

**RISK MANAGEMENT IN PUBLIC EXPENDITURE
MANAGEMENT AND SERVICE DELIVERY IN MALAYSIA**

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**A thesis submitted to
The University of Birmingham
for the degree of
DOCTOR OF PHILOSOPHY**

Department of International Development
School of Government and Society
The University of Birmingham
June 2010

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ABSTRACT

The study seeks to clarify why donors such as the World Bank still insist on the use of their financial management system rather than the recipient country's financial management system, despite the intention under the Paris Declaration 2005 to use the respective government's systems. The study then explores the reasons why the financial management system used by the World Bank is more effective in managing risks related to public financial management and aid as compared to the Government of Malaysia approach. The study compares financial management by the World Bank and Ministry of Education, Government of Malaysia, in their parallel implementation of Educational Sector Support Projects (ESSP) under the Eighth Malaysian Plan, 2001-2005. The quality of financial management of projects in two systems is compared using established criteria of good financial management practice. Findings are based on evidence from interviews, documentation and direct observations. The study demonstrates the significant roles in reducing risks played in the World Bank approach by the Project Management Reports (PMR), the high quality of Project Implementation Unit (PIU) staff and the better procurement procedures. The implication is that more effective risk management and financial management reporting were needed by the Ministry of Education in implementing the ESSP under the Eighth Malaysian Plan 2001 - 2005.

DEDICATION

In memory of my late mother Zaharah Binti Daud and late father Aris Bin Othman

Your everlasting love always remains with my journey

ACKNOWLEDGEMENT

In the name of Allah, The Most Gracious, The Most Merciful. My first thanks go to Almighty Allah who enabled me to write and complete my thesis.

Next, I express my gratitude to my esteemed supervisor, Dr. Michael Hubbard for his invaluable assistance and supervision throughout my studies at the Birmingham University. Indeed, without his patience, constant encouragement and careful reading of my first and revised drafts, it would have been difficult for me to complete my thesis.

I do wish to thank Dr. Peter Watt and Mr. Simon Delay as the supervisory panel members for their contributions, as well as, other lecturers and staff of the International Development Department, University of Birmingham for their continued co-operation as well as to the staff at the Main library, University of Birmingham, for providing me with the necessary documents.

I owe the gratitude to both former Deputy Secretary General (Development & Finance), Ministry of Education Malaysia, Dato' Islahuddin Baba and Dato' Fatimah Md. Deni for their encouragement and support in ensuring me to secure a scholarship in this area of study for my PhD, as well as the Scholarship Division, Ministry of Education Malaysia, Public Service Department, for bearing the expenses for my university education as well as providing me with the necessary funding for my personal maintenance. Not to mention, Ms. Omporn Regal, World Bank 4451MA Task Manager as the ice-breaker of the area and topic I should explore. Associate Professor Dr. Norman Mohd Salleh, School of Accounting, National University of Malaysia and Educational Planning and Research Division, Ministry of Education in supporting my proposal to the Economic Planning Unit of the Prime Ministry Department, Malaysia that gave me the consent to proceed with this research study.

I am much obliged to my wife, Dr. Aliza Ismail and my two lovely children, Adlin and Afifi for their understanding and moral support during my studies in UK. Many thanks go to Prof. Dr. Barjoyai Bardai for his encouragement and Mr. Tajudin Daud, Special Officer to the Director General of Education Malaysia for his comments on my draft and true friendship during my studies. Finally, I would like to thank my late parents, relatives and friends for their good will, assistance and co-operation. May Allah reward and bless you all.

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ABBREVIATIONS

ABD	Asian Development Bank
ALARM	The National Forum for Risk Management in the Public Sector
CCTA	Central Computer and Telecommunication Agency
CIMA	Chartered Institute of Management Accountants
CIPFA	The Chartered Institute of Public Finance and Accountancy
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
DFID	Department for International Development
DPSD	Development and Procurement Division
EFA	Education for All
EPU	Economic Planning Unit, Prime Minister Department, Malaysia
ESSP	Educational Sector Support Projects
GoM	Government of Malaysia
GTZ	German Technical Cooperation
IC	Internal Control
ICAEW	The Institute of Chartered Accountants of England and Wales
ICR	Implementation Completion Report
IIEP	The International Institute for Educational Planning
IMF	International Monetary Fund
IRM	Institute Risk Management
IT	Information Technology
KPI	Key Performance Indicator
LACI	The Loan Administration Change Initiative, World Bank
LAD	Liquidated Ascertained Damages
MDG	Millennium Development Goal
MOE/MoE	Ministry of Education, Malaysia
NAO	National Audit Office, Malaysia
OPDM	Office of the Deputy Prime Minister UK
PCC	Project Coordination Committee
PEFA	Public Expenditure & Financial Accountability
PEM	Public Expenditure Management
PESTLE	Political, Economic, Social, Technical, Legal & Environmental Factors
PFM	Public Financial Management
PIU	Project Implementation Unit
PMC	Project Management Consultant
PMR/FMR	Project Management Reports / Financial Management Reports
PRIMA	Public Risk Management Association
PWC	PricewaterhouseCoopers
SOLACE	Society of Local Authority Chief Executive
UNESCO	United Nations Educational, Scientific and Cultural Organization
VFM	Value for Money
WB	World Bank

PART 1

INTRODUCTION

Part 1 of this study contains five chapters. It addresses the Introduction of this study in Chapter 1. In Chapter 2, it explores the existing state of knowledge on the nature of problems in public financial management and aid. Later in Chapter 3, we(I) discuss the definition, nature and concept of risk management related to public sector. In Chapter 4 it will discussed on the analytical framework, and finally the research methodology in Chapter 5.

Chapter 1

Introduction

1.1 Introduction

An effective financial management system in the public sector is crucial in reducing the risks of mismanagement of fund such as fraud and corruption that have impact on the service delivery. Reforms to improve performance, control and accountability of financial management systems have been widely recommended e.g. by OECD (Kickert, 1997: 733; cited in Ocampo, 2000). In the case of Malaysia, reforms related to public expenditure management firstly took place in 1969 with the change to the programme, performance budgeting system (PPBS) from the traditional line-budgeting system, and later to the Modified Budgeting System (MBS) in 1989. The reforms also included the introduction of the Micro Accounting System (MAS) in 1992, which is similar to Activity Based Costing. The objectives of the reforms were set out in the Seventh Malaysian Plan and Eighth Malaysian Plan which stated: “effective financial management will be given further emphasis to ensure greater accountability in the management of public funds and improve financial discipline at every level of Governments” (Economic Planning Unit, 1991; cited in Salleh 2007).

However, Siddiquee (2006) notes that the MBS has yet to significantly improve due to the various weaknesses and deficiencies as highlighted by the Auditor General of Malaysia in the Auditor General Annual Report. The annual Audit Reports have revealed much failure of government bodies to comply with the rules and

regulations, as well as loss and embezzlement of public funds, and improper monitoring and supervision.

Therefore, this thesis seeks to address the issues related to the implementation of an effective financial management system in managing risks in Malaysia. This thesis is based on the researcher's experience on secondment as the Project Accountant and a team member of the Project Implementation Unit (PIU) in the World Bank Education Sector Support Projects (ESSP) under the Eighth Malaysian Plan. The appointment as the Project Accountant was based on the researcher's academic and professional qualification as a Chartered Accountant registered with the Malaysian Institute of Accountants. This research was strongly supported by the Ministry of Education, Malaysia, and the Economic Planning Unit (EPU) of the Prime Minister Department of Malaysia when it was proposed by the researcher. The motivation to proceed with this research lies behind the identification of the factors which contributed to the success of the World Bank approach in implementing projects in the ESSP as compared to the Government of Malaysia (GoM) approach.

This thesis focuses on the problems raised in Malaysia's parliament (2005) and by the Auditor General of Malaysia (2006) regarding bad cash management, as exemplified in the implementation of the educational sector support projects (ESSP) in the Eighth Malaysian Plan. The reference is particularly to the projects financed and implemented by Government of Malaysia, as compared to similar ESSP projects using the World Bank approach. The Auditor General's Annual Report (2006) highlighted the weakness of public financial management (PFM) in Malaysia, as common in lower and middle income countries. The problem is widely recognized in

the literature on PFM and aid management (e.g. Schick, Brooke, Pretarious and Youker). Various tools to measure and improve PFM have been developed, notably the Public Expenditure and Financial Accountability (PEFA) and fiduciary assessments e.g. by Department for International Development of UK (DFID) for managing fiduciary risk on financial aid.

This study sets out to establish whether reform of domestic public financial management (PFM) can learn from project implementation unit (PIU) management of risk in the case of education infrastructure investment projects in Malaysia. It develops and applies a framework of criteria for good financial risk management to invest in educational infrastructure separately managed by government systems and by World Bank in Malaysia in the Eighth Malaysian Plan period.

This research is needed because the means for improving PFM is not well understood. Furthermore, international aid is ambiguous regarding Project Implementation Units (PIUs). On the one hand, the aid management reform agenda (see Paris Declaration, 2005) wants to get rid of PIUs since they are alleged to reduce country ownership by by-passing government systems. Simultaneously, donors still want to use PIUs because country financial management systems are not trusted. For instance, most opinions at a meeting of task managers in World Bank (2008) agreed that using PIUs reduces the risks that their funds are mismanaged.¹ Can the efforts for reforming the government systems regarding finance management of projects learn from the management methods of PIUs? in particular, the way they manage risks. These are the questions which this research seeks to answer.

¹ Brown Bag Lunch Meeting held in Washington D.C. on 15th February, 2006 hosted by WBI's Capacity Development Unit and OPCS.

Firstly, this chapter identifies and discusses the problem and its context. At the second stage, it explains the motivation as well as focus of the study. The third issue is to it elaborates the research objectives, research questions and hypotheses, research methodology and approaches, and the relevance of the study. Finally, it outlines the structure of the study.

1.2 Problem and its Context

Managing public financial management system in an effective manner is the key in public finance. This is because it involves major sums of money collected from various sources through taxation incomes, grants and loans either from the public or even external sources such as donors like the World Bank and DFID. The funds collected will then need to be spent wisely and accordingly based on what being planned in the budgetary processes. Campos, and Phadhan (1996), stated that a good public expenditure management should consists of three key objectives namely, fiscal discipline (expenditure control); allocation of resources consistent with policy priorities (“strategic” allocation); and good operational management.

Unfortunately, there are many issues and problems related to public funds such as over-spending, under-utilized and unauthorized expenditures which have been raised while contributing to the risks of public funds. The risks that had lead to the mismanagement of fund influenced the service delivery while it failed to achieve its main objectives by the government entities or bodies accountable for it. The issues

were seriously discussed at both national and international level that had shown how weak the implementations of the financial management systems for government bodies or countries were. The condition will even get worse when it leads to the practicing of fraud and corruption without realizing it.

The weaknesses that had been identified by the World Bank (1998) in resource allocation and had been used that undermine public sector performance included poor expenditure controls; inadequate funding for operations and maintenance; little relationship between the budget as formulated and the budget as executed; poor cash management; inadequate reporting for financial performance; and poor cash management. All the weaknesses were in relation to the financial management systems of the country. Furthermore, according to Schick (World Bank, 1998), the central budget agencies have to take the lead in putting the basics in places to support all three functions of the budget which are control of public resources, plan for future resource allocation and management of resources.

For instance, in the case for Aid Effectiveness, as in a study by Brooke (2003) confirmed that most countries that requested for funding from international organizations were countries that had poor financial management systems. Brooke (2003) added that in order to overcome the weaknesses in the country's financial management systems, the development agencies typically require governments to take measures to reduce the likelihood of fund being wasted or misappropriated in both the short and long terms. This also included the additional measures or parallel systems that may only apply to donor funds.

This is supported by Caiden (1980) that stated ‘not surprisingly, countries heavily dependent on aid are more likely to have weak PEM’. Caiden added that major problems emerge from priorities (not only between a donor and a country, but between donors and the poor coverage of aid funding in the budget. The weaknesses are not newly discovered. In 1980, Caiden wrote: “If ever there was a subject who has been overwritten, overanalyzed and overtheorized with so little practical result to show for the effort, it is budgeting in poor countries.”

On the other hand, poor aid management also signals a weak PEM system. For instance, in the report by the House of Commons Committee of Public Accounts (2008) on its Twenty-seventh Report of Session 2007-08 (HC395) on DFID: Providing budget support to developing countries. The report stated although DFID assesses weaknesses in financial systems of a country it rarely estimates the associated risks of corruption or waste of UK funds. Furthermore, DFID’s monitoring has basic weaknesses in specifying suitable indicators and tracking progress against objectives (HC 395, pg. 3).

The weaknesses identified and stated above were due to the risks that can be associated with the country financial management systems. Among the risks associated to public financial management or public expenditure management are listed in the “PESTLE” (Political Economic Social Technical Legal Environmental) Model in the Government Strategy Survival Guides by the HM Treasury UK (2004) as well as by the Canadian Treasury. In addition, risks such as fiduciary risk, development risk and reputation risk are been identified as risks that contributed to how effective were the fund provided for aid effectiveness (Allen, Campo and

Garrity, 2004) and Ford (2005). This is because risks such as fiduciary risk can lead to corruption and fraud which consequently become a major drain on the effective use of resources in the public sector.

As an example, relevant to this case study in the educational sector, research suggests that in some countries as much as 80 percent of the total funds allocated to schools by education ministries were lost to “leakage”. These dramatic losses add weight to the question of “How can corruption be uncovered and what strategies exist to fight it?” .This is supported in the studies on corruption and fraud in the educational sector by Hallak and Poisson (2002) and Ochse (2004). In Hallak and Poisson study at the International Institute for Educational Planning (IIEP), they had identifies 10 main areas in which malpractice occurs. Whereas, in the study by Ochse, the German Cooperation (GTZ) has suggested various measures to prevent corruption in the educational sector that include in the areas of personnel, financial management and procurement systems. In the case of an infrastructure projects, Baldry (1997) and Beest (2003) also suggested that the government had to face a lot of challenges in facing risks through out the project cycle such as officials’ attitudes.

Many literatures both academic and non-academic, suggested the importance of effective financial management systems as a management control tools in mitigating risks related to public financial management or public expenditure management. This is also supported by CIPFA (2001) and the Strategy Unit’s of the HM Treasury (2002) that had recommended that effective Risk Management (RM) systems, including Internal Control (IC) be included so as to ensure public funds are safeguarded and used in accordance with statute.

The significance of financial management is supported by CIMA (2003) too which noted recent cases of corporate failure, which underlines the importance of performance reporting – ‘an area that many firms assume is simple but find hard to get right’. A good financial monitoring and forecasting system enables the management of an organisation to consider its financial performance and forecasting for a given period, identifying variances and trends. This enables corrective actions to be taken to manage unfavourable variances or for favourable variances to be applied to corporate priorities. The need for good financial management reporting that can reduce the risk in managing public funds was also described by a study carried out by Drebin, Chan & Ferguson (1981) on “Objectives of Accounting and Financial Reporting for Government Units” that had identified five basic objectives which are as follows:

1. To provide financial information useful for determining and predicting the flows, balances and requirements of short-term financial resources of the governmental unit.
2. To provide financial information useful for determining and predicting the economic condition of the governmental unit and changes therein.
3. To provide financial information useful for monitoring performance under terms of legal, contractual and fiduciary requirements.

4. To provide information useful for planning and budgeting, and for predicting the impact of the acquisition and allocation of resources on the achievement of operational objectives.

5. To provide information useful for evaluating managerial and organisational performance.

Other related reporting worth noted are the joint study on the “World Class of Financial Management for Public Sector” by the Audit commission of the HM Treasury UK and PriceWaterhouseCoopers (2004) and also the “Financial Management Capacity Model” by the Auditor General of Canada (1999) which described the importance of financial management as a new approach in managing risks related to public expenditure management.

Furthermore, in the case of Aid Effectiveness, the World Bank (1998) stated that their financial management system that consists of the project or financial management report and other bank conditions are part of the Bank internal control systems in managing risk in their respective projects. Among the conditions related to how the project should be managed or implemented includes the setting of the project implementation unit. The project implementation unit (PIU) responsibilities are to oversee or to monitor as well as to evaluate the project both financially and physically. Other than that, it also emphasized on the procurements procedures and financial reports that generate both financial and non-financial data and information. According to the World Bank, the need for good financial management is essential for Bank-financed projects. It is more than an administrative and control process.

Sound financial management is a critical ingredient of project success. Timely and relevant financial information provides a basis for better decisions, thus speeding the physical progress of the project and the availability of funds, as well as reducing delays and bottlenecks. This is why Bank policy and procedures require good financial management in Bank-funded projects. Sound project financial management provides:

1. Essential information needed by those who manage, implement and supervise the projects, including government oversight agencies and financing institutions;
2. The comfort needed by the borrower country, lenders and donor community that funds have been used efficiently and for the purposes intended; and
3. A deterrent to fraud and corruption, since it provides internal controls and the ability to quickly identify unusual occurrences and deviations.

Furthermore, the World Bank also claimed that the PMRs/FMRs implemented to all its project-financed initiatives effective 1998, which is a departure from its previous method of reporting known as Statement of Expenditure (SOE) as one of the ways that the Bank managed its risks such as the risks of corruption and fraud. This is another step taken by the Bank in strengthening its financial management systems.

Therefore, strengthening financial management systems among participating countries of the Paris Declaration is one of the key issues that were highly debated.

This move is proposed as a mitigating factor to reduce the lack of confidence of donors that had put various pre-conditions in their respective budget supports. With the improvement of the country financial management systems, the Donors had no reasons to include any pre-conditions in the future for its budget supports. The intention of pre-conditions is to avoid risks that the allocation of funds will be mismanagement. This includes the alignment of how the projects should be implemented. A strong financial management systems emphasis on the implementation of the projects as well as financial reporting and monitoring are part of the rationale of the Paris Declaration objectives. Furthermore, a financial management reports that can produce both financial and non-financial information are really useful for performance evaluation and better decision-making. The transparency of financial management systems will lead to the confidence of Donors, for instance, in providing more funds to those countries that required it.

The above issues on how public expenditure is being managed have also been highlighted by various international bodies other than the World Bank. In the Paris Declaration 2005 (OECD, 2006), there were various measures carried out in order to achieve their objectives by 2020.

For instance, the aspect of public financial management is stated in one of the Paris Declaration Indicator 2 in Building Reliable Country Systems. In each case, the focus will be on the degree to which existing systems adhere to broadly accepted good practices or there is a reform programme in place to promote improved practices. The survey returns, CDF Progress Report and AER country profiles contain some information of the improvement of country procurement systems, and

this is reflected in the country chapters. However, no systematic and quantified assessments of procurement-system quality are available at this point. Therefore, this overview focuses on public financial management (PFM).

Furthermore, the assessment of PFM systems as in the Indicator 13 which is based on a component of the World Bank's CPIA is a measure of the quality of a country's budget and financial management system. It assesses the degree to which the country's arrangements include a comprehensive and credible budget linked to policy priorities; effective financial management systems for budget expenditure and budget revenues; timely and accurate fiscal reporting; and clear and balanced assignment of expenditures and revenues to each level of government.

