An Overview of Procurement Practice in the Ministry of Defence (MINDEF), Malaysia

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Abstract

This paper aims to describe the general overview of procurement practices at the Ministry of Defence, Malaysia. Although the Ministry’s procurement practices must align with the general public procurement guidelines, rules and regulations set up by the Ministry of Finance, defence procurement deals with highly diversified asset acquisitions which can be extremely complex and sensitive in nature, process, and regulations. As such, it is crucial to examine the current defence procurement practices in Malaysia from the perspective of two policy documents namely the National Defence Policy and the Defence White Paper. Brief discussions on the types of procurement and agencies involved in the procurement process are also presented. Previous studies related to defence procurement both from Western literature and local studies are also offered along with a brief view on the notion of value for money.

Keywords: Defence; Procurement; Value for Money; Policy; Malaysian MINDEF

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1.0 INTRODUCTION

In recent years, defence procurement has become one of the major focuses for the Malaysian military as the country seeks to modernize its armed forces and improve its capabilities to meet a range of security challenges. This has led to a significant increase in defence spending and the establishment of new procurement procedures and processes to ensure the efficient and effective acquisition of military equipment and supplies. The background and history of defence procurement in the context of the Malaysian military reflects a commitment to self-reliance and local content, as well as a focus on modernizing and improving the capabilities of the armed forces to meet evolving security challenges.

As a developing country with a growing economy, the government faces various security challenges, including terrorism, transnational crime, and territorial disputes, especially in the South China Sea (MINDEF, 2019). Therefore, Malaysia is committed to enhancing its military capabilities to meet these challenges in order to protect its sovereignty and security. Overall, the current situation in Malaysia is one of ongoing military modernization and improvement, as the country seeks to ensure that its armed forces are well-equipped and well-prepared to meet the security challenges of the 21st century.

The Ministry of Defence, commonly known as MINDEF, was established on 31 August 1957 and the ministry is led by the Minister of Defence and assisted by a Deputy Minister. The defence minister provides political leadership and directs general policy preparation, financial procedures, external defence relations, human resources, infrastructures, and industrial defence science.

Figure 1 shows the organisational structure of MINDEF, which consists of civilian and military. There are two main services, the civilian service, which is headed by the Secretary-General, and the other is Malaysian Armed Forces (MAF), the military service which is led by the Chief of the Armed Forces. The military’s operational arm examines the capabilities required to implement operational matters and the types and scale of weapons, equipment, human resources, and infrastructure. The role of the civilian service is to assist the needs of the triage services of the Armed Forces in their operations and defence-related training. The divisions which are directly involved in military assets acquisitions are the users (army, navy and air force), Procurement Division, Finance Division, and the Internal Audit Investigation Division (BADSA). These divisions are highlighted in Figure 1.
The Malaysian Armed Forces (MAF) deployment is under the control of the government through MINDEF, with execution authorized by the Cabinet. Meanwhile, the King, Duli Yang Maha Mulia Yang Dipertuan Agung, is the Supreme Commander of the MAF, although his role is rather ceremonial. The Prime Minister is essentially the most instrumental in the overall decision-making process and has a major influence on the direction of the military’s expenditure and expansion programmes. The Chief of Defence Forces (CODF) frames the policy of capability development for all three services: land, navy and airforce.

2.0 OVERVIEW OF THE CURRENT STATE OF DEFENCE PROCUREMENT

The current practices of procurement in Malaysia are designed to ensure that the military is able to acquire the equipment and supply it needs, in an efficient, effective, and transparent manner (Perbendaharaan Malaysia, 2022). The Treasury Circular stipulates that the benefits or value of each acquisition must be proportional to the costs incurred and that the best acquisition must be thoroughly evaluated, reasoned, and justified. The Defence Investment Committee (DIC) was recently set up by MINDEF, to prevent irregularities in the procurement of defence assets. It will set policy and make decisions related to the acquisition of assets, especially for high-value strategic assets that require decisions to be made collectively (BERNAMA, 2022). As such the similarities of needs in terms of assets and equipment, between the military and agencies can be identified and thus, achieve economies of scale for the defence industry and return on investment to the country (MINDEF, 2020). The Malaysian government procurement practice is based on the following policies, principles and objectives (http://1pp.treasury.gov.my).

