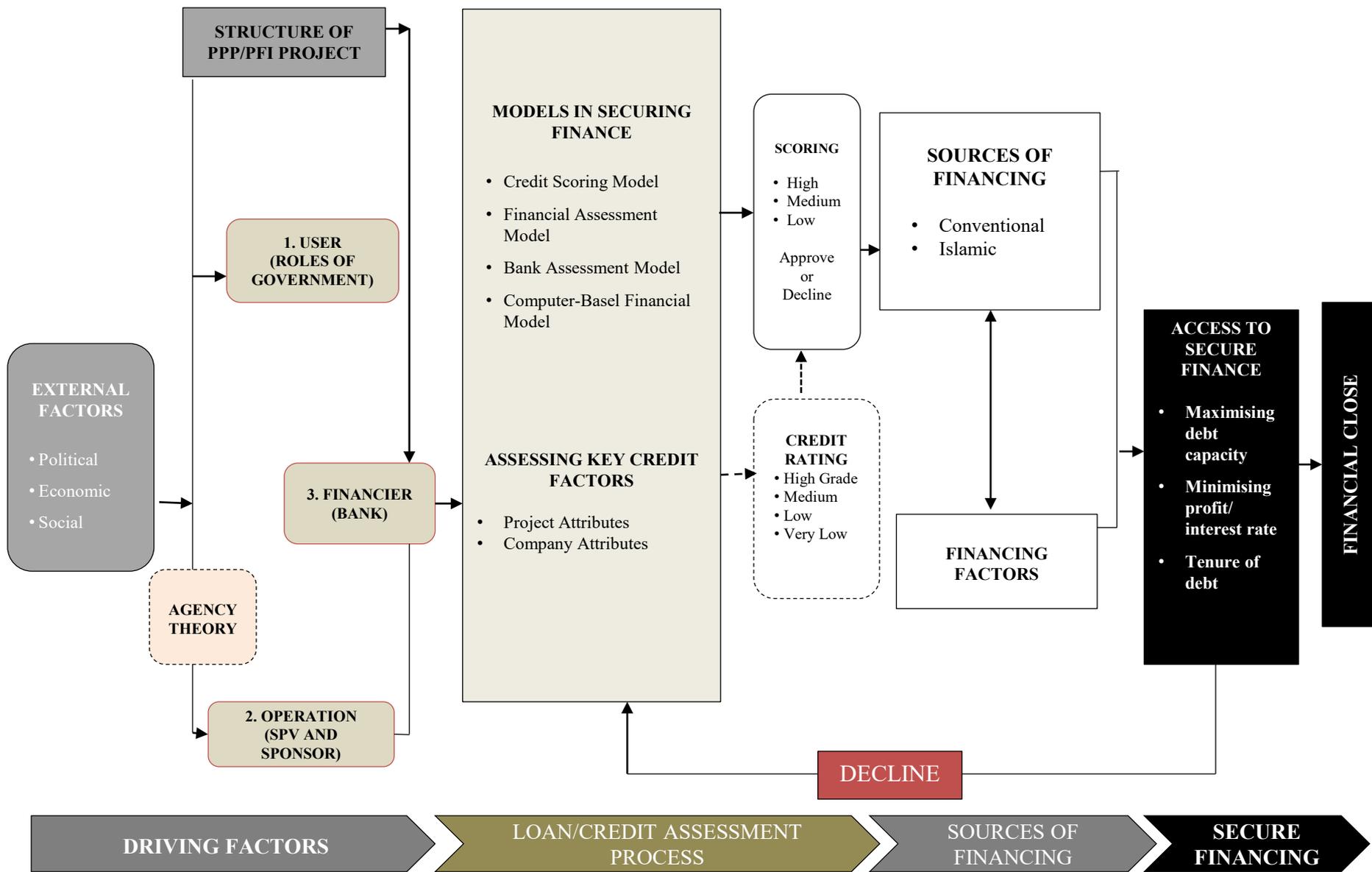
To determine key credit factors in securing finance for PPP/PFI.

To identify sources of financing for PPP/PFI projects.