Based on the World Bank Country Policy and Institutional Assessment (CPIA), 2005, out of 29 countries about 69% of the countries are within moderately weak and moderately strong categories that is between a score range of 2.0 to 3.5. The Paris Declaration target is that half of partner countries should be able to move up at least half a point by 2010. In this study too, the main requirement is not technical but a significant political will that lie behind most successful efforts to improve the PFM systems.

According to Youker (1999), among the factors that were reported as problems in the evaluation for all projects financed by the World Bank are lack of detailed, realistic, and current project plans (schedule, budget, procurement), unclear lines of authority and responsibility (organization not structured for project management), lack of adequate resources, poor or no analysis of major risk factors; and delays caused by

bureaucratic administrative systems (approvals, procurement, personnel, land acquisition, and release of funds).

1.3 Motivation and Focus of the study

The issues have been discussed earlier by the international bodies on poor management of public fund has also been brought up to the attention of the general public in Malaysia. For instance, the fiscal year of 2004 was a great challenge to the education sector especially to the Ministry of Education, Malaysia with a lot of infrastructural projects failed to complete as per schedule, abandoned and even had to postpone. This included building safety issues and spiralling project costs in the Educational Sector Support Projects (ESSP). Subsequently, this development had caused a lack of public confidence towards the management of public funds. Most of the setback were due to shortage of funds, delay in payments to the contractors and suppliers, cost overruns of certain projects, and also the delays and failures in supplying quality equipment to the respective schools and institutions even though the personnel involved in managing the projects were selected staffs appointed through the Department of Public Services of the Prime Minister Department. These events had dealt a great blow to the Government of Malaysia (GOM); especially to the Ministry of Education (MOE) that eventually lead to the Parliament of Malaysia insistence that cabinet ministers investigate the many delays in the development of civil works project and procurement of equipment.

Furthermore, the issues highlighted by the press involving the collapse of school buildings after its handing over also demanded investigation which was subsequently carried out later. These issues have emerged due to an overall poor project

management which can be seen at its initial stage of implementation. This shows that the implementers, especially the MOE is less aware of the inherent risks involved in project implementation that eventually posed itself as a great challenge not only to the MOE but also to the GOM as well as the Malaysian public. These issues were more critical since most project failures involved those project financed by domestic financing as compared to the same project being funded under the World Bank (World Bank, 2005) or Asian Development Bank under the 8th Malaysian Plan.

Issues of bad cash management are still being raised every year by the Auditor-General of Malaysia. In the last Auditor-General's Report for the fiscal year 2007, the same issues were raised again which stated that the budget monitoring systems were not up to expectations and thus resulting in some ministries and departments overspending. Some even spent without proper allocations; some spent less than 50 per cent of their budgets and some did not spend for the purpose the budgets were approved for. According to the report, the factors that had caused were in part due to poor 'Vote Book' keeping and failure of the warrant holder to submit complete monthly expenditure returns to the relevant officer. Most of the monthly expenditure reports produced by the accountant-general did not tally with the records in the Vote Book.

Furthermore, the Auditor-General of Malaysia, Tan Sri Ambrin Buang said "four ministries spent about RM 34 million on eight projects which were not allocated for. Among the ministries was the Education Ministry which spent RM32 million on three projects. There are 13 ministries/departments which overspent by RM450 million on 29 projects. According to the report, there were 15

ministries/departments which received re-allocations amounting to more than RM60 million for 18 projects but did not spend a single cent. The actual expenditure was also less than the original allocation that was approved. The 2007 Treasury Circular and General Circular stated that expenditure for projects could not exceed the estimated or ceiling price of the project except with the approval of the Treasury and the Economic Planning Unit. But despite these warnings, 63 projects were carried out by 17 ministries/departments that have exceeded the estimates under the 9th Malaysian Plan by more than RM970 million. In addition, 13 projects carried out by nine ministries/departments have exceeded the ceiling price estimate by more than RM440 billion, led by the Treasury Department itself. Finally, the Auditor-General Tan Sri Ambrin Buang added that, “development expenditure which does not comply with the rules can be avoided if the central agency constantly monitors the money spent on projects so it doesn’t exceed the estimates” (NST, 2008).

The above statements from the Auditor-General have shown how critical and how risky funds are being managed by most government ministries and departments every year with similar implications for Domestic financing. This developments had put public funds at a higher risks level and thus there is a dire need to mitigate them in the most effective and efficient manner in order to reduce the level of risk and to bring back public confidence. But questions still persists to develop projects such as, “Can the risks of public expenditure management be reduced if there was an awareness of the risks which had caused the government millions of dollars be saved?; Are there a variable current standard procedures with regard to procurement on development projects; and is the existing financial management reporting

currently implemented as a management control tools sufficient in managing the risks in public expenditure management?”

Furthermore, the issues highlighted by the Auditor-General of Malaysia and the Prime Minister of Malaysia on financial management reporting that can generate useful financial and non-financial information that led to a higher level of transparency in reporting, as well as the submission of financial reports by all government bodies be considered seriously.

Therefore, this situation warrants a study on the effectiveness of the current financial management reporting especially in the management of fund related to the procurement of development projects. This included the issues brought up yearly by the Auditor General of Malaysia on failures of most government agencies due to among others; bad cash management, and delays in submission of financial reports. The emphasis on timely reporting is important and is in line with the calls made by the Prime Minister of Malaysia and the Auditor General.

Furthermore, the discussions of related issues on public expenditure management debated in the Paris Declaration 2005 and subsequently in 2008 such as the objectives in strengthening the country financial management systems accordingly by year 2010 by participating countries; and also the claim of the World Bank of the effectiveness of their Project Management Reports/Financial Management Reports (PMRs/FMRs) in managing risks such as in the case of fraud and corruption, has motivated the researcher to proceed with this study.

This also included the comments and recommendation of the House of Common UK on DFID roles in managing their budget supports projects that lack of monitoring device that DFID should learns from other donor experiences (2009).

1.4 Study Objectives, Research Questions and Hypotheses

1.4.1. Objectives of the study:

The objective of this thesis is to explore and analyze the effectiveness of financial management systems in managing risks on public expenditure management, particularly in relation to the project-based ventures between the World Bank approach and Domestic approach applicable and implemented in the Educational Sector Support Projects (ESSP) in the Eighth Malaysian Plan in Malaysia. The areas that will be explored and analyzed based on the problems and issues discussed earlier in this study which are financial reporting, procurement and project implementation.

This study also seeks to present a systematic analysis of both financial and non-financial risks that occur in financing the development of the educational sector or the Educational Sector Support Projects (ESSP) in Malaysia under the 8th Malaysian Plan. It thus proposes a new approach in financial management reporting model that can help improve and reduce the risks related to public expenditure management in financing educational projects or programs. The model of financial management reporting known as PMRs or FMRs as emphasis and claimed by the World Bank in the LACI (World Bank, 1998) are seen as an enabling tool in managing risks related to public expenditure management such as corruption and fraud. The PMR or FMR

was used in the ESSP during the 8th Malaysian Plan. Therefore, the study seeks to address the following main, sub-objectives and hypotheses, followed by relevant research questions.

Main Objective:

Is to identify and investigate why the World Bank project financial management systems approach implemented in the ESSP of the 8th Malaysian Plan is more effective in managing risks related to public expenditure management as compared to the project financial management system approach by domestic financing approach.

Sub-Objectives:

1. To identify and to analyze the reasons why the implementation of the World Bank project financial management reports or project management reports (FMRs/PMRs) is more effective in managing risk such as fraud and corruption as claimed by World Bank as compared to the Domestic financing approach.
2. To identify and to analyze what and why are the additional conditions and procedures are as part of the project financial management systems emphasized by the World Bank rather than using the country financial management system under the 8th Malaysian Plan for the ESSP.

3. To identify and to analyze factors that had contributed to the performance of the World Bank financing in the ESSP.
4. To identify and to analyze the risk factors that had caused failures or poor performance of most domestic financing projects for the ESSP under the 8th Malaysian Plan as compared to the World Bank approach.

1.4.2. Research Questions:

Therefore, in order to achieve the above main and sub-objectives, the following research questions are relevant to this study as guidelines to the researcher. The research questions are:

1. What and why are the financial management systems implemented in the World Bank approach more effective in managing risks as compared to the country financial managements in the Government of Malaysia approach for the ESSP in the 8th Malaysian Plan?
2. What and why the World Bank PMR or FMR implemented in the ESSP effective in managing risks as compared to the domestic financing?
3. Are the additional conditions which are part of the project financial management system imposed by the World Bank effective in risk reduction as compared to domestic financing?

4. What are the other factors that had contributed to the performance of World Bank approach as compared to Domestic approach for the ESSP under the 8th Malaysian Plan?
5. What are the perceptions of the risk factors that had contributed to the poor performance of the domestic financing ESSP in the 8th Malaysian Plan?

Furthermore, in supporting the above objectives, the study also tries to address the following hypotheses.

1.4.3. Hypotheses:

1. The World Bank Project Financial Management Report (PMRs/FMRs) approach is more effective in managing risks related to public expenditure management as compared to the domestic financing of the ESSP in Malaysia under the 8th Malaysian Plan.
2. The World Bank project financial management systems implemented for the ESSP in the 8th Malaysian Plan such as the project implementation unit and procurement procedures were more effective in reducing risks as compared to the government or country financial management systems.
3. The lack of competency in risk management among those involved in the ESSP had resulted in a poor performance in managing public fund effectively, efficiently and economically in the domestic financing.

1.5 Research Methodology

The study uses qualitative research methods, though quantitative data are drawn upon in the analyses (especially of level and perception of associated risks as the factors contributed to the poor performance of Domestic financing). As this study is a case study approach, the main techniques used for data collection and analyses were semi-structured and in-depth interviews, direct observations and documentary analysis, supplemented by newspapers and analysis of secondary sources. The purpose of using case study approach is because it allows the researcher to deal with a wide variety of evidences from different sources (Yin, 1989) and was deemed to be the most suitable in dealing with the issues related to this study. Fieldwork was carried out in Malaysia in Mid-May until Mid-August 2007.

1.6 Relevance of the Study

The intention of this study is that the research findings will serve as a guide to future project managers in terms of the best practices involved in managing public funds and managing risks in implementing projects in the future.

The research findings could assist in developing an awareness of officials involved in managing their respective development projects and procurement of goods and services in the future. This would generate a higher level of public confidence towards public organization due to their transparency in managing risk.

The researcher believes that the findings could be useful to the administrators within the MOE divisions or other government agencies in Malaysia as well as for other countries for further study in designing and implementing appropriate strategies recommended for future transactions in the most economically, efficiently and effectively.

The scope of the study is limited to the Ministry of Education, Malaysia. Since the matter at hand attracts international interests, the researcher expects a challenging task ahead in further developing this study in the near future.

1.7 Structure of the Study

This thesis consists of three parts. Part I consists of Chapter 1, 2, 3, 4 and 5. Chapter 1 provides the introduction to the thesis. In chapter 2, focuses on discussions relating to the problems of public financial management and aid effectiveness. Chapter 3 will discuss on the associated risks and the management of risks in the public sector that is relevant to this study. The discussions will shift its focuses in Chapter 4 on discussing the financial management approaches in mitigating risks related to public financial management and aid effectiveness and the analytical framework for this research study. This will include discussions on the different models and strategies in managing risks on both financial and non-financial aspects. It will also highlight the underlying theories and studies on the issues of implementation of the World Bank conditions and procedures in managing risks in public expenditure management and service delivery.

The final chapter of Part I, which is Chapter 5 will discuss the research methodology of the study. In this chapter, discussions on data collections as well as the analysis and various sources of evidences were presented in support of this study.

Part II of the study consists of the three chapters. The chapters discuss the empirical evidences and analyses as in Chapter 6, 7 and 8. Chapter 6, focuses on the findings on the claimed made by the World Bank of the PMRs/FMRs effectiveness which underlies all its funded-projects after 1998 as a way of effectively managing risks related to public expenditure management. In this chapter, it will identify and investigate the PMRs or FMRs approach prepared by both ‘Domestic’ and ‘World Bank’ financing and later discuss and provide evidences of the effectiveness of the World Bank PMRs or FMRs approach in managing the risks implemented in the ESSP. The findings are backed up with the study by Drebin, Chan & Ferguson (1981) on ‘Objectives of Accounting and Financial Reporting for Government Units’ and “Best Practice of Financial Management” by HM Treasury UK (2004). The results also include the impacts based on the evidences from various other related sources.

The Chapter 7 discussed the findings related to the World Bank financial management systems imposed in the ESSP such as the stipulated additional conditions and procedures. The discussions also involved the formation of the project implementation unit (PIUs) that managed the ESSP and the procurements requirements as well as the used of PMR or FMR for project implementation and monitoring. Other factors were also discussed that had contributed to the success of

the ESSP under the ‘World Bank’ financing as compared to ‘Domestic’ financing as a mean of reducing risk in managing public fund.

The third chapter, Chapter 8 discusses on the evidence related to risk factors and its impact that had caused failures to most Domestic financing of the ESSP. In this chapter, it addresses the perception of staff who were involved in this Domestic financing infrastructure of the ESSP on matters related or associated to risks based on the ‘PESTLE MODEL’ as referred to in the Orange Book on Management of Risks – Principles and Concepts by the HM Treasury UK (2004) as well as its impact of the ‘Domestic’ financing.

The final part of this thesis, Part III, which is Chapter 9, will discuss the overall arguments, findings and conclusions on the effectiveness of the World Bank additional conditions and procedures in managing risks related to public expenditure management and service delivery. It also includes the discussion on the implications both theoretical and practical, as well as policy and practice that will support the study into an acceptable PhD thesis. It also includes the limitations that the researcher faced especially during the data collection period.

1.8 Conclusion

The next chapter looks in detail on the nature of the problems in PFM.

Chapter 2

Nature of Problems in Public Financial Management (PFM) and Aid

2.1 Introduction

In this chapter we explore the existing state of knowledge relating to problems in PFM, it particularly in project management. The concepts and objectives of public financial management (PFM) are firstly defined and the nature of the problems relating to public financial management and aid effectiveness are discussed, focusing on the issues presented and debated in the Paris Declaration 2005 and 2008. The conclusion of this chapter will then depict the findings regarding the nature of the problems in PFM.

2.2 Concepts and Objectives

2.2.1 Concepts

According to Campo and Tommasi (1999), Public Financial Management (PFM) consists of:

- (i) Collected resources from the economy, in sufficient and appropriate manner;
and
- (ii) Allocation and use of those resources responsively, efficiently and

effectively.’

Whereas, Public Expenditure Management (PEM) pertains only to (ii) of the above, that is, ‘allocate and use of those resources responsively, efficiently and effectively through the instrument of governments policy.

This stand is supported by Allen, Campo and Garrity (2004); Maggi & Hegarty (2008) that Public Financial Management (PFM) includes all component of a country’s budget process consisting of both upstream (including strategic planning, medium-term expenditure framework, annual budgeting) and downstream fundamentals (including revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight). Furthermore, Maggi and Hegarty (2008) added that ‘a sound PFM supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives such as the MDGs.’

PEFA (2005, cited in Pretorius and Pretorius, 2009) identifies the critical dimensions of an effective PFM system as:

- i. Budget comprehensiveness and transparency;
- ii. Policy based budgeting;
- iii. Predictability and control in budget execution;
- iv. Accounting and reporting: and
- v. External scrutiny and audit.

However, Witt and Muller (2006: 30, cited in Pretorius and Pretorius, 2009) emphasise on the importance of public finance that “comprises a complex set of closely interrelated subsystems (e.g. tax and customs, budgets, expenditure, inter-governmental finance, parliamentary oversight, internal and external financial control).

Therefore, the government is responsible in ensuring that the resources should be collected sufficiently and later use effectively, efficiently and responsively in practice (ADB, 2004). As PEM relates to the usage of cash, the International Monetary Fund (IMF) stated that cash planning and management should be kept within the budgeted expenditure in cash terms as to avoid borrowing that might disrupt monetary policies and to help identify the need for in-year remedial fiscal action by the government.

2.2.2 Objectives of PFM

In order to achieve a good PFM rating, the government should strive and ensure that the main objectives of efficient, effective and economic utilization of the funds are realised. According to Campos and Phadhan (1996), the objectives of PEM that need to be achieved are:

- i) Fiscal discipline (expenditure control);
- ii) Allocation of resources consistent with policy priorities (strategic

allocation); and

iii) Good operational management.

As cash planning is important in ensuring that the budget allocation are fully utilized and delivered, IMF suggested that both planning and management the budget information systems must be comprehensive, timely, accurate, and reliable. It further suggested that in the cash planning stage, the following three main objectives must be adhered to:

- a) Ensure that expenditure are smoothly financed during the year, so as to minimize borrowing costs;
- b) Enable the initial budget policy targets, especially the surplus or deficit, to be met; and
- c) Contribute to the smooth implementation of both fiscal and monetary policy.

In addition, the IMF added that problems still arises in the execution of budget between payments coming due and the availability of cash necessary to discharge due to timing problems even though if the budget is realistic in terms of it being well-prepared.

Furthermore, Campo and Tommasi (1999) stated that it is necessary to differentiate between the expenditure policy question of “what” is to be done, and the expenditure management question of “how” it is to be done. This is because the setting of hard boundaries between policy and implementation eventually lead to unrealistic policies, ad hoc implementation and, over time, both policy and implementation. The mechanisms, techniques, skills and data required for good PEM are different from those needed to formulate good policy and it is independent of the economic orientation, strategic priorities, or policy choices.

In the case of aid effectiveness, OECD (2003) stated that an effective financial management of public resources will promote accountability within developing countries and provides donors assurance on the use of their funds in achieving the objectives of development programmes. OECD added that good financial management systems in the partner countries are required for all forms of aid, but are particularly important for budget support, where donors did not allocate funds to finance specific expenditures.

This stand is supported by DFID (2009) on its budget support which was designed to improve aid effectiveness by reinforcing developing countries own policies and systems, and at the same time reducing transaction costs. It also aims to reduce poverty by helping the developing countries to fund their own poverty reduction strategy.

Furthermore, in the Paris Declarations 2005, the donors and partner countries were also committed to emphasis in measuring the performance of a country's PFM systems by:

- (a) Working together to establish mutually agreed frameworks that provide reliable assessments of the performance, transparency, and accountability of country systems;
- (b) Implementing harmonized diagnostic reviews and performance assessment frameworks in public financial management; and
- (c) Integrating the diagnostic reviews and performance assessment frameworks into country-led strategies for capacity development.

2.3 Problems related to Public Financial Management and Aid Effectiveness

Studies carried out by researchers such as Thamhain and Wilemon (1986); World Bank (1998); and Youker (1999) had acknowledged and agreed that the problems or issues of the PEM or PFM were due to weaknesses in allocating the resources. Other weaknesses identified include were poor planning; no links between policy-making, planning and budgeting; lack or poor controls on expenditure; inadequate funding or operations and maintenance; poor cash management; lack or insufficient on reporting of financial performance; and poorly motivated staff. These weaknesses were considered serious as they involved huge amount of money which come from various sources.

