Public Procurement Innovation in Malaysia: E-Procurement

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1.0 Introduction

Procurement is a management process essentially starting with the identification of needs at the initial stage, followed by planning, organizing and deciding on methods to acquire and dispose products and services. Government procurement however, refers to any activity involving purchases of goods and services (consultancies and professional services), construction, capital goods as well as property leasing arrangements for the government consumption (ACCI, 2003).

Government purchases goods and services to carry out its functions and to deliver public goods. The consumption is both for its daily government operations and for development purposes. In performing its function as the regulator and a service provider the federal government, state governments and local governments purchase consumables and services under operating expenditure. Development expenditure includes investments on infrastructure such as roads, bridges, airports, hospitals, etc. Being the single most biggest concern and employer in a country, the size of government investment and government expenditure (excluding military expenses which consumes a big chunk of government expenditure for some countries) ranges from 10 to 20 % of GDP in many countries and this figure might be higher in other countries depending on the size of government and its reach in the society (Nambiar, 2005).

This paper is an exploratory article that seeks to highlight issues relating to the introduction of E-Procurement by various ministries and government agencies in Malaysia. It will start with the patterns of public expenditure followed by how government procurement evolves over the last three decades.

2.0 Public Consumption and Public Expenditure

Public consumption became significant in the 1970s in Malaysia when the government embarked on an active role to promote growth with equity. In an otherwise private sector-led economy, the government participated in economic sectors less ventured by the private sector such as infrastructure development, land development and heavy industries.
Hence, public consumption as a proportion to the national GDP was high in the seventies and eighties, ranging from 16% to 20% of the GDP within those two decades. In response to the mid 1980s recession which was the effect of the first oil crisis, the Malaysian government started to roll back by privatizing public enterprises and assumed a facilitating role. This has resulted in the decline in public consumption in 1990s and took another dip after the 1997-98 economic crises as shown in Table 1. However, since 2003, public consumption remains at 14-15 % of the nation’s GDP.

Table 1
Public and Private Consumption as Share of GDP (RM Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public</th>
<th>GDP share (%)</th>
<th>Private</th>
<th>GDP Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>2226</td>
<td>18.9</td>
<td>6946</td>
<td>58.9</td>
</tr>
<tr>
<td>1975</td>
<td>3117</td>
<td>17.9</td>
<td>9631</td>
<td>55.5</td>
</tr>
<tr>
<td>1980</td>
<td>5284</td>
<td>20.2</td>
<td>15,317</td>
<td>58.5</td>
</tr>
<tr>
<td>1985</td>
<td>9417</td>
<td>16.5</td>
<td>29,242</td>
<td>51.2</td>
</tr>
<tr>
<td>1990</td>
<td>11,513</td>
<td>14.5</td>
<td>39,728</td>
<td>50</td>
</tr>
<tr>
<td>1995</td>
<td>17,568</td>
<td>14.6</td>
<td>56,288</td>
<td>46.8</td>
</tr>
<tr>
<td>2000</td>
<td>23,868</td>
<td>11.4</td>
<td>95,370</td>
<td>45.4</td>
</tr>
<tr>
<td>2003</td>
<td>33,603</td>
<td>14.7</td>
<td>107,226</td>
<td>46.8</td>
</tr>
<tr>
<td>2005</td>
<td>37,413</td>
<td>14.5</td>
<td>122,796</td>
<td>47.7</td>
</tr>
</tbody>
</table>

Source: Malaysia Plan 1-8

As shown in Table 2, the development expenditure increases for every five-year plan period. Government expenditure has been made as one of the tools to achieve the socioeconomic objectives in Malaysia. This expansionary approach adopted by the Malaysian government is by financing the infrastructure development and the social programmes. Government procurement has therefore generates business in the country.
### Table 2
Malaysia: Development Expenditure Share’s of GDP (%)

<table>
<thead>
<tr>
<th>Development Plan</th>
<th>Average Percentage of Development Expenditure (%)</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2MP: 1971-1795</td>
<td>11.4</td>
<td>18.7</td>
</tr>
<tr>
<td>3MP: 1976-1980</td>
<td>10.9</td>
<td>33.1</td>
</tr>
<tr>
<td>4MP: 1981-1985</td>
<td>15.4</td>
<td>-11.0</td>
</tr>
<tr>
<td>5MP: 1986-1990</td>
<td>8.3</td>
<td>9.1</td>
</tr>
<tr>
<td>6MP: 1991-1995</td>
<td>6.8</td>
<td>10.1</td>
</tr>
<tr>
<td>7MP: 1996-2000</td>
<td>7.4</td>
<td>17.6</td>
</tr>
<tr>
<td>8MP: 2001-2005</td>
<td>9.4</td>
<td>-5.3</td>
</tr>
</tbody>
</table>

Source: Mansor Isa et al. (2005).