| POLICIES | a) To stimulate the growth of local industries 
b) To encourage and support the evolution of Bumiputera (indigenous) entrepreneurs 
c) To increase and enhance the capabilities of local institutions and industries 
d) To stimulate and promote service-oriented local industries 
e) To accelerate economic growth |
| PRINCIPLES | a) Public Accountability 
b) Transparency 
c) Value For Money 
d) Open And Fair Competition 
e) Fair Dealing |
| OBJECTIVES | Obtaining value for money through the acquisition of works, supplies and services. 
a) price factors 
b) nonprice factors such as whole-life cost, quality, quantity, timeliness, maintenance and warranty |

Table 1: Malaysian government procurement policies, principles, and objectives
2.1 The National Defence Policy, 2010

The National Defence Policy, introduced in 2010, outlines the overall strategy and direction for the development of the Malaysian military, including the acquisition of equipment and supplies. According to the policy document, the development of a highly capable force is needed for rapid deployment to any trouble spots to conduct military operations. To strengthen national defence strategies, information technology capabilities need to be created, updated, and applied for gathering, dominating and accurately providing information within the electronic spectrum. Accordingly, the operational “jointness” among the three services of the Armed Forces including the Malaysian Army, the Royal Malaysian Navy (RMN), and the Royal Malaysian Air Force (RMAF), is the key to national defence operational success.

The policy document also states that the Malaysian Armed Forces must have defensive and offensive capabilities to maintain air superiority in all three national interests. Maritime superiority also allows Malaysia to defend its maritime domain. This includes controlling Peninsular Malaysia-Singapore port entry points, choke points, and sea lanes. However, land operations depend on the Malaysian Army’s cooperation with the Air Force and Navy. Weapons, firepower, mobility, defence, and logistics are needed for mission success. Malaysia's long borders require the Malaysian Armed Forces to respond quickly as a combined force to threats.

Furthermore, in terms of international collaboration, the policy document states that Malaysia's relations with the US are positive as it provides training in various professional fields, defence and science technology as well as a source of defence acquisition. Malaysia has also established defence cooperation with the United Kingdom, Sweden, France and Italy. The defence cooperation with these European countries which are known for their defence industry and technology is critical for the development of Malaysia’s defence capability. The Malaysian Armed Forces (MAF) experience exposure to the latest defence technology and training opportunities through cooperation and relations with these countries. Similarly, Malaysia’s defence cooperation with Russia is aimed at developing its defence capabilities. Moreover, Russia is a source of defence acquisition and an important partner in Malaysia’s quest for new technology and knowledge such as the space programme (MINDEF, 2019).

2.2 Defence White Paper, 2020-2030

This document outlines the Strategic Plan for Defence Science, Technology and Industry Policy (DSTIP) and directs national defence through five main thrusts (MINDEF, 2020). The third and fourth thrusts are directly related to the defence procurement values of MINDEF. The third thrust, Industrial Development aims for a new approach to the procurement of defence assets including providing special incentives to support local companies to increase the competitiveness of the local defence industry and the development of national strategic projects. And the fourth thrust, Towards Self-Reliance prioritizing capable local companies, strengthening the Industrial Collaboration Program (ICP) with Original Equipment Manufacturers (OEM). Overall, these policies provide a comprehensive framework for defence procurement in Malaysia, ensuring that the procurement process is guided by clear and transparent rules and that the military is able to acquire the equipment and supplies it needs to meet its operational requirements.

2.3 Agencies Involved in Defence Procurement

MINDEF and the Ministry of Finance (MoF) are responsible agencies involved in defence procurement. The Tender Board, Science and Technology Research Institute for Defence (STRIDE), and Procurement Division in MINDEF are in charge of monitoring the procurement process (Refer to Figure 1). The Procurement Division or PERO is responsible for the MINDEF procurement process and related policies. The internal controls on defence procurement mainly lie within MINDEF. The external controls, on the other hand, essentially comprise the Ministry of Finance (MoF) and the Auditor General Department. The former monitors the decision-making process regarding tender acceptance from foreign and local suppliers. However, conflicts may arise due to the perception that officials from the MoF are civilians who lack the necessary military expertise to make final decisions in a particular piece of defence procurement.

2.4 Type of Procurement

In line with the Malaysian government procurement, defence procurements are categorized into three groups; works, supplies, and services. Works procurement refers to construction and engineering activities involving infrastructure and structures such as buildings, airports, roads/highways, dams, drainage etc. It is also inclusive of mechanical and electrical aspects of works. Supplies procurement are the supply of raw, intermediate, or finished
goods and products for any activity of users. Supplies also cover construction materials, food products, uniforms, vehicles, equipment, spare parts, furniture etc. Finally, the procurments of services are the engagement of manpower, expertise, and consultants in the areas of feasibility studies, research, designing, surveying, management etc. Other services such as repairs, maintenance and cleaning services are minor activities under this category.