Another characteristic of weak PEM is the incentive to spend budget allocations as soon as possible even though there is no guarantee that the funds appropriated will be available in the following year. Perhaps the best indicator of the state of the PEM system is the relationship between what is budgeted and what is actually spent at the program level. Rather than looking for the problem in budget execution, reformers need to look at the relationship between policy-making, planning and budgeting.

Youker (1999) added that additional recurring problems annually identified by the World Bank and the host country pertaining to project-financed by the World Bank, included the followings:

- 1) A lack of shared perception and agreement on the objectives of the projects by staff and stakeholders;
- 2) A lack of commitment to the project by the team, management and stakeholders;
- 3) A lack of detailed, realistic, and current project plans (schedule, budget, procurement);
- 4) Unclear lines of authority and responsibility (organisation not structured for project management);
- 5) A lack of adequate resources;

- 6) A poor feedback and control mechanisms for early detection of problems;
- 7) A poor or no analysis of major risk factors; and
- 8) Delays caused by bureaucratic administrative systems (approvals, procurement, personnel, land acquisition, and release of funds).

Raker et al (2004, cited in Pretorius and Pretorius, 2009) describe the budget process as a 'theatre' that masks the actual distribution of resources and spending patterns. This lead to large deviations between budget estimates and actual spending, strong systematic biases and large leakages between the centre and frontline (Killick (2005), cited in Pretorius and Pretorius, 2009). The reasons given were that:

- i) Accountability institutions were not effective (lack of capacity, time constraints, lack of political will, and ineffective parliamentary scrutiny);
- ii) Inadequate flow of information (culture of secrecy among officials, lack of timely reporting);
- iii) Low public awareness (under-developed civil society including independent media); and
- iv) Donor conditions (budget 'ritual' maintained to keep the donors happy).

The study proposed that PFM reform will only succeed if there is political will to drive the reforms, sufficient capacity for long-term sustainability, strengthened parliamentary systems, and a civil society to hold the government accountable. In the absence of strong political leadership, Hedger and Kizilbash Agha (2007, cited in Pretorius and Pretorius, 2009) suggested that politically astute technocrats could take centre stage in the reform process.

Furthermore, Brooke (2003) stated that effective systems of public financial management and accountability make a critical contribution to the achievement of development outcomes. The approach of direct financial transfers into the recipient government's account, either as grants or as loan had places the emphasis on achieving better use of all public resources, not just those funded by development agencies. The strongest case for aid instruments such as budgetary support in terms of policy objectives such as poverty reduction often occur in countries which have weak public financial management systems.

Brooke (2003) proposed a study should be carried out to prepare an inventory of short-term remedial measures required by various agencies to address perceived weaknesses in public financial management, procurement and financial accountability systems, and to evaluate them in terms of their impact in the short-term and on longer term improvements in government-wide systems. The study was concerned with weaknesses that arise in all parts of the resource management cycle and those that are put in place with or without technical assistance. Therefore, in order to reduce the likelihood of funds being wasted or misappropriated, measures should be taken by the development agencies that required the government to

response to the weaknesses in their public financial management system, both in the short and long terms.

Brooke (2003) stated that a number of authors both political scientists and development economists have questioned the applicability and usefulness of results-focused expenditure management in developing countries. Brooke (2003) argued that low standards of financial accountability and programme management within the in line government ministries and agencies, poor performance data, the weaknesses of parliaments and civil society organisations in holding governments accountable for service delivery and patrimonial politics conspire to negate its potential advantages.

In 1997, Schick stated that lessons learnt from developing countries that lead to budget reform in OECD countries is to “get the basics right” (World Bank, 1998; cited in Pretorius and Pretorius, 2009). According to Schick (World Bank, 1998) the central budget agencies have to take the lead in putting the basics in place to support all three functions of the budget which are controlling public resources, planning for future resource allocation and managing the resources. The countries should build institutional mechanisms that support as well as demand a performance orientation for all dimensions that also included introducing mechanisms to promote transparency and accountability.

In addition, Allen Schick (1998) cited in a New Zealand case had the discussion of, ‘informality’ and unpredictability in the behaviour of public administration militates against the adoption of New Zealand style ‘government by contract’ in which even

the operations of central policy ministries and the headquarters functions of line ministries are subject to formal contractual specifications of performance levels (outputs). Schick further pointed that low rates of pay in the civil service in developing countries, absenteeism and moonlighting, corruption and the evasion of rules of conduct, leading to low commitment to official responsibilities. He also stated that, 'The operation of civil service must first become formal and respectful of rules of conduct and financial management as a precondition for adopting elements of the New Zealand model'.

The other preconditions proposed by Schick are as follows:

- 1) Willingness and ability in persuading ministries and agencies to execute budgets as voted to control expenditure;
- 2) Sound financial accountability, the respect of financial management procedures and internal financial controls; and
- 3) The operation of 'integrated and centralised [government] departments'.

Furthermore, in a case-study based programme of research in ODI on the introduction of effective poverty with the focus of public expenditure plans in a sample of five African countries had identified a number of shortcomings in current budgetary and public expenditure management practice that requiring 'fundamental reforms' to make results-orientation effective. Among the main problems identified in some countries are listed below:

- 1) Budgeting practice at the centre is too haphazard and often behind timetable, and, with cash budgeting still practised for macroeconomic reasons, resource flows are late and uncertain;
- 2) These uncertainties are aggravated by (i) the non-consolidation of aid receipts into budgets, (ii) unrealistic revenue estimates, (iii) poor cash forecasting, and (iv) deficient commitment controls and the accumulation of arrears;
- 3) Financial discipline remains too lax, with too many unsanctioned opportunities for the misuse of funds and too much corruption, leading to persistent divergence between funds voted and funds actually spent by ministries and within programmes;
- 4) Longer term poverty reduction strategies and medium term resource planning are not yet integrated into the preparation of the annual budget, leading to inconsistency and incoherence;
- 5) Performance management – monitoring, evaluation and programme review – capacity is low, with limited consultation of and input from civil society;
- 6) Staff commitment at the working level – in administrations and service delivery units – is low as a result of imperfectly implemented

administrative reforms, inadequate budgets, low pay and unclear objectives;

- 7) The culture of performance assessment is still nascent, and the desire at working level to internalise and make use of available qualitative and quantitative evidence of performance remains fragile.

Furthermore, poor aid management stated by Caiden (1980) in the earlier chapter, as well as the comments made in the reports on DFID weaknesses by the House of Commons Committee that DFID should teach (provide a lesson) on how they monitor their funds for aid effectiveness by other donors should be seriously considered as its related to the public fund of UK being at risks.

Therefore, strengthening the country financial management system plays a significant role in reducing the risks in which the funds will be mismanaged. Therefore, donors should be rightfully more cautious in ensuring their funds are safe and use accordingly. Measurement mechanism by PEFA and donors such as World Bank should be considered. For instance, the weaknesses encountered in the report on PFM Performance Measurement by PEFA. The findings from PEFA report on Early Experience from Application of the PFM Performance Measurement Framework (PEFA, 2006) revealed that 'compliance with PEFA methodology for indicator scoring and documentation' had shown that only 6% scores sufficiently supported when the indicator P1-7 on Extent of unreported government operations is analysed. The common problems related to this issue were due to lack of the main extra-budgetary operations and donor-funded project expenditure data. Furthermore,

in D-1 on the 'predictability of direct budget support' the score was only 20% compliancy. This was due to failure to obtain data on donor forecasts, or lack of forecasts, with which to calculate deviation of actual disbursements. (PEFA Secretariat, 2006: 15). This showed the important reporting played on effective financial management in which reliable and timely data can be easily capture and analysed.

Therefore, in the debate in the Paris Declaration 2005, there are three main areas on financial management systems that attracted the interests of the researcher who are working on relevant issues, that is, the study on how and why donors respond to the risks on aid effectiveness. The focus of financial management systems on projects in this study are financial reporting, project implementation and procurement management.

2.3.1. Issues in Financial Reporting

Financial reporting is important as it reflects what and how the fund had been allocated, spent and decision making. Therefore, a good financial reporting should be produced in a timely and with reliable flow of information. It is useful for the management to look at its financial status and its ability to initiate prompt corrective action when the accounting data indicate a significant deviation from the budget. Thus an effective financial accounting system plays a vital role on any structure of management controls.

The need for good financial reporting is supported by a study by Allen and Tommasi (2001). They listed that the principles of good reporting should consist of completeness, legitimacy, user-friendliness, reliability, relevancy, consistency, timeliness, comparability and usefulness. The need for timely, accurate and complete reporting is the basis for two performance indicators in the PEFA framework (PEFA 2005). The implicit assumption for non-production of timely reports is lack of capacity, but there are no research findings could be found to verify this assumption.

The issues related to financial reporting in the public sector such as shifting from cash to accrual accounting system as well performance based reporting were also discussed. This is because the accrual accounting reporting reflects the real picture of the government financial status. For instance, in a study in Australia, the Auditor-General for Australia, Pat Barrett addressing the CPA Forum 2004 stated that ‘the Australian Public Sector (APS) move from cash to accrual accounting was a significant development, not just for accounting systems and financial reporting, but also for the way in which resources were being managed and accounted for.’ Barrett also mentioned that the accrual based financial management reform has also been a ‘driver’ for other key initiatives among them are a shift from input to output based budgets and outcomes reporting; the evolution of performance measurement and management using the balance score card approach; recognition of the importance of ownership and management; and the preparation of the whole of government financial statements.

The requirements of an effective financial reporting are supported in a study by Drebin, Chan and Ferguson (1999) of 'Objectives of Accounting and Financial Reporting for Government Units'. According to Drebin, Chan & Ferguson an effective financial reporting should achieve the objectives that the information is useful for decision making in determining and predicting short-terms financial resources; economic conditions; legal contractual and fiduciary requirements; budgetary and planning; and finally for organizational and managerial performance.

In order to achieve its main objectives for Aid Effectiveness, the World Bank had introduced a financial reporting to all its project-financed effective 1998 known as Project Financial Management (PMR) or Financial Management Reports (FMR). According to the World Bank (1999), Project financial management is a process which brings together planning, budgeting, accounting, financial reporting, internal control, auditing, procurement, disbursement and the physical performance of the project with the aim of managing project resources properly and achieving the project's development objectives. A good financial management is a critical ingredient for project success. Timely and relevant financial information provides a basis for making better decisions, thus speeding the physical progress of the project and the availability of funds, and reducing delays and bottlenecks. This is why the Bank policy and procedures require good financial management in Bank-funded projects. A sound project financial management provides:

- Essential information needed by those who manage, implement and supervise projects, including government oversight agencies and financing institutions;

- The comfort needed by the borrower country, lenders and donor community that funds have been used efficiently and for the purposes intended; and
- A deterrent to fraud and corruption, since it provides internal controls and the ability to quickly identify unusual occurrences and deviations.

The new approach for financial management reporting (PMR) is designed to assist borrowers in managing their projects and also to facilitate project monitoring. This is because the report is comprehensive that comprises project financial reports, project progress reports and project procurement management reports. Three models of the PMR have been developed and included in this manual: the cash accounting model; the accrual accounting model; and the simplified model for small projects.

The usage of PMR based is also useful in boosting confidence of all donors other than the World Bank in case of direct budget support. This is because through the PMR, supervision and project management are easier and more effective whenever a project is able to produce regular progress reports. It is a common practice that large entities reported their progress every week or month. Using annual reports for this purpose is quite unrealistic because by the time the information is available; its usefulness has long since expired. The typical period for reporting discussed in this manual is quarterly. For project managers to be able to consider project progress from quarter to quarter, it would be, in most cases, a considerable improvement on the current status quo. This is also another financial management tool in managing risks related to public funds.

Furthermore, in its effort in preventing fraud and corruption under the World Bank projects (World Bank 2000), the Board of World Bank had approved the Loan Administration Change Initiative (LACI) that introduced the new approach of project management reporting (PMR) which was reported to be effective in preventing fraud and corruption in World Bank projects because it is “an integrated project monitoring system bringing together accounting and financial management, disbursement, procurement and contract management, and physical progress. It introduces a simplified system of disbursing funds, linking disbursements to project progress as reported in quarterly project management reports.”

In addition, the World Bank added that the “Project Management Reports (PMRs) prepared under LACI arrangements require for their timely submission an appropriate and duly staffed project organization structure and an effective internal control environment, including a physical and financial monitoring system. Through the latter, project management will compare actual and planned project progress and explain any major variations. In addition, the PMR includes a procurement management report for monitoring of selected contracts above and below the prior review thresholds. It had been observed that in projects already using this mechanism, overall control over project activities is significantly enhanced. This also helps reduce corruption and fraud.”

2.3.2 Issues in Project Implementation Unit

In order to ensure that the fund provided for aid effectiveness achieve its objectives. A project implementation unit (PIUs) also known as Project Management Unit (PMU)

is formed. The unit is an internal control system that is responsible in the management of the projects both financial and non-financial which included the procurement controls (World Bank, Feb.1999, see. Project Financial Management Manual – Exposure Draft, Chapter 3).

Project implementation units (PIUs) are separate entities created by the World Bank to implement development projects or programmes in developing countries. The organisation structure of the PIU is that it is responsible and accountable for implementation of the project and reporting of its expenditure and progress at a timely manner that adheres to the Bank policies and guidelines (World Bank, 2005). It consists of a “small team which functions physically and operationally within the line agency responsible for the project, of such a team is given some autonomy and separate physical facilities while still being accountable to a ministry” (Boyce and Haddad, 2001,7; cited in Ghio, 2008).

There are several types of PIUs. The Guidance Note for Project Management (World Bank, 2005) has classified PIUs into five categories: “stand-alone or Parallel”, “semi-integrated”, “super-integrated”, “semi-autonomous” and “fully-integrated”. The role of PIU is crucial as a mechanism that help ensure the success of project implemented. PIUs establish procedures to identify analyze and manage the risks that may arise from internal and external sources that may affect the projects. These procedures would cover defining, identifying, analyzing and managing risk. It has been stated in the World Bank (1999), Project Financial Management Manual on ‘Design and Assessment of Project Financial Management Systems’. In addition, PIU management should develop policies and procedures to ensure that its directives

are followed. Among them are appropriate documentation of the policies and procedures, covering management of finances, accounting, procurement and financial reporting; and also suitable authorization procedures, e.g. for the award of contracts by authorized personnel.

The issues discussed in the Paris Declaration on Aid Effectiveness adopted at the High-Level Forum in March 2005 invited donors to: “avoid to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes”. The issue was to phase out ‘Parallel or Stand-alone’ PIU by 2010 under the Paris Declaration. The reason was because Parallel PIUs were mainly costly and unfavourable to the borrowers’ countries. This is further substantiated that ‘Parallel or Stand-alone’ PIU as according the World Bank, 2005; cited in Ghio, 2006: 8 is ‘one of the factors that enable PIUs to provide efficiency in project implementation is the difference in salaries between the public and private sector in the developing world. A common feature in low-income countries is that low salaries in the public sector contribute to poor performance in public sector agencies With the reduction of this parallel PIU, it has taken one of the key actions the aid community would take to promote greater capacity development within the borrowers, and thus increase aid effectiveness. Other than that, “Parallel entities actually tend to undermine established structures, and chains of command, and typically divert scarce skilled human resources from mainstream administration” (Lopes and Theisohn, 2002, 81; cited in Ghio, 2008, 12).

A Survey on “Strengthening Capacity by avoiding parallel implementation structures in the Use of Country PFM Systems” (OECD, 2008) has seen a progression toward

strengthening local capacity for planning, implementation, and ongoing accountability to a country's citizens and parliament. The Indicator 6 is used to measure the progress through the reduction in parallel PIUs – those which are created outside the existing structures of national implementation agencies. There is strong evidence that parallel PIUs tend to undermine national capacity building efforts, distort salaries and generally confuse accountability for development. This indicator measures the total number of parallel PIUs in a single country. It is expressed in absolute terms rather than a ratio. As a result, the number of parallel PIUs in a single country needs to be considered against nature and volume of development assistance in that country. It is recognized that parallel and integrated Project Implementation Units evolve on a continuum and the purpose of this indicator is, therefore, to better identify where parallel begins and integrated ends.

In 2005, the Operations Evaluation Department (OED) of ADB had conducted a Special Evaluation Study on the Role of Project Implementation Unit to investigate the nature of ADB's arrangements for PIUs and investigate how much they cost, how they function in various agencies and projects that the ADB had deals with, and how they are distributed across sectors and countries. The findings indicated that 152 out of 263 projects (or about 58%) contacted replied and 90% stated that the projects examined were managed by some form of PIU. Almost one sixth of the projects used PIUs staffed by the executing/parent agencies themselves, while a third used externally recruited staff. The remaining half of the projects, were managed by PIUs consisting of a mix of internally deputed and externally hired staff.

According to the study, PIUs were found to be primarily used as a mechanism to implement projects and to create capital assets, rather than as a tool to build human or institutional capacity. The effects of PIUs on capacity development in the parent agencies were variable. A risk of separate, externally staffed PIUs undermining the agency's project management capacity was confirmed. It was also confirmed that governments tend to perceive PIUs as a burden.

ADB was committed towards the Paris Declaration on Aid Effectiveness of March 2005 to harmonize project implementation arrangements, minimize the use of parallel structures for project implementation, and use joint PIUs with other donor agencies where possible. The Chair's Summary of the Development Effectiveness Committee Discussions recalled that ADB had in 2005 committed to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes" to support the strengthening of partner country systems. But the main conclusion in the studies carried out by ADB stated that in the foreseeable future, PIUs shall continue to be a generally legitimate and justifiable implementation mechanism for capital investment projects. In this study, it was also recommended that if the financing modality and government preferences require the establishment of a PIU, ADB should encourage the use of PIUs that are staffed internally. The issue highlighted of this form of PIU was lack of expertise in management and organisation within the government ministries (ADB, 2005). This was among many obstacles of moving towards the transition from PIUs to integrated project management within government ministries. According to ADB (2005) "Usually missing from the team is someone with an MBA or an organizational and change management specialist who

can assist the Operations Adviser in the ECA Region. Several staff said they need more specific advice on how to handle the complex process of eliminating PIUs. They asked for tool kits, increased supervision budgets and stronger support from the management.

Furthermore, there were mixed-opinions among staff of the World Bank on the issues of PIU. For instance, in the argument of the importance of PIUs role was discussed in the Brown Bag Lunch (BBL) held by the World Bank (2006) attended by 100 Bank staff. The staffs argued that PIU are driven largely by the need to mitigate risks in weak capacity environments but it can also reflect internal incentives such as speed of project processing and disbursement. Many regard PIUs as ‘special cells’ that are created to implement projects by sometimes by passing local bureaucracies to get the job done. This also includes worries about the ability of the Bank to ensure that projects were implemented without increasing corruption, especially in those countries where civil service salaries are not adequate and to ensure that data on projects, progress report can be prepared as scheduled.