### 3.0 The Objectives of Government Procurement in Malaysia

Public procurement in Malaysia started after the budget is passed by Parliament and becomes law. The procedures and guidelines are contained in the Financial Procedure Act, 1957, Supply Act 1957 and the Government Contract Act, 1949. Details on how government agencies manage contracts and supplies of goods and services and granting of rights and concessions are spelt out in these Acts.

The objectives of government procurement in Malaysia are set to be paralleled to the development objectives. The Treasury of Malaysia highlights five central objectives of procurement namely,

i) **Sustainable Supply of Goods and Services**
The procurement policy is designed to ensure a sustainable supply of product and services. The aim is to enable government departments to run its operations efficiently particularly in the provision of essential public goods such as health, education and public safety.

ii) **High Value for Money**

Government agencies are guided by the principle of value for money. Decisions on purchases are to be made based on cost and quality. Key to government procurement is the need to reduce its operational cost.

iii) **Promotion of Local Industries**

High on the national development agenda is the development of local small medium companies. This is clearly stipulated in the National Development Plan (NDP) and the Industrial Master Plan placing the development of SMIs as a measure to promote growth. High labor absorption by SMIs is also desirable for employment and as an effort by the government to eradicate poverty.

iv) **As a way to achieve National Development Goals**

As alluded to in the earlier part, government procurement plays an important role in the development of the country. The relative importance can be seen from high consumption expenditures ranging from 11% to 20% throughout the 35 years period (1970-2005)- as shown in Table 1. The development experienced by the country is also partly due to government expenditure that have ensured a fairly high economic growth in Malaysia today. In addition, one of the most important objectives of the government is to create a strong and resilient Bumiputera Commercial and Industrial Community (BCIC). This is the continuation of the New Economic Policy aimed at eradicating poverty and correcting the disparities between the ethnic groups in the country.

iv) **Transfer of Technology and Expertise**

The procurement policy in Malaysia is also used as a tool to promote transfer of technology and expertise. This is done through international tenders whereby foreign
companies are encouraged to join venture with the local contractors. Through joint ventures, local companies are expected to learn from its partners.

4.0 Modes/ types of Procurement
There are many ways of procurement. Among the methods normally used to procure goods and services in Malaysia are as follows:

i) Single Sourcing
Single sourcing is often known as direct purchase. In the event that a department requires goods or services, it is allowed to purchase directly from any suppliers who are registered or unregistered with the Ministry of Finance, Malaysia. It normally involves purchases of goods and services of an amount not more than RM 20,000.

ii) Central Contract
Central Contract involves purchases of common user goods or services through suppliers who are registered with the Ministry of Finance, Malaysia. Most of the candidates are selected from among former suppliers. There are no limits of purchases via this method.

iii) Quotation
This method of procurement requires call for quotations from at least five Bumiputera-registered suppliers with the Ministry of Finance. The procurement amount ranges from RM 50,000 to RM 200,000.

iv) Tender
The most popular method of tender in Malaysia is an open tender. Open tender is considered fair and transparent. It is applicable in the government procurement activities that involve a large amount of expenses of more than RM 200,000. This offer is opened to any suppliers who have registered officially with the Ministry of Finance, Malaysia. In this case, the organizations that need procurements have to advertise the tender in the local newspapers. In case that a tender needs restricted and direct negotiations, permission must be obtained from the Ministry of Finance prior to the exercise of such a practice.
Using the modes described above, there are 3 categories of public procurement in Malaysia. These are: (i) works which involves construction work for infrastructures including mechanical and electrical works; (ii) supplies which include purchasing of daily supplies for office operation, purchasing of construction materials, foods, clothes, vehicles, and office equipments; and (iii) services which include consultation and non-consultation services.

- Consultation services include for example expertise on various fields (i.e: economy, management, architecture, legislation, surveying, expertise in environmental and agriculture) that is crucial for the national development.
- Non-Consultation Services comprise training and courses, maintenances and repairs, cleaning, rental, and building management services.

### 4.1 Procurement Reforms

Majority of government reforms in Malaysia started in late eighties and the nineties. The criticisms leveled at government being inefficient and slow had prompted the government to review its policies and procedures. However, reforms regarding treasury matters were relatively slow. The introduction of Modified Budgeting System (MBS) in 1994, a method considered revolutionary was supposed to empower public managers at the departmental level. The change is in line with changes in other parts of the world. Works on reinventing government (Osborne and Gaebler, 1993 and Coggburn, 2003) have inspired many governments to introduce reforms.