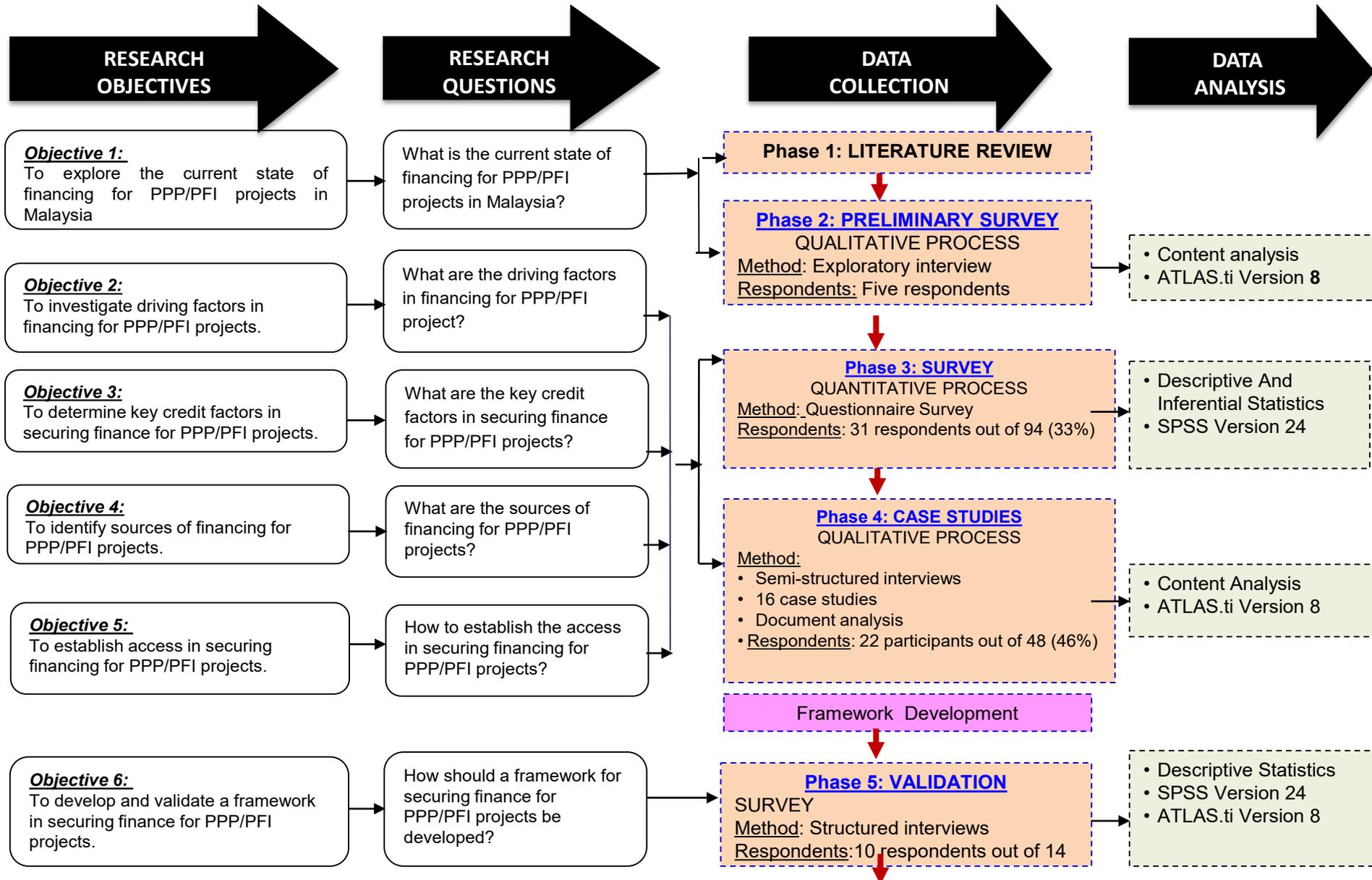
To establish access in securing financing for PPP/PFI projects.

To develop and validate a framework in securing finance.