In addition, The PIU Guidance Note cites a study by the MNA region that found that while PIUs have facilitated implementation and monitoring, they failed in terms of positive long-term impact on capacity building. Another study by the Latin America region found that the mainstreaming project within the government structures actually enhanced administrative and operational coordination with government support.

2.3.3. Issues in Procurement

Procurement is the central of public expenditure management. According to Pretorius and Pretorius (2009) a well-organised, efficient and transparent public procurement system is a vital component of any sound PFM system and it transcends the budget process from procurement planning to audit. “Public procurement systems are at the centre of determining how public money is spent since budgets get translated into services largely through the government’s purchase of goods, works, and services” (OECD 2005b: 8). It is widely acknowledged that the procurement system is also most susceptible to bribery and corruption, with the TI estimating that annually US\$400 billion is lost worldwide (Ware et al 2007).

Furthermore, Pretorius and Pretorius (2009) stated that the principles of procurement included: rules-based systems; competition; transparency; accountability; and economy and efficiency which contributed to the integrity of the financial system. They added that a well functioning procurement system should consist of a strong legal framework, institutional arrangements that ensure consistency in policy formulation and implementation, and a professional cadre of procurement personnel. However, according to Soreide (2002) and Syquia (2007) (cited in Pretorius and Pretorius, 2009) the key challenge is to adapt these principles to the overall governance conditions in the specific country.

A study carried out by Hunja (2001) (cited in Pretorius and Pretorius, 2009) stated that a comparative lack of success in developing countries is attributed to deeply vested interests, a lack of political will, a paucity of technical knowledge and the complexity of the institutional issues involved. Therefore, Walre et al 2007 (cited in Pretorius and Pretorius, 2009) suggested that there is a critical need for associated improvements in budget management, personnel management and staff capacity.

2.4 Conclusion

Public Financial Management (PFM) involves both collection of funds from various sources and its distribution through spending in the most effective, efficient and economic manner, which is also known as Public Expenditure Management (PEM). The management of public fund must include the cycle of the overall budget process that consists of both “up-stream” (preparation and programming) and “down-stream” (execution, accounting control, reporting, monitoring and evaluation). Failures in managing the funds may be viewed as an indicator of a country’s financial management systems weakness as it was discussed earlier in this chapter.

The problems identified in financial management systems of most developing countries were also discussed in the Paris Declaration 2005 by donors and participating countries with the purpose of overcoming the weaknesses of the systems as in case of reducing the risks in managing the fund provided. Among the risks associated were fiduciary risk, development risk and reputation risk as well as corruption according to donors in their budget supports. Other than that, the risks

factors stated in the models by HM Treasury of UK and the Canadian Treasury are part of the risks associated with public expenditure management in the public sector.

PEFA was developed as a means to quantify and measure PFM quality. Aid management reform agenda (as in the Paris Declaration) emphasises the need to improve aid recipient country's PFM. The limitation of existing state of knowledge of the problem included how well the risks involved were analysed, especially by project managers. Furthermore, PEFA assesses standards but it doesn't specify actions. Even though The Aid management Reform Agenda is to get rid of the PIU's but in reality, they preferred project management mechanism of donors since financial management systems in the most developing country is still unsatisfactory. Can the efforts to reform government systems for finance management, like projects learn from the management methods of PIUs? Particularly in the way of they manage risks.

This study sets out to establish whether the reform of domestic PFM can be based from experience gathered from established PIU financial risk management as in the case of education infrastructure investment projects in Malaysia. The study also develops and applies a framework for good financial risk management practices to the investment in education infrastructure which were managed separately by the government's financial management systems as compared to the World Bank under the 8th Malaysian plan period that is between the years 2001 to 2005. Subsequently, the next chapter will look more closely at how risk can be analysed, and from which an analytical framework for this research can be developed.

Chapter 3

The Management of Risk in Public Financial Management and in Aid

3.1 Introduction

In the previous chapter, we have identified the problems related to public financial management and aid. The problems contributed to the risks involved in public fund that were required to be identified and addressed effectively. Most studies proposed insurance as a way of mitigating risks. However, in mitigating risks related to public fund, the establishment of an effective financial management system is an alternative worthy of serious consideration.

Therefore, this chapter outlines the existing state of knowledge on financial risks and public management of risks in particular in relation to aid. First of all, it will elaborate the definition, concept, importance and the evolution of risk management in the public sector. Secondly, it outlines the nature of risks, particularly fiduciary risks, as the main risks related to public financial management and aid. At the third level, it elaborates the state of knowledge regarding financial management as a means of mitigating risk. The last but not the least, the financial management approaches of the World Bank and the Government of Malaysia in projects considered is discussed, as a means of mitigating risks which is related to this research study.

3.2 Definition, Nature, Concept and Importance of Risks in Public Financial Management and Aid Effectiveness

3.2.1. Definition of Risk

Generally, the definition of risk is commonly related to negative consequences rather than positive consequences. Studies by Cabano (2004), Baldry (1997) and CCTA (1993) defined risk as “the potential for realization of unwanted, negative consequences of an event”. Baldry (1997) added for an event to be considered as a source of risk, there must be a reasonable loss associated which arises as a consequence of this chance event. The scale of the loss is referred to as the risk impact while it attempts to place an acceptable value on this loss, which is often associated in monetary terms.

The definition of negative consequences is also supported by The Canadian Standards Association Risk Management on the issues related to safety and health. In the Guidelines for Decision-Makers (CAN/CSA-Q850-97) of the Canadian Standards, risk was defined as “the chance of injury or loss as defined as a measure of the probability and severity of an adverse effect to health, property, the environment or other things of value. Furthermore, on the first of November, 2000, working draft of the International Organisation for Standardisation (ISO) Risk Management Terminology defined risk as the “combination of the probability of an event and its consequences. Note 1 – In some situations, risk is a deviation from the expected.”

However, there were studies such as Garrett (2005) which stated that risk can be an “opportunity which is a favourable or advantageous combination of circumstances/events in a suitable occasion or time; a chance for progress or advancement. The “opportunity is the measure of the probability of an opportunity event (a positive desired change) occurring and the desired impact of that event. This is supported with the definition by the HM Treasury of UK in their Orange Book (2004) that risk can be defined as “an uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance”.

In the case for the public sector, the Treasury Board of Canada Secretariat (2001) purposely for the federal service that defined risks as follows:

“Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organisation’s objectives.”

The Treasury Board of Canada Secretariat (2001) stated that the phrase "the expression of the likelihood and impact of any event" implies that, as a minimum, some form of quantitative and qualitative analysis is required for making decisions concerning major risks or threats to the achievement of an organization's objectives. Although this definition of risk refers to the negative impact of the issue, the report acknowledges that there are also positive opportunities arising from responsible risk-taking, and that innovation and risk co-exist frequently (The Privy Council Report).

Furthermore, the Australian and New Zealand Public Sector Guidelines for Managing Risk (HB 143:1999) supported the positive consequence risk and defined risk as the “chance of something happening that will have an impact on objectives, it is measured in terms of consequences and likelihood.” This is supported by the Canadian Institute of Chartered Accountants defines risk as “the possibility that one or more individuals or organisations will experience adverse consequences from an event or circumstance.”

This is supported by Atkinson and Webb (2005), who stated that “risk is usually formalized as the uncertainty of financial returns in a for-profit organization. Whereas, for a non-profit or not-for-profit organization, risk is usually formalized as uncertainty in achieving the organization’s stated quality objectives”.

3.2.2. Nature of Risks

The issues and problems discussed on PFM or PEM in the earlier chapters were due to the risks that have been identified as contributors to failures in achieving the main objectives of project implemented. Risks had also impacted on the service delivery and wasting public funds. Some of the risks that can be associated to PFM and PEM in the public sectors are those listed in the Orange Book (HM Treasury UK, 2004:39). The book has listed and identified the internal and external risks factors such as in the “PESTLE” Model. The contribution risks factors can also be found in the “PEST” Model of the Canadian Treasury (2001) of the Integrated Risk Management. Both models agreed that internal and external risks factors had

contributed to the failures in the financial management systems related to public expenditure management.

As stated earlier the weakness of a country's financial management system carries risks in budget support. Risks such as corruption and human rights scandals have made many donor governments worried and subsequently, they were more cautious about budget support. Most donors normally do not give budget support to countries where there is very poor transparency and accountability. But when budget support is provided, donors often accompany it with some conditions which include programmes or initiatives to improve governance in that country. Consequently, they invest considerable efforts into making financial systems more transparent to address their concerns that the given supports do not go astray.

Due to inherent weaknesses identified in the financial management systems, debates in the Paris Declaration 2005 circled around whether to allow the recipients countries to use their own public financial management (PFM) systems. Donors concerns and worries were centred on the risks of their budget supports in countries with weak PFM. Therefore, as donor assurance and since funds are fungible, using separate procedures may provide some fiduciary assurance but it does not guarantee development effectiveness as the use of parallel systems entails higher transaction costs and may undermine the country's own financial management systems development.

The weaknesses of the country financial management systems identified through the findings of the Survey on Monitoring the Paris Declaration reported in 2008 of most

participating countries still showed a lack of progress on the use and strengthening of country PFM systems. The Paris Declaration monitors the use of participating countries PFM systems around three separate components: budget execution, national financial reporting, and national auditing requirements. The results showed that the progress were still at the low and medium level. For instance, for the indicator 2a that measures the country's financial management systems, the results showed that for 44 countries, 11 scored below 3.0; 24 scored between 3.0 and 4.0; and 9 scored 4.0 or above. The above result indicated that for some countries, real progress needs to be made in strengthening the PFM systems. The survey also identified that 56% of all countries made no progress at all on the quality of their PFM systems, but 32% did improve the quality of their PFM systems by at least one measure. Subsequent progress on the quality of country systems is mixed with some achieving the target while some have not showed significant progress which give the overall impression that the quality of PFM remain almost the same.

Among the risks that donors may face in using the countries' PFM systems in providing aid are fiduciary risk, development risks and reputation risks. The definitions of the risks are stated in the 'Report on the use of country systems in public financial management, 3rd High Level Forum on Aid Effectiveness' (2008, pg. 29) as the followings:

- 1) Fiduciary risk - Which refers to the possibility that aid money may not be used as intended, or may not be used effectively. Donors' understanding of this concept varies depending on what the scope of the intended use of funds is. Some aspects considered include value-for-money aspects and what

boundaries are drawn among fiduciary and other risks.

- 2) Development risk. - While fiduciary risk refers to the specific output of an aid intervention, development risk refers to the danger of missing the ultimate objectives of such an intervention. This category includes the risks posed by such disparate factors such as an unstable macroeconomic environment, poor design and implementation of policies, lack of results monitoring, weak governance, and poor coordination among donors, limited ownership, and failure to disburse funds.

- 3) Reputational risk. - Reputational risk refers to the possibility that events directly or indirectly related to the current aid intervention may impair the donor's ability to provide future support. It includes the possibility that fiduciary or developmental failure may rebound on the donor as a sort of second-round effect.

For the purpose of this research study, this research is concerned only with fiduciary risk, i.e. risk related to financial management.

Fiduciary risk

Fiduciary risk is highlighted in this research because it refers to the possibility of the fact that fund provided will be misused or stolen by the persons or entity. Ford (2005) defined fiduciary risk as the risk that “funds that are not properly accounted for; which are used for the intended; and which do not represent value for money.”

As it involved various players, it can also lead to the practice of fraud and corruption. Schick (1998c, cited in Pretorius and Pretorius, 2009) noted that in poorer countries, informal practices often ‘make the system work’ but can retard development and breed corruption.

The definition of fiduciary risks is further elaborated in a study by Brooke (2003) on the attitude to risk by the multi-lateral and bilateral agencies in addressing weaknesses in public management systems in the context of policy-based support. The findings revealed that 6 of 17 respondents had an explicit policy towards fiduciary risks arising from reliance on local systems and procedures. All the respondents agreed that they seek to place increasing emphasis on relying on Government ‘ownership’ of an agreed financial management reform programs which they believed is the best way to reduce risks in the long term.

Further literature in relation to defining fiduciary risks offers different views about the nature of fiduciary risks which include:

- 1) That funds provided will not reach the point of deployment into national budgets.
- 2) The failure of financial management systems and process to ensure that resources are deployed in accordance with national policies as expressed in the budget.
- 3) That the budget might not adequately express priorities or an effective use of

resources.

- 4) Some donors, such as Norway, emphasize their lack of tolerance of corruption although primarily from a development perspective rather than as a direct link to fiduciary risk. They require specific corruption evaluations and use them extensively in basing their approach to aid.
- 5) Others place a lot of emphasis on the ‘reality’ of system performance at the individual transaction level through their emphasis on audit scrutiny.

In addition, the World Bank’s (2002) concept of fiduciary risk is that “must include the possibility that actual expenditure will diverge from authorized expenditures (as reflected in the borrowing country’s budget), whether because of misappropriation or misallocation.”

Corruption is a fiduciary risk that is associated with financial management. For instance, aid provided through a weak PFM system obviously increases fiduciary risks, and it may also reduce development impact or, in any case, entail a trade-off between immediate benefits and longer-term systemic gains. Campo & Tommasi (1999) stated that although corruption in government is often identified with large procurements and major public works project, public expenditure is hardly the only source of potential corruption. They added that one major route to improve PEM (and, of improving the quality of governance as well) is to reduce the opportunities for corruption and punishing offenders when it occurs. The reverse approach is also true: a major way of reducing corruption is to strengthen PEM. Quite aside from any moral or legal consideration, corruption weakens fiscal discipline, distorts the

allocation of resources; harms operational efficiency and effectiveness; and, obviously, is unethical to due process.

Corruption can be defined as the misuse of public or private office for personal gain. “Misuse” (unlike “abuse”) covers both “sins of commission” (i.e., giving illegal favours), and “sins of omission” (i.e., deliberately turning the other way). And the inclusion of the term “private” in the definition of corruption underlines the fact that there cannot be a bribe received without a bribe given. In the context of developing countries, this points out that much corruption is externally generated. Clearly, attention needs to be paid to the “imported corruption” as well as to the home grown variety.

In the case of corruption in the education sector, the researcher suggests that in some countries as much as 80 percent of the total funds allocated to schools by education ministries are lost to “leakage”. How can corruption be uncovered and what strategies exist to fight it? A research into ethics and corruption in education by the International Institute for Educational Planning (IIEP) identifies the opportunities for corruption in 10 main areas in which malpractice occurs: finance; allocation of specific allowances; construction, maintenance and school repairs; distribution of equipment, furniture and materials; writing of textbooks; teacher appointment, management, payment and training; teacher behaviour; information system; examinations and diplomas; and accreditation of higher education institutions.

In addition, the environment in which corruption flourishes is produced by internal factors, relating to the education system's decision-making and management structure, external factors, linked to the overall environment in which the education system functions. Among internal factors contributed to corruption are:

- 1) The absence of clear norms and regulations is of particular concern; especially in finance, specific allowances, teacher management, credentials, accreditation and public procurement.

- 2) Poor management, characterised by low capacity to use funds efficiently, weak accounting and monitoring systems, and a lack of control mechanisms and supervision, creates the risk of embezzlement.

Furthermore, in Ochse (2004) study, has stated that the German Technical Cooperation (GTZ) suggested measures to prevent corruption in German development cooperation in the education system. The areas are personnel; finance and procurement system in educational institutions; access to educational institutions; and the quality and quantity of education. Various guidelines are introduced, among them was on the preventing corruption. This included various measures in strengthening personnel and financial management system in overcoming the risk in corruption in managing educational fund.

In the case of failures of most government development or infrastructure projects, Baldry (1997) and Beest (2003) agreed that in managing infrastructure educational

project, the government will be facing risks through out the project cycle. According to Beest (2003), failures or delays were due to activities in a project which are subject to approval by various authorities such as authorities approving the projects and its progress according to the laws and regulations stipulated in the country which is also known as the consents at various development phases. In his study, there are some evidences that indicated that the authorities and owners of the projects may have misaligned objectives which resulted in the difficulty face in the timely and smooth availability of consents. According to Baldry (1997), the risk impact of the officials' attitudes includes:

- 1) Project cost overrun causing deferment or even cancellation of other projects within the same funding period;
- 2) Project time overrun causing operational difficulties due to unavailability of new or improved facility or service, to evolution of changed operational practices now made incompatible with facilities created;
- 3) Project performance criteria not fully achieved resulting in inadequate operational support, consumer dissatisfaction, or perpetuation of hazardous or unacceptable conditions;
- 4) Perceived inadequate project performance causing erosion of stakeholder confidence in project delivery service to the disadvantage of other projects.

Therefore, the above problems undermined the public sector performance that also caused a lack of confidence by the public of how poorly the public fund was being managed. Another weakness in PEM by most government bodies or agencies that the IMF has identified was the typical attitude in spending budget allocation as soon as possible with no consideration that the funds appropriated will be available later in the financial year. These had created a significant adverse impact on public expenditure management and service delivery.

3.2.3. Risk Management

The need for risk management

Risk management is important because it can contribute to effective financial management. SOLACE (2002) states that *“If a council doesn’t have effective risk management then it doesn’t have effective management”*. In addition, the Cadbury Report (Sec 4.23 & 2.24), (1992) containing a code of best practice designed to achieve high standards of corporate behaviour also supports the importance of risk management and suggests that *“.....the Board should make a collective decision on risk management policies.”*

Furthermore, the HM Treasury (2002) and the OPDM (2004) suggested that through the application of risk management strategies, it will help the decision makers and managers to make strategic decisions especially about the appropriateness of adopting policy or service delivery options. This is because the importance of risk management is attributed to its function in the integration of policy, planning and

operational management as well as financial management in achieving its organizational objectives.