Elsewhere, the procurement system has evolved from a highly centralized to a more deregulated and decentralized ones. This evolution happens due to calls for better government performance and societies’ intolerance for high transaction costs. (MacManus, 1996).

a) Legal and Regulations Aspects of Government Procurement
Almost all treasury policies were introduced when Malaysia achieved its independence. Principally, public procurement in Malaysia is regulated by: (i) Financial Procedure Act, 1957; (ii) the Government Contract Act, 1949; (iii) Treasury Instructions (TIs); (iv) Treasury Circular Letters (TCLs); and (v) Federal Central Contract Circulars (Treasury of Malaysia).

i) **Financial Procedure Act, 1957**
This Act permits authority and management of public finance in Malaysia. It highlights financial and accounting procedures including collection, custody, and payment of federal and of states’ moneys; supplies, custody and disposal of public properties owned by state and federal governments. The act was amended in 1972, to authorize the Minister of Finance to manage, supervise, control and direct all federal financial matters.

ii) **Government Contract Act, 1949 (Revised 1973)**
This Act authorises the ministers to sign contracts and delegates authority to the respective officers to sign contracts on behalf of the government. It was revised in 1973 to complement the original Act enacted in 1949. One of the major amendments was its mandatory to get the authorization form filled-up and signed by the respective heads of ministries or heads of states.

iii) **Treasury Instructions (TIs)**
TIs provide details of financial and accounting procedures including procurement. Treasury instructions are issued to government agencies from time to time on any new changes to the procedures. To date there are 25 TIs issued to government agencies. It ranges from Estimated Revenue to Breakdown of Main Expenditure.

iv) **Treasury Circular Letters (TCLs)**
This official letter is issued by the Treasury Department to communicate, upgrade, explain, and amend the existing and new regulations or procedures regularly from time to time with the intention to make the public and the interest groups aware of any

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* Refer to www.treasury.gov.my
changes made. To date Treasury Malaysia had issued 24 new TCLs and reviews the
tender board to ensure greater transparency in procurement transactions.

v) Federal Central Contract Circulars*
This circular is issued with the intention to make it known to the public about the
presence of central public procurement contract. It provides the following details
including name, price, supplier, supply coverage, specification, mode and timeframe of
the delivery.

b) e-Procurement
The e-Procurement application has been introduced in Malaysia since 1999 by
Commerce Dot Com (CDC) in line with the promotion of electronic government (E-
Government). The exercise of e-Procurement has been developed in stages to allow the
suppliers particularly small-scale companies to adapt themselves with the new changes in
the procurement system. The initial stage of implementation of e-Procurement starts with
the launching of two Modules that is the ‘Procurement via Central Contract’ and the
‘Suppliers Registration’ in October 6, 2000. This was followed by the launching of the
‘Direct Purchase module’ in May 10, 2002. The module for tender and quotation was the
last module developed under the e-Procurement system.

The ‘e-Procurement’ application enables the suppliers to display and introduce their
products and services virtually over the internet 24 hours a day. In addition, the
application also accommodates the procurement transactions from initial stage of the
procuring process to the final stage which involves payments to the suppliers and
contractors.

As of May 2006, there were 115,000 suppliers registered under the e-Procurement
system in Malaysia (Berita Harian, 10th May 2006). To date, the e-Procurement system
had generated a revenue of RM 1.08 billion from 107,000 transactions (Berita Harian,
18th May 2006). The government issued a directive TCL 5/2003 instructing all the e-
procurement enabled government agencies to execute procurement transactions through the central contract and direct purchases on-line.

The adoption of e-Procurement in public purchases has certainly improved public procurement in many ways. It expedites the process by eliminating time loss caused by human interaction and reduced paperwork, hence more efficient. It is also supposed to be more effective because government agencies are able to view the latest products and up-to-date pricing. The result of reducing the process brings down costs to a minimal level therefore improving the overall management of purchases and management. The spill-over benefit to the society is that it promotes an IT literate workforce and business.

The suppliers on the other hand have benefited from the introduction of e-Procurement by getting better access to the contracts, cost-saving, better speed and definitely more accurate on specifications of products and services. Timeliness in payment by government agencies is another very significant advantage to suppliers.

It is a challenge for many suppliers, particularly those in rural areas, to fully participate in e-Procurement. Some parts of Malaysia still experience poor ICT infrastructure, thus making it difficult for these small entrepreneurs to participate e-procurement. Also, low level of education and low ICT knowledge exclude many small rural entrepreneurs.

System instability was mentioned as one of the obstacles faced by suppliers. It is a daunting task to access government website due to frequent breakdown of ICT. Similarly, the breakdown is also experienced by the suppliers. In addition, the on-line registration is costly, especially the initial registration to become an “enabled supplier”.

E-procurement is more transparent and efficient, however, unless training on professionalism is scaled up, accountability and integrity are not ensured
Conclusion

The introduction of e-Procurement in Malaysia is timely. It is improving and almost government departments have been fully enabled. There are many advantages both to the suppliers and government. More importantly, it is more transparent and would certainly improve governance. However, to promote greater participation and acceptance by suppliers, suppliers should be trained in ICT at low cost.

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