A CONCEPTUAL FRAMEWORK TO **SECURE FINANCE** FOR PPP/PFI PROJECTS



Research Methodology



Preliminary Survey

NO	RESEARCH QUESTION	RESEARCH OBJECTIVE	RESEARCH METHODOLOGY			
			RESEARCH ENQUIRY	DATA COLLECTION	SOURCES/ RESPONDENTS	DATA ANALYSIS
1.	What is the current state of financing for PPP/PFI projects in Malaysia?	To explore the current state of financing for PPP/PFI projects in Malaysia	Qualitative	Exploratory interview	Five (5) respondents from government agencies and private sectors <ul style="list-style-type: none"> • UiTM • UKAS • 2 Contractors • Commercial Bank 	Content Analysis using ATLAS.ti

Respondents' Profile and Experience

Code	Type of Organisation	Designation	Experience (Years)		
			11-15	16-20	> 20
R1	UKAS	Principal Assistant Director		1	
R2	UiTM	Project Coordinator		1	
R3	Contractor A	Managing Director			1
R4	Contractor B	General Manager			1
R5	Commercial Bank	Senior Credit Officer	1		
Total			1	2	2

UKAS= Unit Kerjasama Awam Swasta, UiTM=Universiti Teknologi MARA

Research Findings

Profile of Projects Selected

Code	Type of Projects	Method of Concession	Concession Period (years)	Project Cost (RM Mil.)
A	Teaching Hospital	BLMT	25	458
B	Hostel Building	BLMT	20	180
C	Highway	BOT	59	1,550
D	University Campus	BLMT	20	350
E	Highway	BOT	50	5,044
F	Hostel Building	BLMT	20	160
G	Specialist Hospital	BLMT	30	606
H	University Campus	BLMT	20	260
I	University Campus	BLMT	20	296
J	Highway	BOT	54	1,183
K	University Campus	BLMT	20	292
L	University Campus	BLMT	20	230
M	University Campus	BLMT	20	266
N	University Campus	BLMT	20	311
O	Teaching Hospital	BLMT	22	599
P	Specialist Hospital	BLMT	27	848
TOTAL				

16 PPP/PFI projects.

2 methods used

- i. Build-Lease-Maintain-Transfer (BLMT) (13 projects)
- ii. Build-Operate-Transfer (BOT) (3 projects)

Concession period

- i. BLMT projects (20-27 years)
- ii. BOT projects (50-59 years)

Project Overall Cost

- i. BLMT – range RM160- RM848 Millions
- ii. BOT – range RM1.183- RM5.04 Billions

Semi-Structured Interview

Respondents' Profile and Experience

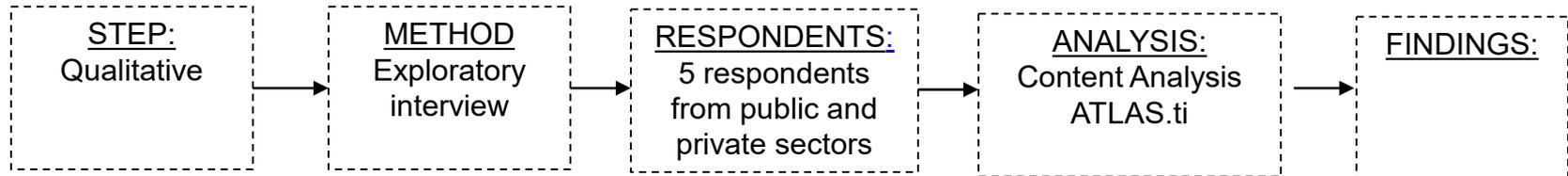
Organisation	Designation	Years of Experience		
		10-15	15-20	> 20
Banks	Senior Credit Officer		1	2
Public sector	Director		2	
	Principal Ass. Secretary	1		
SPV	Chief Executive Officer			3
	Finance Director	2	1	2
	Senior Finance Manager	2	1	1
	Project Director		1	1
	Manager	1	1	
Total	Total	6	7	9

Research Findings

OBJECTIVE

1

To explore the **current state of financing** for PPP/PFI projects in Malaysia



Perception of the PPP/PFI Projects Implementation	Difficulties in Securing Finance	Important Factors in Securing Finance
<ul style="list-style-type: none"> ✓ The government can achieve more saving and shift the debt to the private sector. ✓ Private sector borrow from the bank to implement the project ✓ The government can release the risks to the private sector ✓ If the project fails to complete, the government will not be responsible since all the liability will be bounded by the SPV and financier. 	<ul style="list-style-type: none"> ✓ Most banks still are not fully convinced with the PPP/PFI projects. ✓ PPP/PFI projects are risky and the banks refuse to share the risks. ✓ Compared to the conventional project, PPP/PFI project is challenging. ✓ There is a deduction of revenue if the SPV fails to achieve certain KPIs. ✓ The concession agreement terms are not convincing. ✓ Commercial banks lack technical expertise. 	<ul style="list-style-type: none"> ✓ Roles of government ✓ Project attributes ✓ Company's attributes ✓ Financier's participation/financing factors ✓ Political and economic/external factors