In addition, the importance of risk management in the context of the public sector was highlighted by the Strategic Partnering Taskforce (SPT), of the Office of the United Kingdom Deputy Prime Minister (2004). It stated that risk is a major factor to be considered at a number of stages in a partnership project that need to be considered throughout the stages of project management and procurement process. It should adopt a risk management approach from the outset of defining the strategic partnering vision that can be expected to:

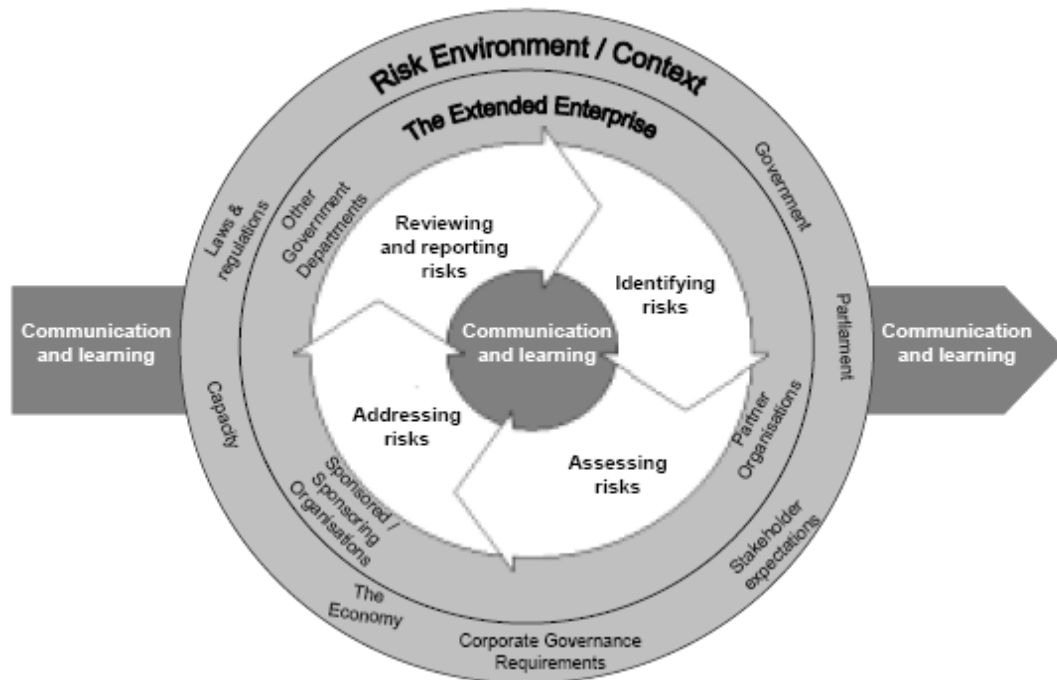
- Improve the likelihood of success for turning vision into reality as it encourages forward thinking and thus minimises unwelcome surprises;
- Increase visibility – involving all stakeholders raises risk awareness and enhances accountability;
- Enhancing communication which in turn improves the basis for strategy setting, performance management and decision making;
- Add realism from the outset, which gives a better basis for the allocation of resources and timetabling of the project.

Concept of risk management

Generally, the concept of risk management as a “life cycle” process that consists of identifying, assessing, addressing, reviewing, monitoring and reporting risks (Cabano (2004), Wood & Ellis (2003), Perry and Hayes (1985) and Fone & Young (2002), Baldry (1997)). The concept is also supported by CCTA (1993), ALARM (2001), Turnbull Report (1999), the HM Treasury (2002) and the OPDM (2004) which further suggested that by applying the “life cycle” of risk management, it will help the decision makers and managers to make strategic decisions especially about the appropriateness of adopting policy or service delivery options.

The above concept of risk management can be clearly understood from the “Risk Management Model” of the Conceptual Framework of Risk Management developed by Strategy Unit’s (2002) in the Report of HM Treasury as well as in the ‘Orange Book’ on Risk Management in Public Sector of the HM Treasury UK as below:

Risk Management Model – developed from the model in the Strategy Unit’s November 2002 report: *“Risk – improving government’s capability to handle risk and uncertainty”*. (Source: HM Treasury UK: *Orange Book Management of Risk - Principles and Concepts (2004)*)



The above model implies that there is a need for simultaneous interaction and control of risks in the sense that risk management will be more effective. The reason for this approach is because a specific risk cannot be addressed individually as one risk may have an impact on another risk. Therefore, the whole model has to function in an environment in which how much risk is tolerable and justifiable.

According to HM Treasury, the model also by necessity, dissects the core risk management process into elements for illustrative purposes but in reality they blend together. For example, at any particular stage in the management process, any particular risk will not necessarily be the same for all risks. It also illustrates how the

core risk management process is not isolated, but it takes place in a context, and, how certain key inputs have to be given to the overall process in order to generate the outputs which will be desired from risk management.

But ALARM (2001) commented that according to the “Orange Book”, the central government identified a fourth option for managing risks – that of terminating the risk. However, it has been recognized that the ability to practice this in the public sector may be limited. Accordingly ALARM states that the important matter to note from these definitions is that risk management must be integrated. Effective corporate governance requires risk management to be integral to policy, planning and operational management. It cannot be a “bolt on”, but instead must be embedded into the culture of the organization. Applying the risk management cycle – identifying, assessing, addressing, reviewing, monitoring and reporting risks (taken from 2.3.2 from Concept of Risk Management above) will help strategic decision makers and managers make informed decisions about the appropriateness of adopting policy or service delivery options.

Secondly, the definition makes it clear that risk management must be holistic. That is, must be concerned with the whole range of business risk faced by the organization. Many public sector managers and organizations still regard risk management as being concerned with insurance.

Furthermore, ALARM (2001) added that risk management issues should be included as a matter of routine in:

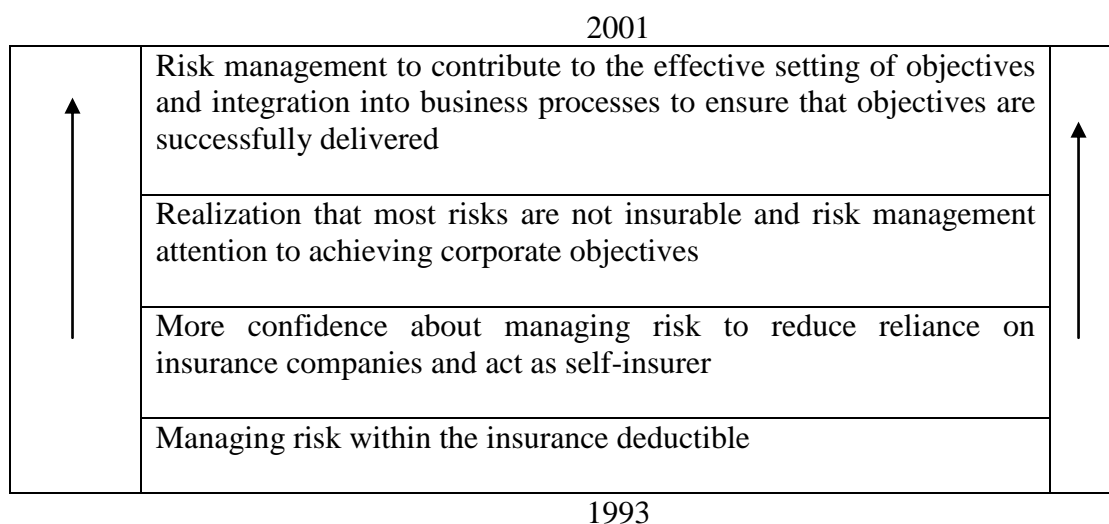
- An organization's best value reviews
- The business planning process
- Project management
- Bidding for funding – both internally and externally
- Any arrangement for close liaison with similar bodies and organizations, and customers/stakeholders to encourage a cross-fertilization of ideas

The evolution of risk management in public sector

In Chapter 2, the researcher stated the limitations of academic studies on risk management in the public sector. Most studies on the management of risk are related to the private sector rather than the public sector. The studies therein mostly suggested insuring the risks rather putting an emphasis on alternative approaches such as implementing an efficient and effective financial management systems. For instance, studies by ALARM (2001) have shown that only about 20-25% of an organization's risk profile is insurable risk. It follows then that about 80% - the significant majority – of risks faced by an organization cannot be covered by simply transferring the risk to an insurance company.

ALARM added that a review of the insurance-based approach showed a weakness when the Municipal Insurance Company in 1992 withdrew from the insurance market and thus demonstrated to commercial insurers that risk management need to be taken seriously consequently many organizations chose to “re-badge” their insurance officers as “risk and insurance officers”.

The development or evolution of risk management in the public sector can be seen in the diagram below (Source: Corporate Governance in the public sector – The role of risk management, ALARM (2001) :



Thus, from the above diagram, we can see that the concept of risk has been changed through time. Risk management in the public sector is more towards mitigating risks in achieving the objectives that would promote better service deliveries.

3.3 Risk management in public sector

Havens (1999) stated that effective management control or internal control system is a way of how risk should be managed. He considered it to be at the heart of budget and policy implementation. Effective management control should also describe all the policies and procedures that were put in place by a government to ensure the proper and effective functioning of the overall government or the individual entity. The purpose of management control is to ensure that budgetary and other policy decisions are executed properly; the use of resources are maximized and

mismanagement are minimized if not avoided entirely; and that reliable and timely information is obtained, maintained, and used for effective decision- making.

This understanding is supported by the European Court of Auditors in its 1998 publication European Implementing Guidelines for the INTOSAI Auditing Standards (draft) that defines management controls as all the policies and procedures conceived and put in place by an entity's management to ensure:

- The economical, efficient, and effective achievement of the entity's objectives;
- Adherence to external rules (laws, regulations, etc) and to management policies;
- The safeguarding of assets and information;
- The prevention and detection of fraud and error; and
- The quality of accounting records and the timely production of reliable financial and management information.

Currently, no universally applicable list of financial controls, reporting, performance monitoring and effective communications are described as categories of controls.

An effective financial reporting is essential as the management should receive a timely, reliable flow of information about its financial status. Therefore, it will be useful for the management to initiate prompt corrective action when the accounting data indicate a significant deviation from the budget. Thus, the financial accounting system is a vital part of any structure of management controls. To assure that the

accounting systems produces timely and reliable data, management should require the system to be audited at regular intervals.

The need of good financial reporting is supported by a study by Allen and Tommasi (2001). They listed that the principles of good reporting should consist of completeness, legitimacy, user-friendliness, reliability, relevance, consistency, timeliness, comparability and usefulness. The need for timely, accurate and complete reporting is the basis for two performance indicators in the PEFA framework (PEFA 2005). The implicit assumption for non-production of timely reports is lack of capacity, however no research could be found to verify this assumption.

A study by Drebin, Chan and Ferguson (1999) on the 'Objectives of Accounting and Financial Reporting for Government Units' stated that an effective financial reporting should achieve the objectives that information is useful for decision making in determining and predicting short-terms financial resources; economic conditions; legal contractual and fiduciary requirements; budgetary and planning; and finally for organization and managerial performance.

Furthermore, it is noted that through performance monitoring, an organization can accomplish certain activities. The management's first responsibility is to ensure that those activities are achieved and toward this end, it is essential that management track the performance of the organization against its stated goals. This will require the management to describe the goals in measurable terms (client served, units of output delivered, etc.) and to establish a reliable and timely reporting system to keep itself informed of the implementation progress against the stated goals. To assure the

reliability of the data, it is desirable that the performance reporting system be linked to the financial accounting system and that it be audited (including appropriate tests of the reporting procedures) at regular intervals. Management should also establish its performance expectations with respect to the outputs being measured and should initiate corrective action if the report results deviate from expectations.

In addition, effective communication is also crucial in managing risks. For instance, in the modern organizations, managers recognize that subordinates and front-line workers perform better if they have a clear understanding of the mission and goals of the organization and the purpose being served by the activities they are asked to perform. In such an organization, the channels of communication are an integral part of the management control system.

The importance of the various categories of an effective management control in mitigating risks is also supported by a study by The Treasury Board of Canada Secretariat (1999) on Best Practices in Risk Management; Private and Public Sector Internationally. The study, involves 228 examples throughout the world. The conclusion showed that the approaches suggested the application of the risk-cycle concept and emphasized the role of two-way communication, and staff training as a way of enhancing awareness of risks which occurs in organizations. Further, it was noted that organization members should strengthen the internal control system effectively.

In another study, risk management researchers suggested ways of mitigating risks according to different scenarios as stated in the Annex A and B by the DFID (2002: 13 and 17) on managing fiduciary risk when providing budget support.

In identifying potential risks, the Risk Management Standard by COSO, ALARM and IRM (2002) indicated the external and internal environment as distinct risk areas. The standard also introduced a guideline that included a risk estimation (assessment) technique using 3 x 3 matrix for risk consequences and their potential of occurrences or likelihood.

Table 3.1. - Risk Consequences (Threats or Opportunities)

Estimated impact	Description of impacts	Indicators
High	<ul style="list-style-type: none"> - Financial impact on the organisation is likely to exceed certain value. - Significant impact on the organisation's strategy or operational activities. - Significant stakeholder concern. 	(to be filled by the management / responsible division)
Medium	<ul style="list-style-type: none"> - Financial impact on the organisation likely to be between certain range - Moderate impact on the organisation's strategy or operational activities - Moderate stakeholder concern 	(to be filled by the management / responsible division)
Low	<ul style="list-style-type: none"> - Financial impact on the organisation likely to be less than certain value - Low impact on the organisation's strategy or operational activities - Low stakeholder concern 	(to be filled by the management / responsible division)

Furthermore, strengthening the financial management systems is considered as the most important approach in managing risk relating to public expenditure management in the public sector. This included the strategies through out the budgetary down stream from the financial planning stage of budget to disburse the

fund. This also included the four main areas of the budgetary process which were budgetary planning, procurement, financial reporting and control, and monitoring and evaluation.

For instance, the HM Treasury of UK (2002) and the OPDM (2004) had mentioned the importance of risk management to policy, planning and operational management as well as financial management in achieving organizational objectives.

The emphasise on financial management as a tool in managing risks is also stated in a study by Hallak and Poisson (2006) on financing education which is relevant to this case study. Hallak and Poisson make 12 recommendations for policymakers and educational managers to create and to maintain transparent regulatory systems, to strengthen management skills for greater accountability and to increase ownership of the management process. Among them are:

- Norms and regulations must be clear, procedures must be transparent and an explicit policy framework is needed to stop corruption. The framework must specify the distribution of responsibilities among those allocating, distributing and using educational resources.
- Transparency in the system can be promoted by standardising financial procedures, making staff management regulations uniform, harmonising procurement rules and adopting an agreed format for financial report production at school and intermediate authority levels.

- If corruption is to be reduced, skills in management accounting, monitoring and auditing must be improved.
- The public must have access to information in order to build participation, ownership and social control. Members of the public must be sufficiently informed about their local schools to be able to detect fraud and to claim from the school the things they are entitled to.

The need for a transparent regulatory system is also supported by Ochse (2004) on a study for the German Technical Cooperation (GTZ) that suggested measures to prevent corruption in the education system in German development cooperation in the Education System. The measures included the areas of personnel; finance and procurement system in educational institutions; access to educational institutions; and quality and quantity of education. Ochse also introduced guidelines with the aim are to influence those who are responsible for development cooperation projects towards promoting reform in the education sector. The guideline on preventing corruption also identified approaches and measures to promote the participation of parents, teachers, citizens and civil society organisations in reforms to the education system. Various measures are being introduced which include strengthening personnel and financial management system in overcoming the risk in corruption in managing educational fund.

Among the measures included to prevent corruption, we can mention:

- Personnel: strengthening the legal foundations and building awareness in regard to performance orientation and corruption prevention; establishment of codes of conduct.

- Finance system: strengthening an appropriate legal framework and institutional mainstreaming of internal and independent external community-level, financial control bodies with clear responsibilities, adequate resources and explicit authority to identify corruption and to make recommendations on how to prevent corruption and impose sanctions.

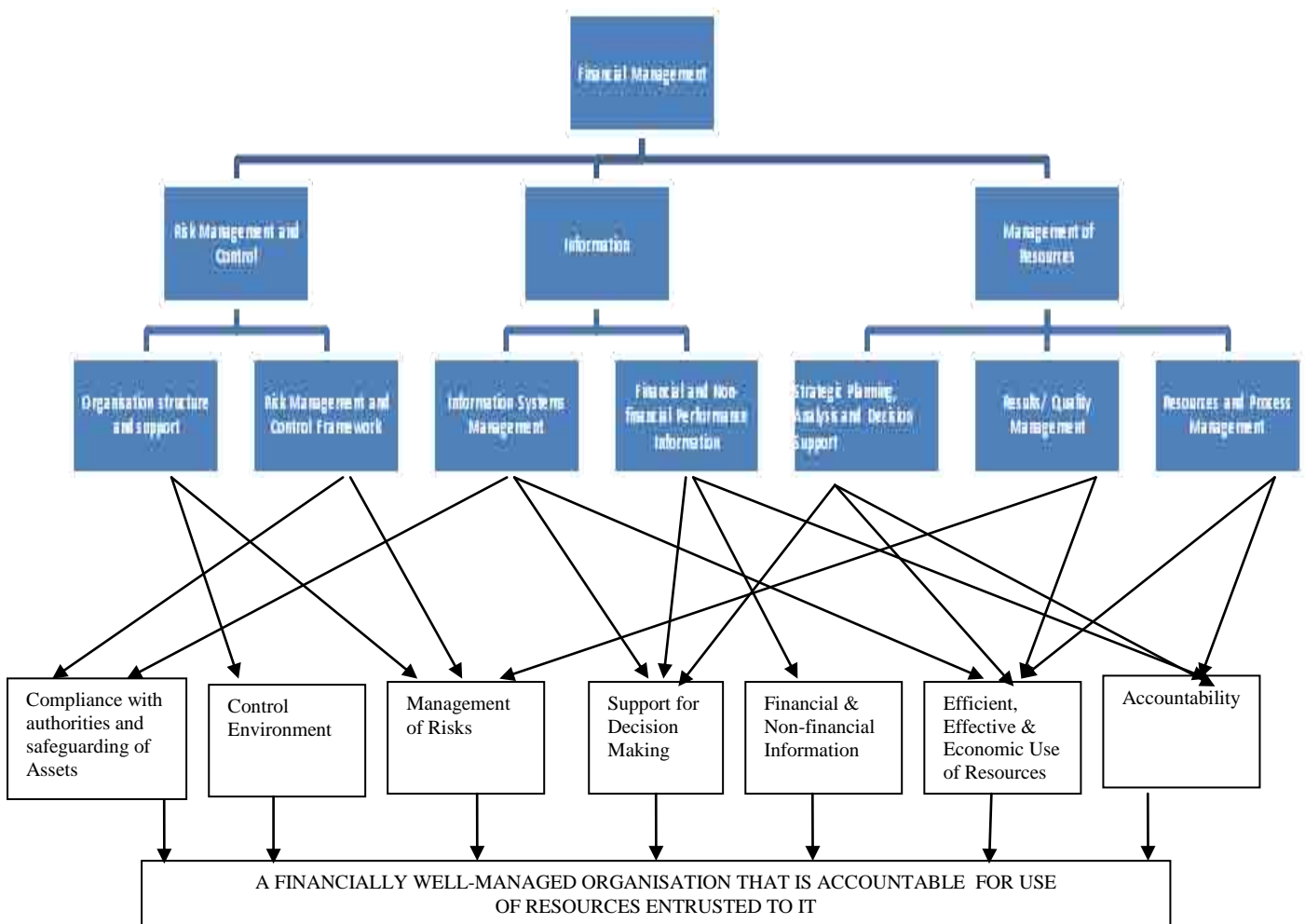
Other than that, the importance of financial management in managing risks is also stated by the Auditor General of Canada (1999). Among the objectives of financial management are as followings:

- Ensure that managers have support for decision making;
- Ensure the availability of timely, relevant and reliable information, both financial and non-financial; and
- Contribute to managing the risks to the organisation;

The Auditor General of Canada (1999) also stated that risk management and control is part of key elements of financial management which can be clearly seen in the diagram Exhibit 1 below. They also introduced the “The Financial Management Capability Model” as a model for good financial management. Among the

advantages of the model is that it serves as a tool for government organization in determining its financial management requirements according to the nature, complexity and associated risks of its operations; and assess its existing financial management capabilities against the requirements that has been determined.

