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A FRAMEWORK TO SECURE FINANCE FOR PUBLIC PRIVATE PARTNERSHIP (PPP)/PRIVATE FINANCE INITIATIVE (PFI) PROJECTS

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ABSTRACT

The Public Private Partnership (PPP)/Private Finance Initiative (PFI) has been implemented as an effective procurement route for the development of economic and social infrastructure. The PPP/PFI provides various benefits by transferring certain responsibilities and risks from the public sector to a capable and carefully selected private company through the creation of a Special Purpose Vehicle (SPV); alleviating the instantaneous burden on public sector budgets by spreading the costs over the asset lifecycle; and demanding high-level financial investment for the SPV throughout the duration of the PPP/PFI project. The high financial demand of PPP/PFI imposes the SPV to secure an enormous source of funding and long-term financial commitment prior to receiving revenues in the operational phase. Nevertheless, difficulties in obtaining project financing led to a lack of participation by the private sector. Financiers are generally reluctant to provide long-term financing for PPP/PFI projects as they suffer from limited liquidity and visibility. In addition, the lack of participation is attributed to the unfavourable financial market conditions, lack of available banks offering long-term financing, and less attractive lending terms that hinder private companies from obtaining capital funding. Therefore, the aim of this study was to develop a framework to secure finance for PPP/PFI project based on six objectives, which were to explore the current state of financing for PPP/PFI projects; investigate driving factors in financing PPP/PFI projects; determine key credit factors to secure finance for PPP/PFI projects; identify sources of financing for PPP/PFI projects; establish access to secure finance for PPP/PFI projects; and validate the framework developed. Mixed methods of quantitative and qualitative research of data collection were adopted. Empirical data was gathered using questionnaire surveys and case studies (semi-structured interviews) conducted among PPP/PFI stakeholders. The data analysis was carried out quantitatively (descriptive and inferential statistical analysis utilising Statistical Package for Social Science (SPSS)) and qualitatively (thematic content analysis utilising ATLAS.ti software). The findings from the research were used to develop a framework to secure finance for PPP/PFI projects which was validated by expert panels. The results indicated four critical components to secure PPP/PFI projects financing, namely driver factors, key credit factors, sources of financing, and secure financing. The results established that external environmental factors and the roles of government have significant influence in driving success of obtaining PPP/PFI project funding. Based on the thematic content analysis, two groups of key credit factors, namely project attributes and company attributes were revealed critical to secure finance for PPP/PFI projects. Also, this research successfully identified two optional sources of financing for project through the conventional or Islamic project finance. Finally, the access to secure finance for PPP/PFI projects was measured by maximising debt capacity, minimising profit/interest rate, and appropriate tenure of debt prior financial close. The research output sought to facilitate the PPP/PFI key players, particularly public authorities, consultants, and SPVs by simplifying the flow of securing financing for PPP/PFI projects.

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CHAPTER ONE
INTRODUCTION

1.1 Research Background

This research explores the process of securing finance for Public-Private Partnership (PPP)/Private Finance Initiative (PFI) projects in Malaysia. PPP has been defined as the collaboration between the public and private sectors in the interests of delivering public infrastructure under a contract or concession agreement. PFI, however, refers to a type of PPP where the private sector is recruited to finance, design, build, operate, and maintain public infrastructure as an asset over a concession period. PPP is alternately known as P3 in North America, Privately-Financed Projects (PFP) in Australia, and Private Finance Initiative (PFI), a term which originated in Britain and is now widely used in many countries such as Japan and Malaysia. This chapter represents an introduction to the specific research area and explains the purpose of the research. An elaboration on the research problems precedes a definition of the research questions for this study. As the intent is to clarify why there is a need for securing finance for PPP/PFI projects in Malaysia, the significance and limitations of this research are also highlighted. A brief outline of the research process and the methodology employed is also presented prior a conclusion discusses the overall structure of the thesis.

PPP/PFI is still one of the most efficient vehicles for delivering public projects (Akintoye & Beck, 2009), a fact borne out by its extensive use in numerous countries in the developed and developing world (Smith, 2009; Akbiyikli et al., 2012; Abdullah et al., 2014). It is now the preferred procurement route (Adnan & Morledge, 2003) for the development of economic and social infrastructure such as schools, hospitals, defense buildings, prisons, and stadiums (Engel et al., 2010; Inderst & Stewart, 2014). The advantage of PPP/PFI is that public-sector responsibilities and risks can be transferred to a capable and carefully-selected Special Purpose Vehicle (SPV). The PPP/PFI approach alleviates what would otherwise be a burden on the public sector budget by spreading the costs throughout the asset’s lifecycle (Li et al., 2005). This