Operationalizing The Research

NO	RESEARCH QUESTIONS	RESEARCH OBJECTIVES	RESEARCH METHODOLOGY			
			RESEARCH ENQUIRY	DATA COLLECTION	SOURCES/ RESPONDENTS	DATA ANALYSIS
2.	What are the driving factors in financing for PPP/PFI project?	To investigate driving factors in financing for PPP/PFI projects.	Quantitative	Questionnaire Survey	31 respondents out of 94 <ul style="list-style-type: none"> • 15 from banks • 16 from SPV • ≥ 5 years of working experience 	<ul style="list-style-type: none"> • Descriptive (Criticality and Frequency) • Inferential Statistics (Independent T-test and Paired T-test) • SPSS Version 24
3.	What are the key credit factors in securing finance for PPP/PFI projects?	To determine key credit factors in securing finance for PPP/PFI projects.				
4.	What are the sources of financing for PPP/PFI projects?	To identify sources of financing for PPP/PFI projects.	Qualitative	<ul style="list-style-type: none"> • Case studies • Semi-structured interviews • Document analysis 	<ul style="list-style-type: none"> • 22 participants out of 48 • 16 PPP/PFI projects 	
5.	How to establish the access in securing financing for PPP/PFI projects?	To establish access in securing financing for PPP/PFI projects.				

Project Formulation

Comparative Findings of **Survey** and **Case Study**

SURVEY: Project Formulation	Overall Mean	R	Criticality	Bank (n=15)	R	SPV (n=16)	R	Paired T-Test Criticality
Concession agreement	6.45	1	Extremely Critical	6.73	1	6.19	1	↑ ↓ p=0.026
O & M contract	6.26	2	Extremely Critical	6.47	2	6.09	2	
Project needs	5.84	3	Extremely Critical	6.40	3	5.31	3	
Permits & site clearances	5.55	4	Very Critical	6.20	4	4.94	4	
Location of the project	4.87	5	Very Critical	5.40	5	4.84	5	

Demarcation point (Akintoye & Fitzgerald, 2000)