Exhibit 1 - ELEMENTS OF FINANCIAL MANAGEMENT



Furthermore, in preventing fraud and corruption in World Bank projects (World Bank 2000), the Board of the World Bank had approved the Loan Administration Change Initiative (LACI) that introduced a new approach of project management reporting (PMR) which was reported to be effective in preventing fraud and

corruption in World Bank projects because it is “an integrated project monitoring system bringing together accounting and financial management, disbursement, procurement and contract management, and physical progress. It introduces a simplified system of disbursing funds, linking disbursements to project progress as reported in quarterly project management reports.”

The World Bank added that a good financial management is a critical ingredient of project success. Timely and relevant financial information provides a basis for better decisions, thus, it will speed the physical progress of the project as well as the availability of funds while, reducing delays and bottlenecks. This is why the Bank’s policy and procedures require good financial management in Bank-funded projects. As a guideline for good financial management, the Bank stated that sound project financial management should:

- Provide essential information needed by those who manage, implement and supervise projects, including government oversight agencies and financing institutions;
- Provide the comfort needed by the borrower country, lenders and donor community that the funds have been used efficiently and for the purposes intended; and
- Be a deterrent tool against fraud and corruption, since it provides internal controls and the ability to quickly identify unusual occurrences and deviations.

3.4 World Bank and Government of Malaysia Project Financial Management Approaches for the ESSP.

3.4.1. World Bank approach

This section emphasizes on the financial management requirements or criteria in reducing risk by the World Bank for the ESSP in the Eighth Malaysian Plan. The criteria or conditions highlighted simultaneously the project financial management system implemented by the Government of Malaysia through the Ministry of Education for similar project of the ESSP.

For the purpose of this research study, the World Bank set up conditions for negotiations. The conditions were firstly, the opening and maintenance of a Special Account at a commercial bank; and secondly, the financial reports known as Project Management Report (PMR). The disbursement of funds through Special Account is a new procedure that is linked with the PMR. Thirdly, it is concerning the appointment of key staff for project implementation known as Project Implementation Unit (PIU). The PIU will consist of the project manager, procurement specialist, accountant, architect and quantity surveyor. Fourthly, the development of the key performance indicators considered as a measurement tools of project progress and achievement of programmers goals and objectives. Finally, establishing on procurements procedures such as stated in the procurement side letter². Among the conditions on procurement are as in Annex 2 (page 2 of 2) in paragraph 2 and 3 as followings:

² Line 6, Agreed Minutes of Negotiations Between Malaysia and Development for the purposed Education Sector Support Project, February 11, 1999

“ 2. Malaysia specifically assures you that for all goods and works contracts to be financed by the Bank for the Project following national competitive bidding procedures (“NCB”):

- (a) All bidders shall be treated equally, and preferential treatment will not be granted to any bidder or group of bidders. Specifically, civil works contracts valued below 50,000 Malaysian Ringgit will not be reserved for Bumiputra contractors.
- (b) Prior registration, licensing and/or other government authorization will not be a requirement for purposes of participating in bidding competitions; such registration, licensing and/or other government authorization may, however, be required from the selected bidder as a prior condition to signing the contract, provided that ownership of said bidder by local nationals will not be a condition of registration.
- (c) The “two envelope” system for technical and financial proposals in bid submissions will not be used.
- (d) All bids shall be opened in public.
- (e) Prospective bidders shall be allowed at least 30 days from the date of the first advertisement to submit bids.

3. Malaysia further assures you that:

- (a) Direct contracting will be used only after prior consultation with the Bank.
- (b) Central contracting, under which goods are procured through negotiations with pre-selected suppliers will not be used.”

3.4.2. Government of Malaysia approach

Other issues related to financial management are also stated in the ‘Aims of Development in Education Financing 2001-2010’, Records of financial resources acquired from individuals, public and private agencies, international bodies and Non-Government Organisations (NGOs) showed that they are managed at the institutional

level. Currently, the Ministry of Education, Malaysia (MOE) does not have a comprehensive accounting system as a financial information database of other sources of funding. As such the MOE and other government agencies have difficulties in obtaining up-to-date data quickly and accurately. It is a challenge for the MOE to develop a comprehensive financial information database.

In the MOE's 'Education Development Blue Print 2001 - 2010', the challenges faced in the management of finance and development of educational physical facilities were mostly implementation issues related to limited allocations. This development worries and requires an urgent need for a more effective financial management. Among the main challenges stated are the allocations of development projects fairly in terms of location; and identification of effective approaches so as to ensure development projects are completed on schedule without incurring any additional costs.

This included the strategies in increasing efficiency and effectiveness of financial management at all levels of the MOE by the following ways:

1. Ensuring all education managers possess the necessary knowledge and skills in financial management;
2. Empowering all financial managers;
3. Increasing educational institutions as responsibility centres;

4. Strengthening the mechanisms for supervision, monitoring, and auditing financial management; and
5. Ensuring transparency in financial management particularly in educational institutions.

Further steps in financial management that includes:

1. Increasing and expanding the involvement of other agencies in the supervision and monitoring activities of financial management;
2. Planning and disseminating a standard guideline for supervision, monitoring, and auditing activities relating to financial management of educational programs to all;
3. Promoting a standard remuneration and penalty system for educational development project developers to ensure that they adhere to the project terms and agreements.

Finally, a mechanism for reporting financial management for educational programmes must be put in place for strengthening the current monitoring system.

In the 'Education Development Blue Print 2001 - 2010' under the 'Aims of Development in Education Financing 2001-2010', the Development, Privatisation

and Supply Division (DPSD) of MOE policy statement consists of the following scope of responsibilities:

1. To build and maintain the premises of educational institutions in accordance with the standard set based on the needs of the end-users and international standards.
2. To provide supplies and to procure sufficient educational equipment for all educational institutions.
3. To ensure the safety of education premises and infrastructures.
4. To offer business opportunities to capable Bumiputera entrepreneurs in the planning and implementation of development and procurement projects.

Among the DPSD implementation strategies that related to the ESSP are as follows:

1. Channel educational development allocation resources, which include human resources, machinery, capital and land, properly and accurately.
2. Enhance the implementation and the monitoring of physical educational projects according to the schedule.
3. Provide lands for physical educational projects in accordance with both the present and future needs.

4. Improve the system of procurement.
5. Enhance process of payment.
6. Expand and enhance the proficiency and expertise of the Ministry's staff in the field of development and procurement.

3.5 Conclusion

There were various risks that can be associated to public financial management and aid effectiveness. Among the crucial was fiduciary risk which left unchecked which can lead to fraud and corruption. Thus, risks should be mitigated effectively as they involved the use of public fund and public confidence in the capacity of the organisations or agencies involved to deliver the products and services expected. There are calls towards the establishment of an effective financial management system which can serve as a useful mechanism in managing risks. This includes the various precautionary measures carried out by donors, for example, the World Bank in ensuring the effectiveness of their project-financed in achieving its objectives. The effectiveness and efficiency of financial management reporting and project implementation unit are among the requirements set by donors such as World Bank. The intention was to reduce risk and to put emphasise on to strengthening their country financial management systems for participant countries.

This study compares the project financial management approaches between the World Bank and the Government of Malaysia. The World Bank had setup conditions in reducing the risks so as to ensure that the fund provided for projects to the Malaysian Government under its 8th Malaysian Plan will achieve the set objectives. These approaches by the World Bank are used as the basis in developing an analytical framework for project financial management. The analytical framework will be used as a guideline in analyzing the effectiveness of the approaches in reducing risks related to public financial management and aid.

Chapter 4 will discuss further on the standards and criteria of good financial management system which will serve as the analytical framework for this research study.

Chapter 4

Analytical Framework

4.1 Introduction

In the previous chapter, we have identified the nature of risks, the need for risk management in the public sector and the importance of an effective financial management system as an approach to mitigate risks in relation to public financial management and aid. For instance, conditions set by the World Bank that has to be met by the Government of Malaysia (GOM) for the ESSP in the Eighth Malaysian Plan through the Ministry of Education. These requirements have highlighted the GOM's project financial management system and this chapter will study and compare the different approaches toward financial and risk management in the public sector between the World Bank and GOM.

Therefore, this chapter identifies the standards and criteria that fulfil the requirements of an effective financial management system that can reduce risks in public financial management and aid. They are used as guidelines for analyzing the effectiveness of the World Bank and the Government of Malaysia project financial management approaches. Secondly, it elaborates the elements of these effective financial management systems. Thirdly, this chapter outlines how the criteria will be applied to ESSP implementation. At last, the conclusion summarizes the main points of the chapter.

4.2 Standards and criteria of effective financial management systems

For the purpose of this study, the researcher has identified the following approaches that are useful as the basis in analyzing the findings for this study.

The criteria are based on the followings:

- a) World-class financial management for Public Sector by the Audit Commission of HM Treasury UK & PricewaterhouseCoopers (2005); and
- b) The study of ‘Objectives of Accounting and Financial Reporting for Government Units’, by Drebin, Chan & Ferguson (1981).

The intention is also to achieve the main objectives, sub-objectives and hypothesis set in paragraph 4.0 in Chapter 1 of this study. Now, we are going to look at how these approaches will be used as the basis criteria for analyzing the World Bank and the Government of Malaysia approaches in the implementation of the project financial management for the ESSP under the Eighth Malaysian Plan.

4.2.1. The “World-Class Financial Management for Public Sector” by the Audit Commission, HM Treasury UK & PricewaterhouseCoopers (2005)

The standards and elements as criteria for the analysis are used because the Audit Commission of UK (2005) emphasized financial management as a key management discipline. It consists of the following financial management criteria which are:

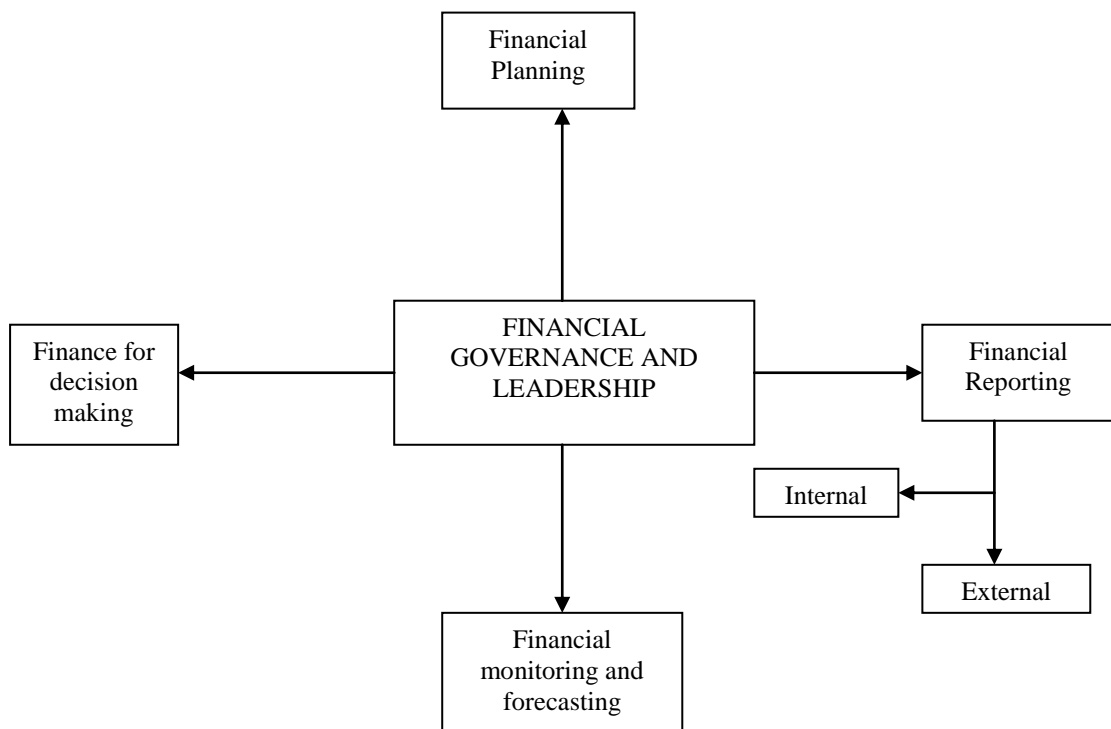
- An essential element of good corporate governance;
- An essential part of the firm foundations of an organisation, underpinning service quality and improvement; and
- A basis of accountability to stakeholders for the stewardship and use of resources.

Furthermore, based on the HM Treasury and PricewaterhouseCoopers (2005) study on enhancing good practice in financial management of a public sector body, the Commission developed a discussion paper to stimulate debate across public services and among finance professionals about what achieving world class standards of financial management in government might mean in practice and, more broadly, what standards of financial management the public sector should aspire to over the longer term. Even though, it does not attempt to set these standards, but it is high level in nature and is not intended to be a practical guide to how standards of financial management in the public sector might be improved.

There are five key themes or elements of financial management focus which are useful for analysis in this study. They are financial governance and leadership; financial planning; finance for decision-making; financial monitoring and forecasting; and financial reporting.

Financial governance and leadership

The measure of quality financial governance and leadership starts from the top, and there is a need to understand the working financial environment. There is a need to foster an organizational culture where individual collectively responsible for stewardship. This would include steps taken in ensuring the effective and efficient use of resources, posting of officers with sufficient financial knowledge, skills and experience, and the need for financial accountability being extended to external stakeholders. The development of the organization's strategic and corporate plans also need to take into account the need to communicate with all parties involved an understanding and appreciation of the financial implications.



Financial Planning

Financial planning needs to be integrated to an organisation's strategic and corporate planning processes – the financial plan (budget) is simply a quantitative expression of a plan of action. As such, financial plans should reflect the organisation's key strategic priorities. Annual financial plans, integrating current expenditure plans and investment programmes, with cash flow and balance sheet projections, should be developed in the context of a longer-term financial strategy, which supports the organisation's strategic plan.

Finance for decision-making

In developing an organisation's strategic and corporate plans, the top management needs to consider the value of money achieved by allocating resources efficiently to different activities. It also requires to have a thorough understanding of the financial implications of current and potential alternative policies, programmes and activities on projects implemented.

Financial monitoring and forecasting

If an organisation is to meet its strategic and operational objectives, then its top management needs to assure itself that financial performance is up-to-date and forecast financial outturn for the year are in line with the plan, which will include cash flow and balance sheet projections. Variances should be monitored and

reviewed for the underlying costs of the organisation's key activities and how they are profiled over time. Financial information needs to be integrated with non-financial performance and activity information as such information forms the basis for financial forecasts and enables value for money to be monitored. Financial information is also required for setting the budget and internal accountability and monitoring. This information throughout the year should be derived from the organisation's statutory financial statements.

Financial reporting

To run an organisation effectively, top management needs up-to-date financial and non-financial performance information on a timely basis. It should be presented in a form that is tailored to meet user needs that are easy to understand and highlights the key financial issues that they need to be aware of. For its part, top management needs to provide timely, accurate and balanced information about its stewardship and use of resources and its non-financial performance to the organisation's stakeholders.

4.2.2. The "Objectives of Accounting and Financial Reporting for Government Units' by Drebin, Chan & Ferguson (1981)

The "Objectives of Accounting and Financial Reporting for Government Units' by Drebin, Chan & Ferguson, provides a useful criteria for decision-making at all level especially to the management in evaluating the performance of its organization. This can be helpful for the management as the decision makers to reduce the risk related to financial management. The study by Drebin, Chan & Ferguson (1981), shown that

financial information is useful for decision-making in meeting short-term financial resources, economic condition, legal, contractual and fiduciary requirements, budgeting and planning, and finally for organization and managerial performance.

Based on their study, Drebin, Chan & Ferguson stated that there are five basic objectives that must be achieved through accounting and financial reporting as follows:

1. To provide useful financial information for determining and predicting the flows, balances and requirements of short-term financial resources of the government unit.
2. To provide useful financial information for determining and predicting the economic condition of the governmental unit and changes therein.
3. To provide useful financial information for monitoring performance under terms of legal, contractual and fiduciary requirements.
4. To provide useful financial information for planning and budgeting, and for predicting the impact of the acquisition and allocation of resources on the achievement of operational objectives.
5. To provide information useful for evaluating managerial and organisational performance.

SHORT-TERM FINANCIAL RESOURCES

Short-term financial resources provide financial information that is fruitful in determining and predicting the flows, balances and requirements of short-term financial resources of the governmental unit. The financial information gathered can be used:

- a. For determining and predicting the balances and availability of short-term financial resources, including cash, for specific uses;
- b. For predicting the need to obtain additional short-term financial resources;
- c. For predicting the impact on short-term financial resources of specific revenue and other financing sources;
- d. For predicting the impact on short-term financial resources of planned programs and activities; and
- e. For predicting the ability of the governmental unit to meet its short-term obligations as they come due.

ECONOMIC CONDITION

Financial information is useful in determining and predicting the economic condition of the governmental unit and changes therein. Information on the economic condition will prove useful,

- a. For determining the value and predicting the service potential of resources held by the governmental unit;
- b. For determining whether the value and service potential of physical resources have been maintained during a period;
- c. For predicting the amounts and timing of future outflows resulting from existing commitments and the ability of the governmental unit to meet these when they come due; and
- d. For determining and predicting the cost of programs or services provided by the governmental unit.

LEGAL, CONTRATUAL AND FIDUCIARY REQUIREMENTS

Financial information is also useful for monitoring performance under terms of legal, contractual and fiduciary requirements. It can serve the management in:

- a. Determining whether resources were utilized in accordance with legal and contractual requirements;

- b. Determining whether resource contributions of taxpayers, grantors and service recipients intended to support activities of a given time period were sufficient to recover the cost of those activities;
- c. Determining whether fees or reimbursements are in accordance with legal, grant or contractual requirements; and
- d. Accounting for the use and disposition of resources entrusted to public officials.

PLANNING AND BUDGETING

Financial information will prove useful for planning and budgeting, and for predicting the impact of the acquisition and allocation of resources in achieving operational objectives. The information is useful,

- a. For predicting the impact of program alternatives on short-term financial resources of the governmental unit;
- b. For predicting the impact of program alternatives on the economic condition of the governmental unit;
- c. For predicting the amount of resource contributions of taxpayers, grantors, and service recipients needed to support activities of a given time period;

- d. For predicting the effectiveness, including the distribution of benefits among groups, of proposed programs and activities in achieving goals and objectives; and
- e. For predicting the incidence of the burden of providing resources for governmental operations.

In addition to the outputs or results of program alternatives, achieving an equitable distribution of the cost of providing programs and services is an important consideration in budgeting. Thus, information useful for predicting the incidence of this burden would be a significant factor in budgeting decisions.