3.0 PREVIOUS STUDIES ON DEFENCE PROCUREMENT

Several studies have been done internationally and locally. Search on the various websites using keywords such as defence, procurement, military, and acquisition, generated various results of recent works which are presented below.

3.1 International Studies

There are several studies conducted on defence procurement in the Western literature. Mostly discussed the challenges and critics of cases related to defence procurement failures. In a study on Canadian military procurement, Davies (2015) wrote most of the critics can be categorised into two aspects: the quality of decision-making within the procurement machinery; and the effectiveness and efficiency of the machinery itself. Davies said that both good and bad decisions can come out of either good or bad machinery, but experience suggests that bad machinery will tend to push an organization more frequently towards bad decisions than good and will certainly make reaching and executing all decisions more difficult, time-consuming, and expensive. He also mentioned an interesting but contrary view, although the defence procurement system seems broken in factuality as he claimed, defence procurement is functioning exactly as intended, with appropriate checks and balances in place to ensure proper consideration of operational, economic, industrial, social, political, and other relevant factors in decisions. Davies reminded that Canada’s Defence Program is designed around the delivery of a number of specific outcomes that are unique to its Department of National Defence (DND and the Canadian Armed Forces (CAF), upon which the NATO policy is built.

One of the most recent studies, under the order of the UK’s House of Commons, a Sub-Committee was established in January 2023 to take a detailed look at the principal entity for purchasing and then maintaining the UK’s military equipment, Defence Equipment and Support (DE&S) (House of Common - Defence Committee, 2023). Its final report to the House of Commons mentions, that while there are major issues within DE&S, there are also several wider factors, across defence as a whole, which also materially impact our ability to procure equipment successfully. The investigation discovered that the UK procurement system is highly bureaucratic, overly stratified, far too ponderous, with an inconsistent approach to safety, very poor accountability and a culture which appears institutionally averse to individual responsibility. The Sub-Committee concluded that the UK military procurement system is indeed ‘broken’ and believes the system is now in need of major, comprehensive reform (House of Common - Defence Committee, 2023).

Nonetheless, a study carried out a decade earlier by a group of academics with 100 man-years of experience in defence procurement, identified 10 principal chronic challenges which impede the UK’s Ministry of Defence’s efficiency in acquisition (Hambleton et al., 2013). The authors’ diagnoses and proposed remedies were based on their collective career experiences. The 10 challenges were listed as Resistance to reform, Relative immunity from scrutiny, Diverse tribal groups, Over-optimism in forecasting, Developing intelligent customers, Translating capability to specification, Change control, Urgency versus risk in development, Interfaces, and Defence Industrial Strategy. Hambleton et al. also said that these 10 chronic challenges cannot easily be overcome, and the proposed remedies demand considerable commitment and resources.

In a study on the US Navy involving the procurement of ship-husbanding services, Rendon & Rendon (2021) found that the majority of the fraud occurred in the contracting phases of contract administration, followed by procurement planning and then source selection. The study found that the fraud was due to weaknesses in the internal control system, followed by weaknesses in its information and communications. The study was from the lens of auditability theory, specifically by the contracting phase and internal control component. They found most of the fraud cases were aligned with the fraud scheme of collusion, followed by billing, cost and pricing. The study suggested that public agencies can enhance fraud detection and deterrence efforts by understanding how weaknesses in contracting processes and internal controls influence fraudulent activities.

Regarding the concept of value for money in procurement, Benamraoui et al., (2022) found that the reports published by the National Audit Office and two main public bodies in the United Kingdom, do not clearly show how economy, efficiency, and effectiveness (3Es) associated with the value for money assessment are attained. There are also limited suggestions on the public bodies’ service output or social outcomes and how performance targets are fulfilled. They deduced that the value-for-money audit’s failure to capture these elements significantly curtails the benefits of the value-for-money exercise to public bodies.
In reviewing the literature, research papers on Malaysian defence procurements are still limited especially papers written in English language. Nevertheless, several studies and their findings will be presented in this section.