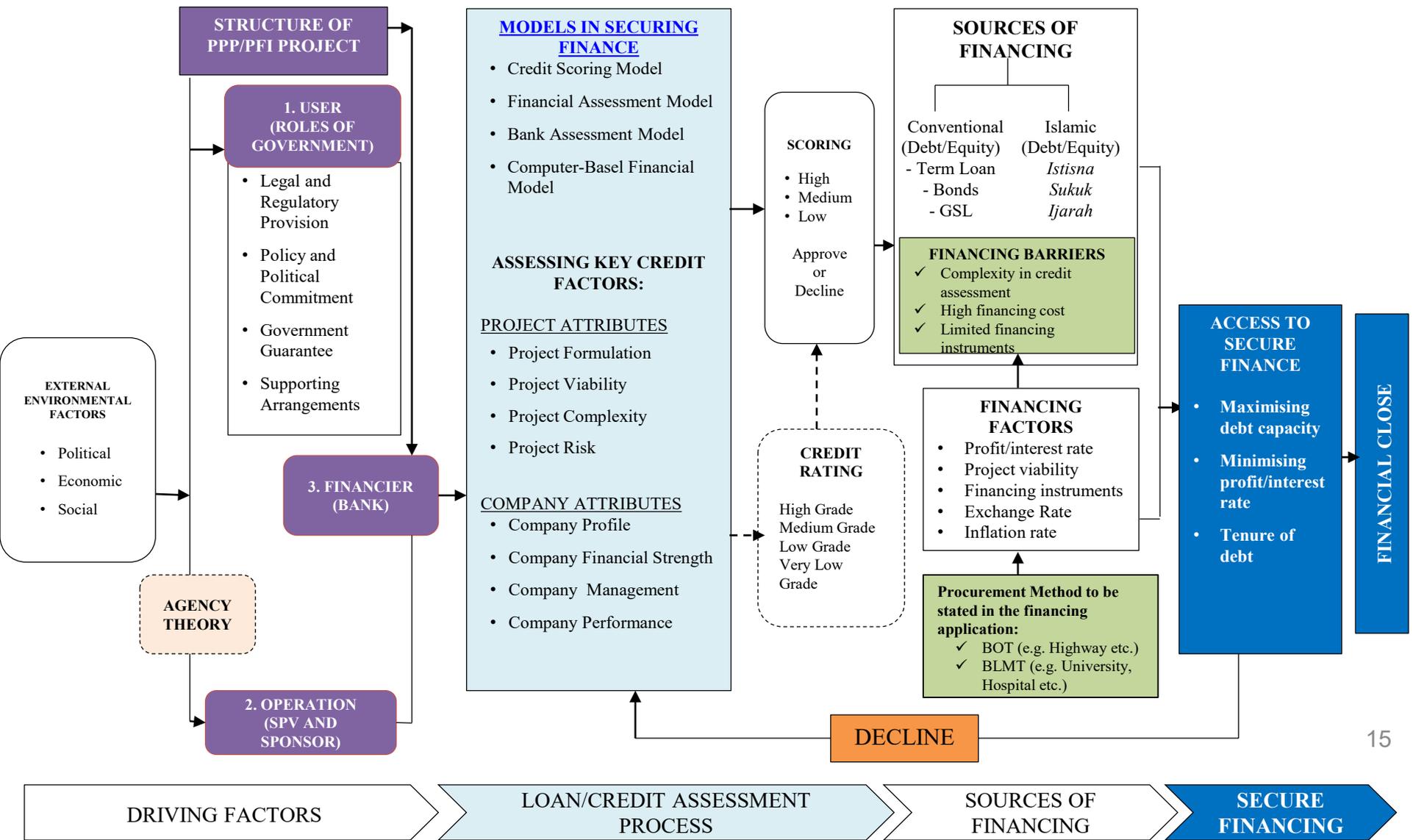
CASE STUDY: Project Formulation	Bank (n=3)	Government (n=3)	SPV (n=16)	Total (n=22)	%
Concession agreement	3	3	10	16	73%
Project needs	3	3	9	15	68%
Location of the project	2	2	7	11	50%
Permits and site clearances	2	2	7	11	50%
O & M contract	2	1	4	7	32%

Cut-off point (Ismail, 2012)

Survey		Case Study	
Ranking	Factors	Ranking	Factors
1	Concession agreement	✓ 1	Concession agreement
2	O & M contract	✓ 2	Project needs
3	Project needs	✓ 3	Location of the project
4	Permits & site clearances	✓ 4	Permits and site clearances
5	Location of the project	5	O & M contract

A Framework To Secure Finance For PPP/PFI Projects

OBJECTIVE 6 To develop and validate a framework in securing finance



Significance of Study



Framework

- development of the framework to secure finance for PPP/PFI projects



Policymakers

- to improve current policies



Guides SPVs

- best practice to evaluate the potential success levels of PPP/PFI projects.



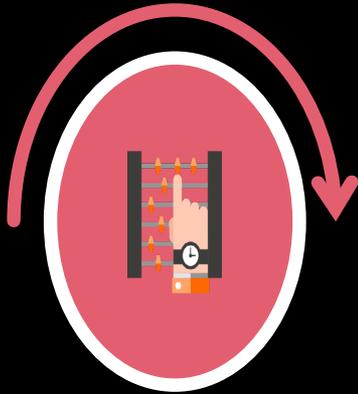
Knowledge

- expanding current knowledge on a broader level

Scope and Limitations of Research

Scope

- ✓ All PPP/PFI projects under the 9th and 10th Malaysia Plan that have secured financing
- ✓ Target respondents: Government Agencies; SPVs and Banks



Financing-related data are sensitive and confidential



Very few are written about problems with securing PPP/PFI financing.



Lack of participation by financial institutions and limited number of PPP/PFI projects

Limitations





new dimension of knowledge in developing a framework in securing finance.



strategic process and the simplified flow of securing financing for PPP/PFI projects.



better understanding of each stakeholder's needs and requirements.