ORGANISATIONAL AND MANAGERIAL PERFORMANCE

Finally, financial information is useful for evaluating managerial and organisational performance. Evaluation of organisational and managerial performance is necessary if voters, legislative and oversight bodies are to play a meaningful role in policy development. Choosing among candidates for public office and assuring that planned programs actually achieve their intended results require information on actual performance. Financial information will prove useful in measuring organizational and managerial performance in,

- a. Determining the cost of programs, functions and activities in a manner which facilitates analysis and valid comparisons with established criteria, among time periods, and with other governmental units;

- b. Evaluating the efficiency and economy of operations of organisational units, programs activities and functions;
- c. Evaluating the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives; and
- d. Evaluating the equity with which the burden of providing resources for governmental operations is imposed.

4.3 How will the criteria be applied in the analysis of findings?

In analyzing the findings as in Part II, the researcher will firstly use both standards and criteria in the “World-Class Financial Management for Public Sector” by the Auditor General of HM Treasury UK & PricewaterhouseCoopers (2005); and the study by Drebin, Chan & Ferguson (1981) on “Objectives of Accounting and Financial Reporting for Government Units”. These references are used for the purpose of achieving the objective set for Chapter 6 in this study. The approaches analyzes the effectiveness of the Project Management Reports implemented by the World Bank and the Government of Malaysia, through the Development Unit of Division for Development and Procurement (DPSD), Ministry of Education, Malaysia for the ESSP under the Eighth Malaysian Plan.

Secondly, to achieve the objectives as outlined in Chapter 7 through the use of the approaches especially the “World-Class Financial Management for Public Sector” by

the Auditor General of HM Treasury UK & PricewaterhouseCoopers (2005). This is supported with the elements in Risk Management Model by the HM Treasury UK (2002) which is considered very useful as a guideline in achieving the findings for Chapter 7 for this study.

Thirdly, as this study concerns the effectiveness of risks management in public expenditure management focus on the educational sector support project (ESSP) in Malaysia, therefore, it is important at an earlier stage to identify and to analyze the risks factors. Toward achieving this aim, the risk management model of the HM Treasury (2002), and the Treasury Board of Canada Secretariat (2001), are used as reference models to measure the effectiveness and efficiency of financial risk management. Subsequently, questionnaires are administrated to the officers and staffs involved in the management of the ESSP. The officers and staffs are those from the Division of Development and Procurement (DPSD), Ministry of Education, Malaysia. They were involved in the financing of infrastructure educational projects.

The results collected, are analyzed and discussed with reference to the impact of the risks to the projects they managed, particularly, on the Domestic financing in the 8th Malaysian Plan. This also includes the effectiveness of the country financial management systems and its impacts on projects implemented. This will be elaborated in Chapter 8 of this study.

All the findings are supported with other evidences from various sources both primary and secondary from interviews and official documentations.

4.4 Conclusion

The financial management approaches stated above have been developed as the analytical framework to this study. They are used to analyze the effectiveness of the financial management systems implemented for the Educational Sector Support Projects (ESSP) in the Eighth Malaysian Plan by the World Bank, and the Malaysian Government through the Ministry of Education.

Approaches that are based on recognized and established standards and criteria of good financial management also concord well with the practice of good corporate governance. Good corporate governance is part of foundations of an organization which underpins service quality and improvement. Good financial management, on the other hand, forms the basis of management accountability to stakeholders with reference to stewardship and use of resources. This is especially important in the context of managing risks in an organization with the effect of enhancing elements of accountability and transparency in the management of public funds.

This chapter stressed the importance of the main three elements of financial management: financial planning, financial monitoring and forecasting and reporting. Risk management and information systems especially in the public sector are prominent in the Canadian Financial Management Capacity Model (1999); the study by Drebin, Chan & Ferguson (1981) on “Objectives of Accounting and Financial Reporting for Government Units”; and the “World Class financial management for public sector” by HM Treasury of UK and PricewaterhouseCoopers (2005). Finally,

with the research framework now in place, we turn to the next chapter on the research method used in this study.

Chapter 5

Research Methods

5.1 Introduction

This chapter discusses the research methods used in the study, the sources and methods of data collection, and the limitations and problems encountered during the research.

The central issue of this thesis is that most government bodies were inadequate in managing allocated funds in the most effective, efficient and economic manner. Problems such as shortage of funds, over-spending and unauthorized expenditure had put public fund at risk. This risk is not only about project cost but also it concerns delays and abandonment of projects which happened under the ESSP. The projects mentioned above were under the domestic financing of the 8th Malaysian Plan. The issues or problems raised were in relation to a general lack of awareness of risk management in managing public fund and its implications. This situation is similar to the case discussed or debated in the Paris Declaration (2005) among the donors and participating countries. Among others, the discussion touches on the establishment of Project Implementation Units (PIUs) as well as donors' pre-conditions and procedures requirements in setting up an effective and efficient financial management system tool in managing risks. The issues of phasing-out the Parallel PIUs as well as using the participating countries own financial management systems

draws mixed opinion in a 'lunch-box' meeting held by the World Bank with 100 of their staff who were involved in project implementation (World Bank, 2005). The key research questions forming the basis for data collection and analysis are as follows:

- 1) Why is the financial management system implemented in the World Bank approach more effective in managing risks as compared to the borrowing country's financial management in the Government of Malaysia approach for the ESSP in the 8th Malaysian Plan?
- 2) Why is the World Bank PMR or FMR implemented in the ESSP effective in managing risk as compared to the domestic financing?
- 3) Are the additional conditions as part of the project financial management system imposed by the World Bank effective in reducing as compared to domestic financing?
- 4) What other factors have influenced and contributed to the successful performance of the World Bank approach as compared to Domestic approach for the ESSP in the 8th Malaysian Plan?
- 5) What are the perceptions of the management, officers and staffs involved on risks as factors that contributed to the low performance of the domestic financing of the ESSP under the 8th Malaysian Plan?

5.2 The Case Study Approach

In identifying and formulating the answers to the above five questions, the researcher has used the case study approach. According to Yin (1998) in the case study approach, it has a unique quality of enabling the researcher to deal with a full variety of evidence from interviews, documents and observations. In this case study, a comparison was made between the World Bank's financial management practice and the domestic financing management practice. It explores the effectiveness of both financial management systems during project implementation of the ESSP in Malaysia. Areas studied include the development of civil works projects and the procurement of goods and services of the Development and Procurement Divisions (DPSD), Ministry of Education (MoE) and its related agencies.

5.2.1. Unit of Analysis

The unit analyzed for this study is the Division of Development and Procurement, Ministry of Education, Malaysia. This division is responsible for the distribution and allocation of fund and projects through out the Ministry of Education. The Division main function includes planning, implementation and monitoring infrastructure and other development programmes and procurement of goods and services though out Malaysia.

The purpose of why the DPSD being selected as the unit for analysis is because the researcher can easily access and gather needed information and data. This is possible because the researcher was one of the staff in this division. As this study is a comparative case study, it will look at the differences in the project implementation

of infrastructure and non-infrastructure development of the ESSP from the World Bank's approach and domestic financing approach under the 8th Malaysian Plan.

The focus will be on the effectiveness of the World Bank financial management systems consists of additional conditions and procedures as stipulated rather than using the existing government or country financial management systems through out the ESSP, that is, before and during project implementation. Further, the unit analysis will consists of project management reports prepared by both financing operating within two different project implementation units. This also includes the format or model used by various states and districts of the education departments and other implementers such as Public Work Department or also known as in Malay as Jabatan Kerja Raya (JKR) and Contractors for the purpose of project monitoring and evaluation.

5.2.2. Research Techniques

A mixed approach consisting of quantitative and qualitative analysis will be carried out in this study. The idea of having a mixed approach in the research methodology is to strengthen the evidence, especially in identifying the related risks that have an impact on the domestic financing ESSP. As the evidences obtain from various sources, quantitative data are still useful, even though the more qualitative data will be analyzed in this study. According to Cater (1991): cited in Larbi, 1998), the choice of the research approaches depends on the phenomena being investigated, the research objectives and the state of existing knowledge.

In the quantitative research techniques, questionnaire using the ‘Lickert Scale’ was used in the data collection on the staff involved in the implementation of domestic financing ESSP within the DPSD of MoE. Where as, for the qualitative research techniques, semi-structured/in-depth interviews, documentation sources and observations were used in the data collection. These similar approaches have been used in the study of policy and programme implementation (e.g. Pressman and Wildavsky, 1973; Ayee, 1994; and Zifcak, 1994, cited: Larbi, 1998). According to Larbi (1998) ‘One common feature of these studies is that they dealt with processes that were complex and which involved several individuals and organizations, legislation, rules and norms, as well as the behaviour of actors and stakeholders in the process of implementation and its management’. The sources of information and methods of data collection are discussed next.

5.3 Data collection

5.3.1. Desk Study

The data related to the literature of this study were gathered through sources from the internet. The internet was the main source for the study of literature review as it provides the researcher with critical and reliable information quickly and accurately. This included accessed through the library of University of Birmingham for relevant books and articles related to public expenditure management, public financial management and also risk management. Articles were also searched from websites of the Asian Development Bank (ADB), World Bank (WB), International Monetary Fund (IMF), DFID, PEFA and many others that are too long to be listed here but are listed in the bibliography. The literatures were also obtained from the views of the

supervisory panel members of my study and also the World Bank Task manager of the ESSP involved in the projects.

Documentations such as the Implementation Completion Reports, Bank Memorandum and Agreement with the of Malaysia and World Bank Project Financial Management System Manual were obtained earlier from the Secretariat of the World Bank ESSP at the Educational, Planning and Research Division (EPRD), of MoE and the Auditor-General Reports, relevant newspaper articles and selected journals. These references were useful in lending support in informing issues and problems raised. Therefore, the literature reviews has helped the researcher in building the thesis argument and research questions. They were also useful as they helped form the theoretical basis for the conclusion of this research study.

The data collection was carried out in three phases. The first phase was designing the research proposal and presenting as well as defending it to scholarship select committee at the Ministry level somewhere in May – September 2004 in order to secure a scholarship for this study. The second phase involved collection of relevant documentations from the EPRD and DPSD of MoE, which was carried out in May – September, 2006. The final stage of this data collection period was in Mid-May – Mid-August, 2007. In this stage, the researcher needs to get the approval from the Macro Economic Section, Economic Planning Unit of the Prime Minister Department, Malaysia (EPU). The EPU will then request the required consent letter from the EPRD of MoE, and from one of the Associate Professor in the Business Management and Economic Faculty of University Kebangsaan Malaysia (National University of Malaysia) for their respective approval and comment about the

feasibility and potential of the thesis. The researcher has no obstacle in getting the approval from the agencies involved for this study. Once, approval has been given the researcher will be able to proceed with data collection which involves conducting interviews, distribution of questionnaire, identifying focus-group, selecting sources of documentations and carrying out on-site observations.

5.3.2. Interviews

Face-to-face interviews were carried out along with discussions with the relevant officials which as the key sources of information. In order to triangulate the evidences from supporting documentations, some of contractors involved in the as well as the public who consists of parents that were also interviewed during site-visits. They were among the focus groups of this study. The interviews were either in-depth or semi-structured depending on the focus groups. In the case of decision-makers involved in this case study of the ESSP, in-depth interviews were carried out. The idea of collecting the evidences through the interviews at the various levels is to ensure that the data gathered will be more reliable. According to Oppenheim (1992), the minimization for interviewers will be bias and influence the respondents. Furthermore, in-depth interview is one of the central qualitative research tools for collecting information on the implementation of the projects. 'Asking key programme personnel and key stakeholders about the reform process is an important method of data collection in implementation research' (King et al., 1987, cited in Larbi,1998). Overall, there were about at least 50 interviewees selected to participate in this study. They were from various educational backgrounds and levels of positions within the Ministry of Education. This group consists of officers working in the MoE head quarters as well as those at the various States Education

Departments and Districts Education Offices. The full list of those interviewed and their organizational affiliations is provided in Appendix A. The questions for the interviews session is enclosed in the Appendix A.

A general interview guide approach was used during interviewing (Quinn Patton, 1990) and this was based on the research objectives and literature review. Topic guides and questions were developed to cover each of the way how fund and project being allocated and implemented. This includes the process of payments to the contractors and suppliers as well as the process of making their appointment. The duration of each interview varies depending on the interviewees' position and charge, and their perceptions, knowledge, skills and understanding of their responsibilities under ESSP and its implications.

5.3.3. Selecting Respondents

The interviewees in this study were not randomly selected but being chosen earlier. They were those involved directly with the ESSP in the 8th Malaysian Plan of the World Bank and domestic financing. The interviewees were from various positions which included the decision-makers in the MoE such as the Deputy-Secretary General of Development and Finance, Heads of Departments and Divisions, accountants within MoE, Officers from the State Education Department and Education District Office. The Head Auditor for the Educational Sector from the Office of Auditor-General was also interviewed. Other than that, in order to triangulate and improve the reliability of the evidences from the senior officers above, supporting staff within the Ministry of Education were also interviewed.

In order to conduct the interview sections, appointments with the interviewees were set earlier. They were informed of the purpose of the interview and once an agreement had been achieved, the interviewer met the respondents or interviewees at the suggested location at the agreed date and time. The location of the interviews varied depending on interviewees' convenience. The interviews were not only based on the questions that had been set earlier by the researcher but also they included questions that the researcher thought they would greatly help in achieving the purpose of the study. But on certain circumstances, the interview was done informally when, for example, the researcher happened to coincidentally meet the interviewees such as the project-contractors and officers from the State and District Education Department that were involved in the project management and implementation. The interview sessions proved to be very encouraging and useful. They managed to highlight many related issues and generate additional information concerning this case study. According to (Dev and Silverman (1993), cited in Larbi, 2005) rightly stated that an interview is a form of discussion or conversation prompted by open-ended questions to allow for maximum expression of opinion and explanation on certain issues. Even though, some of the interviewees were interviewed due to chance encounters by the researcher nonetheless the researcher was well-prepared with the questions to elicit their responses and they were known to the researcher to be involved in the ESSP.

The method of recording information from interviews was mostly done by tapes and with a tape-recorder. Nonetheless, a few interview sessions were recorded through note-taking because they were carried out informally due to the chance encounter with the interviewees which included a few sessions with top officials in the earlier

stage before a formal appointment was set. The chance interview sessions or rather conversations generated some useful information for this study. Perhaps the informal situations of the chance encounters allowed the researcher to elicit spontaneous responses from the interviewees which would otherwise prove difficult to obtain in a formal interview setting. Chance interview sessions gave the researcher an added advantage in eliciting a more personal response to the questions asked than other possibility. Most of the interviewees were interviewed more than once in order to collect further clarifications and information regarding issues that had been brought up by other interviewees. The clarification obtained included the matters raised from documents provided during the interview sessions earlier.

5.3.4. Focus Group

Furthermore, in the case for domestic financing of the ESSP, the researcher included two focus groups at different project sites. At the sites, the contractors involved were interviewed. Simultaneously, through these interview sessions, the researcher obtained first hand impression of the progress of the projects. The other was the local communities of the area who stand to benefit from the building of primary school that expected to be completed on time or has been abandoned. The purpose of this focus group is to identify the cause of the failure of the project and its impact to the local communities. Questions for this focus group are also listed in the Appendix A.

5.3.5. Survey

In this case study, the researcher also used the survey method in collecting data through the distribution of questionnaires to the respondents. The selected

respondents are the officers and supporting staff in the DPSD of MoE. The purpose of this survey is to triangulate with other sources of on the risks factors as according to a model stated in the 'Orange Book' of the HM Treasury of UK on Risk Management in Public Sector. The survey was distributed in the morning of the final day for the data collection period and collected back from the respondents in the evening. The questionnaire was on impact of the risks in domestic financing failures discussed earlier in this study.

5.3.6. Electronic Mails

In instances where interview sessions were not able to be carried out, the researcher resorted to the used of the electronic mail (e-mail) as a medium of getting relevant and important information from the respondents. The two main factors that cause this mode of communication and interaction were due to distance and location. For instance, in the case of getting information from the World Bank financial management specialist who was involved in the project and Malaysian government officials from other Ministries.

5.3.7. Documentation

As content analysis is part of the getting evidence for this study, relevant supporting documentation materials were provided and analyzed. The materials were official documents such as, the World Bank and Government Procedures and Guidelines, Officials Contracts, Minutes and Memorandums, Financial/Project Management Reports, Progress Reports, Annual Report of the Ministry of Education, articles from newspapers and journals. The researcher agreed with Yin (1989:87) who stated that:

‘The systematic searches for relevant documents are important in any data collection plan’.

5.3.8. Direct observation

Direct observations were carried out during the field or site visits. Initially, there were 6 sites to be observed as proposed by the Deputy Secretary-General of Development and Finance, Ministry of Education, Malaysia. However, due to financial constraints, the researcher only managed to visit two sites in the Southern State of Johor. The selections of schools visited were based on the record of poor performance in terms of project completion and occupancy under the domestic financing projects. The visit involved two different schools near to the researcher hometown of Johor Baharu. The two primary schools were in the district of Pasir Gudang which another in Johor Bahru district itself. Other than that, the researcher has managed to observe a primary school project in Taman Danau Desa, Kuala Lumpur which was abandoned.

5.4 Reliability

According to Yin (1989: 84, 95-103) among the principles as guidance for data collection is the use of multiple sources of evidence, i.e. evidence from more than one source but converging on the same set of facts or findings. To achieve this objective, the researcher used multiple sources of evidence to ensure reliability of this study.

5.5 Confidentiality

For confidentiality purposes, the researcher informed the respondents that all information given is confidential. Peil et al (1982: 22) have advised: ‘Those who have co-operated in the research should not suffer any ill-effects for it.’ This is the best guarantee if nothing in the report can be traced to specific individuals or groups (ibid.). Respondents especially those working in the DPSD were informed to give their cooperation throughout the case study period through a memorandum issued by the Principal Secretary of DPSD to the staff involved. Sources are only revealed for those who were happy to have their views quoted (e.g. some World Bank officials).

5.6 Linking Data to Research Questions and Hypotheses

The interviews sessions of those involve directly on the project management were asked about the problems normally raised by the contractors or suppliers. Questions that relates to financial management as in Appendix A, especially on the current practice of financial or project management reporting will be the key for the study with respect in looking at and anticipating the possibilities of failures in most projects. The purpose of this is to address the main objectives as well as the hypothesis 1 and 2.

5.7 Analysis of Data

For this study, the researcher needed to read the documents, interview transcripts and notes over repeatedly as stated by Silverman (1993). Using the research questions as

tools for analysis, the researcher highlighted the relevant text critical for this study. As documentary materials proved useful, a content analysis was carried out to retrieve any useful information that addresses the questions and hypothesis. This study does not use factor analysis (or any nonparametric methods) and hence, the results should be taken with caution. Further analyses are described below:

5.7.1. Content Analysis

The use of documents often entails a specialized approach called content analysis. Content analysis is an analytic strategy that entails systematic examination of forms of communication to document pattern objectively. According to Yin (2003) and Neuman (2006), with content analysis, a researcher could compare contexts across many texts and analyzed it with quantitative techniques (e.g. charts and tables). Furthermore, content analysis is a more objectivist approach than other qualitative methods. Subsequently, according to Berelson (1952) traditional content analysis allows the researcher to obtain an “objective and quantitative description”.