In one of the earlier studies on defence procurement practices in Malaysia, the role, methods and processes of defence procurement decision-making as an element of Malaysian security policy and the public policy-making process were examined (Hellmann-Rajanayagam, 2000). The book chapter discussed arms acquisition processes in Malaysia from the perspectives of the different agencies and interests involved to understand the rationale behind each defence procurement decision. The study found the problems in the acquisition process can be identified as structural and political which can be summed up as rationalized decisions rather than rational decision-making. In summary, the problems are due to the lack of an explicit national defence policy and a joint operations doctrine, a less than stringent budget review, external intervention, lack of transparency and predictability, insufficient political and public accountability (in contrast to financial accountability), and the indifference of Parliament to proper oversight over procurement matters.

Malaysia has rather robust procurement regulations that compel agencies to implement the principles of transparency, value for money, and fair dealings in procurement activities (Stolfi & Murniati, 2014). However, according to Stolfi & Murniati, four measures can be adopted by the Malaysian government to improve the competitiveness and transparency of its procurement system. The measures are especially important in three phases of tendering, evaluation and review to ensure non-discrimination and equal treatment. The four measures are: (1) contracting agencies should add clearer and more detailed evaluation criteria in tender notices or tender documents, (2) contracting agencies should provide information about the reasons for choosing certain contractors and rejecting others to both winning and losing contractors as well as to the public, (3) a review phase should be incorporated into the system to allow contractors to file for complaints if they are not happy with the decisions made by the agencies and (4) the government should create parameters to ensure Bumiputera preferences in government procurement are less distorting competition and are awarded in a transparent manner (Stolfi & Murniati, 2014). In another study on public procurement in Malaysia, it was discovered that a moderate level of adherence to Malaysia’s public procurement principles, which consist of public accountability, transparency, open and fair competition, fair dealing and value for money (Abul Hassan et al., 2021). The study also found that among these principles, the most adhered to is the open and fair competition principle and the least adhered to is the transparency principle.

Similar views were shared by Abu-Hassan, (2007) who wrote since its independence, Malaysia’s defence and security strategy, has arguably never been driven and guided by any specific blueprint. Defence planning was mainly based on immediate and short-term needs, reactive in nature and ad hoc in its implementation. He said that sometimes irrelevant and self-serving considerations tend to influence the shaping of Malaysian defence capability development. Hence, derailing any effort to have a focused, coherent, and sustainable development program for the armed forces. Similarly, the need for domestic defence industry development. Fajil et al. (2020) discussed the importance of the development of the Malaysian defence industry to support the Armed Forces military's asset capabilities and ensure national security. The authors wrote that the defence industry can provide a strong defence capability in preparing for external and domestic threats.

As Malaysia’s Armed Forces do not have its own explicit national defence procurement policy, like all government agencies and bodies, the Ministry of Defence (MINDEF) is required to follow procurement guidelines issued by the Ministry of Finance (MoF, 2023). One of the mechanisms implemented to expedite the procurement process among government agencies, henceforth government procurements, is the electronic procurement (e-procurement) system. According to Azmi & Rahman (2015), although the e-procurement system is implemented to curb public procurement fraud, they found that e-procurement does not totally solve procurement fraud activities. However, the system does seem to reduce the risk of abuse from political and third-party interferences which, therefore, lessens the failings of the public procurement system in Malaysia. The claim of external interference was proven in an earlier study conducted by (Hui et al., 2011). They found that one of the common complaints made by contractors or suppliers was the prevalence of interference from outside parties and cronyism, which affects the awarding of contracts. The study addressed accountability, corruption, integrity, cronyism, interference from outside parties and transparency practices in the public procurement system in Malaysia.

In a recent study examining the relationship between defence spending and the subsequent value its created, found that it is hard to appraise defence value, as measurements are case-specific, and even successful attempts cannot be generalised (Balakrishnan, 2021). The author used the novel ‘Triple-Defence Value Framework’ to argue that value can be measured by dividing the role of defence into a primary level: for protection and safety; a secondary level: for socio-economic prosperity; and a tertiary level: for soft power projection. The study concludes by using the framework to measure the value derived from the Malaysian defence sector.

The success of each defence asset acquisition is parallel to its logistic management. According to Mustapa et al., (2020), the logistics assistance aspect can be enhanced through effective and efficient quality services to the users.
The authors wrote that logistic people should ‘change, smart and focus’ on their tasks and maintenance should be planned meticulously with comprehensive and precise maintenance schedule. For spare parts acquisition, the authors said that it should be planned meticulously by making a comprehensive and precise maintenance schedule for every piece of equipment so that it will fulfil the Armed Forces readiness.