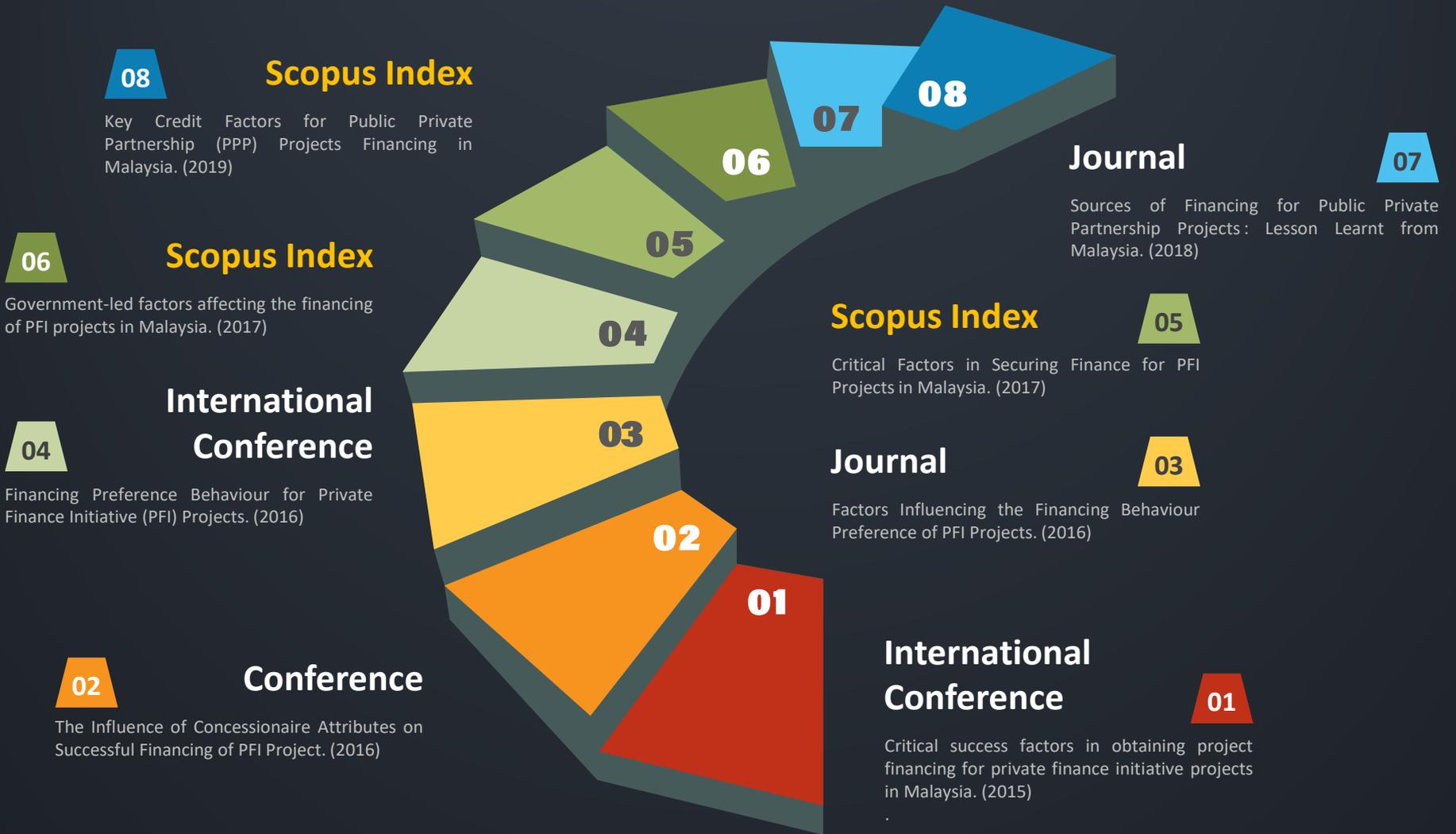
improving the current policy and future practices on implementation of PPP/PFI in Malaysia.



provide a guide in proposing viable PPP/PFI projects.

Research Contribution

List of Publication



Journal Articles Published

GRACIAS
ARIGATO
SHUKURIA
JUSPAXAR
DANKSCHEEN
TASHAKKUR ATU
YAQHANYELAY
SUKSAMA
EKHMET
TINGKI
BIYAN
SHUKRIA
THANK
YOU
GRAZIE
MEHRBANI
PALDIES
BOLZIN
MERCI
MINNAONCHAR