Meanwhile, according to Alam, Johari and Said (2018), integrity is a critical issue as it could lead to failures in governance, fraud, inefficacy, corruption and weak financial management particularly in the public sector. In addition, Singh et al., (2000) said the military in general, resents two kinds of outside influence in the arms procurement process. Firstly, interference by political and civilian agencies whose priorities might differ from its own and secondly, by external agencies pursuing commercial or transparent personal interests.

**Value for Money (VFM)**

The discussion on the notion of value for money in public procurement practices is still scarce and therefore a gap in the existing body of knowledge. There is a constant debate among economists, policymakers, auditors, regulators and relevant stakeholders on how to measure value in the context of defence, where most outcomes are intangible. The opportunity cost of defence expenditure against other sectors is constantly queried, and the question of how to measure value remains highly contentious (Balakrishnan, 2021).

The UK’s National Audit Office (NAO) states that there are three aspects to value for money: Economy, Efficiency, and Effectiveness, simply known as 3Es (NAO, 2013). Economy refers to minimising the cost of resources used or acquired and spending less. Efficiency is the relationship between the output from goods or services and the resources used to produce them and therefore, spending well. Finally, Effectiveness is the relationship between the intended and actual results of public spending to spend wisely (Benamraoui et al., 2022). The concept encapsulates the optimal combination of economy (cost of inputs), efficiency (ratio of output to inputs) and effectiveness (value of outcomes from outputs). Besides these three ‘E’s, a fourth E, Equity, is applied in some places. Equity or spending freely, is the extent to which services are available to and reach all people that they are intended to. Some people may receive differing levels of service for reasons other than differences in their levels of need. The literature shows that, for over three decades international public policy has dictated that not-for-profit organisations achieve economy, efficiency and effectiveness or value for money (McKeivitt, 2017). Across the globe VFM performance audits are deployed to meet the objectives. McKevitt added, to a large extent, that this definition is appropriate in quantifying efficiency and economy, while effectiveness remains ambiguous and subjective, particularly regarding its measurement.

According to a report on a short study that was commissioned by the UK Ministry of Defence (MOD), good value for money is the optimal use of resources to achieve the intended outcomes (Black et al., 2021). The authors explain that optimal means the most desirable possible, given expressed or implied restrictions or constraints. The report further explained that value for money is not about getting the cheapest available items or accepting the lowest bid in open tender, but rather optimising net social costs and benefits. However, the main management has its system for monitoring and measuring performance. Although from a central MOD perspective, these systems meet individual budget holder requirements, they are generally not mutually compatible or presented in a format that allows value for money to be assessed across MOD.

Meanwhile, the Office of Government Commerce report says value for money should normally be established through the competitive process for strong competition in a vibrant market will generally deliver a value-for-money outcome (National Audit Office, 2022). The report also states that value-for-money outcome is rarely synonymous with the lowest price. In addition, the financial and non-financial aspects should also be considered in each acquisition of assets. Similarly, amongst other award principles mentioned in the European Committee Rules, financial and non-financial factors should be considered for achieving the best value for money. The financial criteria cover the whole-life costs of the acquisition, and the non-financial criteria usually include areas of deliverability, service quality, innovation, and organisational culture, environmental issues, risk management and partnering/team working.

**4.0 CONCLUSION**

The prime objective of government procurement is to support government programs by obtaining value for money through the acquisition of works, supplies and services. The current defence procurement process follows the guidelines and policies issued and instructed by the Ministry of Finance (MOF) and monitored by the Prime Minister Department (PMD). In recent years, defence spending has increased in Malaysia. The government has made several significant procurements deals for military equipment and supplies, including new fighter jets, ships, and ground-based weapons systems. In this regard, the Malaysian military is working to improve its logistics and support capabilities, including developing new military bases and expanding existing ones.
On the other hand, the argument between the ‘public right to know and the military need to know’ has led to the debate on procurement transparency topic. The topic addresses issues such as unethical conduct, accountability, corruption, integrity, interference from outside parties and cronyism which can affect the implementation process of defence procurement in MINDEF. To meet this objective close attention is given to price factors as well as nonprice factors such as whole life cost, quality, quantity, timeliness, maintenance, and warranty. However, the Ministry of Defence (MINDEF) needs to overhaul the process of acquiring the country’s defence assets to ensure that the process can be implemented in a more transparent manner. While the establishment of the Defence Investment Committee is a good move in the prevention and avoiding irregularities in the acquisition of assets under the ministry, it is not enough. The need for a specific policy on defence procurement should be considered as procurement is a core defence function that makes vital contributions to MINDEF’s capability in protecting national security and sovereignty.

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