Therefore, for the purpose of this study, the researcher will be using the pattern-matching and time series analytic techniques for content analysis. According to Yin (2003) for case study analysis, one of the most desirable techniques is using a pattern-matching logic. If the patterns coincide, the results can help a case study to strengthen its internal validity. Due to that, the researcher compare the procedures, guidelines, documents contracts of the World Bank financing and Malaysian Government financing for the ESSP especially in relation to financial and risk management. The financial management reporting as a tool of managing risk will also be analyzed. Furthermore, in comparing the financial management reporting, the

World Class Financial Management Elements and the Objective of Financial Reporting for Government Bodies as in Chapter 4 in this study will be used for analysis purposes.

Through the findings, the researcher will later expect to find some similarities and non-similarity of the above. The non-similarities will be highlighted if they have a direct impact on the failures of the projects and may also be a contributor to related factors that contributed to the failure of a project. These findings will be significant in addressing the sub-objectives of this study. Other than that, newspapers articles such as the Prime Minister's speech and comments from the Auditor-General Office will also be analysed further in support of the study.

The analysis of the content especially of the progress reports will consist of observations made in identifying the trend of time duration for progress payments made, the amount of approved and unapproved variation orders, date of beginning and completion of projects, the differences between the initial cost and actual cost, and the date of handing over and the occupancy of the building. The data from this trend or time series analysis will be collected and analyzed as supporting data for the factors that may contributed to project failures. Furthermore, it will be useful as a source of evidence for this study and for the interviewing process especially involving top management of the project implementation.

In content analysis, the unit of analysis will vary accordingly; it can be word, a phrase, a theme, a plot, a newspaper article or a character. The measurement used in content analysis structured observation which is a systematic, careful observation

based on written rules that explained how to categorize and classify observations. The written rules make replication possible and help improve reliability. The coding systems therein identified four characteristics of text content consisting of frequency, direction, intensity and space.

5.7.2. Interviews, Focus Groups and Site Visit

In supporting the content analysis, the analysis of the interviews will be looking at any similarities on the factors that caused failures. This analysis also applies to the focus group especially in relation to meeting their expectations for project completion, and the cost and impact they faced in the case of project failures. In site visit done by the researcher has ascertain the evidence of the cause of the failures.

5.7.3. Survey

The survey was carried out with the aim to triangulate the evidences gathered from other sources such as interviews and reports on domestic financing of the ESSP. The questionnaire used the 'Lickert' Scale of 1 to 4. The analysis of the data collected from the survey was carried out using SPSS.

5.8 Conclusion

In this study the researcher uses comparative or multiple case studies of World Bank and the Government of Malaysia to reveal their respective practices in managing infrastructure development of the ESSP. The comparisons focus on how risk and

financial management and financial management reporting for a project are carried out from the beginning of the project until its completions.

The data collected will be analysed using content analysis of the various related documentations including those from the World Bank and the MoE, and supported by the interviews conducted, and on-site visits of the selected projects.

In analysing the data, according to Yin (2003), in a case study, it is advisable that pattern-matching and time-series can be used for the analysis. The pattern-matching logic is considered more reliable than the comparative study. The researcher can readily compare and match, any similarities in the procedures that were carried out. In the content analysis, the unit of analysis varies as it can be a word, a phrase, a theme, a plot, a newspaper articles or a character.

The measurement used in content analysis is the structured observation. The written rules make replication possible and help improve reliability. The coding systems have also helped identify four characteristics of text content consisting of frequency, direction, intensity and space. This also applies to the analysis of the interviews and focus group too.

PART 2

ANALYSIS

Part 2 of this study contains three chapters. It addresses the research framework questions as developed in Part 1 to the evidence regarding management of risks in project finance and implementation. The results compare the effectiveness of the approaches to risk management in Educational Sector Support Projects (ESSP) by the World Bank and Government of Malaysia for the ESSP.

Chapter 6

How well do project management reports reduce risks? A Comparison between the World Bank and Government of Malaysia project management reporting in the Educational Sector Support Project (ESSP).

6.1 Introduction

Part II of this study contains three chapters. It addresses the research framework questions as developed in Part 1 as evidence on the management of risks in project finance and implementation. The results compare the effectiveness of the approaches to risk management in Educational Sector Support Projects (ESSP) by the World Bank and Government of Malaysia for the ESSP.

This chapter distinguishes the approaches to project management reporting and compares their impact on risks. Section 2 briefly outlines the purpose of the analysis; Section 3 includes the results, and Section 4 summarizes and concludes the findings of the chapter.

6.2 Purpose

The purpose of this chapter is to address the research framework questions in achieving the research question of no. 2; sub-objective no. 1; and hypothesis no. 1 as stated in Chapter 1 of this study.

6.3 Results of the Analysis

This section will firstly identify the differences in approach of reporting between the World Bank and Government of Malaysia in preparing the Project Management Report or Financial Management Report (PMR/FMR). The difference in approaches of reporting will include the frequency in which the reports have been updated to the top management. Secondly, the effectiveness of the reports (PMR/FMR) between the World Bank and the Government of Malaysia were compared using the standards and criteria stated earlier that were related to effective project financial management system in mitigating risks related to public financial management and aid.

Therefore, the results of the analysis are as follows:

6.3.1. Format and contents of PMR

The World Bank Approach

Generally, the results revealed that there were variants in terms of the format and content of the reports (PMR/FMR) prepared or implemented between the World Bank approach and the Government of Malaysia approach. However, initial findings identified that the report prepared and implemented for the ESSP in the Eighth Malaysian Plan under the World Bank approach is different from the original components of PMR/FMR as proposed in the World Bank Financial Management Manual (1998) applicable to all World Bank financed projects. The revised version of PMR/FMR format was approved by the World Bank and Government of Malaysia

during the negotiation meeting in Clause No. 9 and Clause No. 10 in the Guidelines of the Project Management Report. This is stated in the Agreed Minutes of Negotiations between Malaysia and the International Bank for Reconstruction and Development for the purposed Educational Sector Support Project (ESSP) dated February 11th, 1999. The modification of the PMR content is also stated in the Exposure Draft of the World Bank Project Financial Management Manual (1999) on clause 2.2.2 page 16. The components of the main PMR/FMR as well as other supporting reports prepared in the World Bank approach are shown in Table 6.1.

Table 6.1 – Component and content of PMR implemented in the World Bank Approach for the ESSP in Malaysia

	Components	Report
A	Financial and Disbursements Reports (based on payments made)	1-A Project Sources and Uses of Funds by Activity 1-B Project Cash Withdrawals 1-C Special Account Statement 1-D Project Cash Forecast
B	Project Procurement and Progress Reports (based on expenditure incurred) – Output Monitoring Report	2-A Procurement and Progress Reports on Execution of Works 2-B Procurement and Progress Reports on Goods 2-C Procurement and Progress Reports on Consultants Services
C	Additional reports prepared by sub-implementers	Annex 1 - Progress Report Annex 2 - summary of Comparative Statement of Project Cost and Commitments

The changes or modification of the PMR/FMR had shown that the World Bank as a donor is still flexible in their conditionality for the purpose of financial management reporting. The main reports, consolidated PMR consists of A and B above, was prepared by the Project Accountant of Project Implementation Units (PIUs). The

sub-reports as in 'C' above were prepared by the sub-implementers that used the fund for the purpose of ESSP.

Government of Malaysia Approach

In the Government of Malaysia approach, the findings revealed only two reports that were related to Project Management Reports were prepared by the implementers of Primary, Secondary and Supporting Units, Development Division, Ministry of Education. The reports are as follows:

- 1- Progress Report of the Procurement of Works
- 2- Monthly Estimated Cash Flow Report

The contents of the "Progress Report of the Procurement of Works (No.1)" prepared by the three implementers varies among each other. Subsequently, these variations were more obvious when they were compared to the World Bank approach. According to the officer-in-charge, the formatting and contents were based on the officers' own experience and instinct, and what inputs which were given by the previous officer in charge. (Source: email dated 19th of April and 23rd of April, 2007, and interview, refer Appendix A – Interview Session). Therefore, there were no consistency and harmony in reporting among the implementers even though they were from the same section. Furthermore, the situation was worsen when the findings also revealed that there was no standard format prepared or proposed by the Treasury or Government of Malaysia purposely for project management. The variants or differences can be clearly seen as in Table 6.2 below:

Table 6.2 - Differences in content of ‘Progress Report for the Procurement of Works’ prepared by World Bank and Government of Malaysia (Primary Unit, Development Division, Ministry of Education Malaysia)

World Bank Approach	Government of Malaysia Approach
<ol style="list-style-type: none"> 1. Name of Works/projects 2. Estimated Cost 3. Bids Invited Date – From 4. Bids Invited Date – To 5. Date of Award approved by GOM 6. Date of no objection by the Bank (where required) 7. Name of Contractor 8. Adjusted Contract Value 9. Agreement Number and Date 10. Date of Start of Work 11. Period of Completion (EOT) 12. Expenditure as per Payment Certified 13. Expenditure as per Actual Payment Made <p>Remarks regarding current progress of works (original contract value RM)</p>	<ol style="list-style-type: none"> 1. Name of Works/Projects 2. Name of Contractor 3. Contract Value 4. Date as per contract – Start and End 5. Progress Status in Percentage 6. Status of project 7. Name of PMC 8. Final Account (empty) 9. Remarks regarding the current status such as date of operation 10. Date of LI and LA Extension of Time (Numbers)

The situation is more critical in the differences and inconsistency of reporting between the units responsible for the ‘Secondary’ and ‘Supporting’ Units under the Government of Malaysia approach. This is shown in Table 6.3.

Table 6.3 – Variants in reporting in Government of Malaysia approach between Secondary and Supporting Unit of Development Division, Ministry of Malaysia

Secondary Unit	Supporting Unit
<ol style="list-style-type: none"> 1. Name of Works/Projects 2. Name of Contractor 3. Contract Value 4. Date as per contract – Start and End 5. Progress Status in Percentage 6. Status of project 7. Name of PMC 	<ol style="list-style-type: none"> 1. Name of Works/Projects 2. Name of Contractor 3. Contract Value 4. Date as per contract – Start and End 5. Progress Status in Percentage 6. Status of project 7. Name of PMC 8. Final Account (empty) 9. Remarks regarding the current status such as date of operation 10. Date of LI and LA 11. Extension of Time (Numbers)

6.3.2. Frequency of Reporting

The World Bank Approach

The main PMR/FMR was prepared by the Project Accountant and the Progress Report of Annex 1 and Annex 2 were prepared by the sub-implementers. The reports were prepared on a monthly basis even though the main PMRs/FMRs were submitted quarterly to the World Bank as required. The monthly updating of the progress reports was due to the demand by the top management in ensuring effective project monitoring and progress review of the World Bank ESSP both in terms of financial and non-financial aspects. The reports were presented in the Project Coordination Committee Meeting (PCC) which was chaired by the Deputy Secretary General (Finance and Development) of the Ministry of Education Malaysia. The committee also included representatives from the Treasury of Ministry of Finance; Economic Planning Unit of the Prime Minister Department; an appointed representative for the Auditor-General of Malaysia who is the external auditor and Head of Department and Divisions within the Ministry of Education, Malaysia.

The practice of presenting the reports in a timely manner managed to overcome the issues of shortage of funding, projects failures and delays in producing the annual financial reports required by the Auditor General of Malaysia. Furthermore, the reports were also referred to in the World Bank Supervision Mission Meeting held twice a year. The consistency in reporting was supported through the interviews conducted on those involved in the preparation and implementation of the Reports such as Annex 1 and Annex 2. They agreed that the monthly held PCC meeting had demanded them to prepare the reports such as in Annex 1 and Annex 2 (as in Table

6.1 (c) page 121) in a timely manner. The report was a standard format prepared by all the implementers who were involved with the projects or programs. The effectiveness and usefulness of the reports were also supported by the Deputy-Secretary General (Finance and Development) of Ministry of Education and the Auditor General for Educational Project.

Furthermore, the consistency in the preparation of the report which included therein the latest reliable data was supported by the World Bank official through their 'Implementation Completion Report (SCL-4451)' page 15, paragraph 7.6 on 'Implementing Agency' as follows:

'The Borrower's PCC also conducted monthly meetings to review the status of the project.'

The Government of Malaysia Approach

In the case of the frequency of preparing the report, the frequency of updating the progress report in the Domestic financing also varies even though it had been stated in the Manual Procedures of Works that the report must be prepared on a monthly basis. According to the evidence from the officers-in-charge from two of the three units of Domestic financing project, the updating of the reports depends on the progress report submitted to them by the appointed Project Management Consultants (PMC). Consequently, if the consultants delay the submission of the progress reports, then the Units will not be able to update in the preparation of their reports as required (source : Appendix A – Interview Session).

The difficulties in getting the progress status of the projects managed by the PMCs were lied behind the fact that when even after repeated calls and emails for the progress reports were made by the researcher with the help of the officers-in-charge of the projects, there was a lack of cooperation form the PMCs. The respond was discouraging and even frustrating in the sense that only 1 out of the 20 PMCs involved in the Primary Academic projects responded to the email. The line of communication through emails were worst went some of the emails sent were rejected due to lack of recognition for email addresses.

The aim of the researcher to obtain the reports personally from the PMCs was to triangulate the findings gathered from the officers-in-charge. The researcher tried to get more information on the current status of the respective projects managed by the PMCs from the officers-in-charge of the projects such as the actual expenditure incurred or cost of the projects as well as the target date of occupancy of finished projects. However, this proved to be difficult and the researcher was advised to obtain it personally from the PMCs of the projects.

Therefore, we can justify that the reports were not up-dated as they were supposed to be in the procedures manual. This situation is an indication of poor cash flow management which eventually contributed to the risks to the projects such as being abandoned or delayed due to the shortage of funds.

6.3.3. Comparison of PMR/FMR effectiveness in managing risks related to public financial management and aid with reference to the “Objectives of Accounting and Financial Reporting for Government Unit” and “World Class Financial Management for Public Sector”.

The aim of this section is to compare the effectiveness of the PMR implemented by the World Bank and Government of Malaysia in the ESSP under the Eighth Malaysian Plan.

The PMR implemented by the World Bank and the Government of Malaysia were used as the basis for comparison. This comparison process is further supported by evidences gather from various sources such as interviews and supporting documents. The result of the analysis will serve as a basis for evaluating the effectiveness of the financial management systems between the World Bank and that of the Government of Malaysia in managing projects under the ESSP. The evaluation is carried out with reference to the study by Drebin, Chan & Ferguson (1981) on “Objectives of Accounting and Financial Reporting for Government Unit”. Further, the standards and criteria set by the Audit Commission of the HM Treasury UK and PricewaterhouseCoopers (2005) on “World Class Financial Management for Public Sector” are also referred to and used for the analysis.

The purpose of using the two various studies between the study by Drebin, Chan & Ferguson (1981) on “Objectives of Accounting and Financial Reporting for Government Unit” and the standards and criteria set by the Audit Commission of the HM Treasury UK and Price Water House Coopers (2005) on “World Class Financial

Management for Public Sector” is because they complement each other and thus provide a better overall view for the researcher to use them as the basis for effective financial management system related to public financial management and aid in the public sector. Analyzing as well as using these two approaches will increase the level of reliability that the reports prepared were more effective in managing risks related to public financial management and aid.

Comparison of PMR effectiveness using the study by Drebin, Chan & Ferguson (1981) on “Objectives of Accounting and Financial Reporting for Government Units”

In analyzing the effectiveness of the reports in reducing risks, 5 criteria been used from the study by Drebin, Chan & Ferguson above. The results revealed the followings:

Short-term financial resources

The short-term financial resources aims to provide financial information that are useful for determining and predicting the flows, balances and requirements of short-term financial resources of the governmental unit involved in the ESSP (1981: pg 126)

Summary of findings: The analysis of the PMR showed that the World Bank approach is more effective in reducing the risks as compared to the approach carried out by the Government of Malaysia. Thus, it is perhaps safe to deduced that the World Bank approach is more useful in avoiding the risks of projects delays and

abandonment as well as, in determining the requirement for short-term financial resources.

The World Bank Approach

The 'Opening Cash' and 'Closing Cash' Balances in the Sources and Applications of Funds by Activities (Report 1-A) is very useful as a basis for ensuring the amount of 'cash in hand'. This serves as an important indicator in monitoring flows as sufficient amount of cash helps to fulfil short-term demand situations.

In addition, Report 1-A also disclosed the actual and planned expenditure amount for the current project with the variance analysis column if any. This is very useful in assisting the user in predicting the outflow of funds more accurately. The content of Report 1-A is also applicable in Annex 1 and Annex 2 as prepared by the sub-implementers. In addition, Report 1-A is also coordinated with Report 1-C known as the 'Special Account'. The 'Special Account' showed the amount of 'Cash in hand or bank'. This is to ensure that the amount of cash can be easily monitored and made available in anticipation of over-spending and meeting any future shortage of fund of future obligations especially in the short-term aspects. Therefore, expenditures were to be disbursed based on cash requirements rather than a result of uncontrolled spending.

The 'Special Account' also assisted the implementers especially the project accountant to prepare the Report 1-D of the PMR, known as the 'Project Cash Forecast for cash requirement' for the next two quarters. The 'Project Cash Forecast for cash requirement' is part of a financial management tool in ensuring that the

funds are available on requests which may help to avoid other impacts such as project delays and poor quality workmanship of buildings. The delay in payment as a result of the shortage of funds will also adversely affect service delivery planned earlier.

The effectiveness of the above reports in the World Bank approach is supported with the evidence from the interview with 8 respondents who prepared the Annex 1 and Annex 2 in managing cash flow for short-term requirement. The respondents stated that the reports Annex 1 and 2 were very useful in assisting them to predict the needed amount for short-term obligations. This is because the reports themselves are very detailed containing the opening balance, allocation amount, the expenditure incurred and planned as well as closing balances. The reports were also fruitful as a management tool for project cash requirement for any expenditure incurred. They also agreed that the reports assist them in monitoring the progress of their respective projects or programs both financially and non-financially (Source: Appendix A – Interview Session).

The Government of Malaysia Approach

In the government approach, the nature of the reports prepared by the implementers had less impact in determining short-term financing. Besides, the non-consistent or harmonization of contents in the report prepared by the implementers i.e., the ‘Progress Report for the Procurement of Work’ had failed to show the amount of the Opening balance; Closing balance; expenditure incurred for current, planned and the amount as to-date.

Furthermore, only one report was disclosed upon request by the researcher which was known as, 'Progress Report of the Project'. The report was prepared by the respective project implementing units. Even though the progress report is almost similar to the Progress Report 2-A in the World Bank approach, but the absent or non-existence of the expenditure-to-date and revised contract costs column are crucial in determining the amount paid and outstanding for any future payment.

Therefore, the weakness of the report in the Government approach is crucial in determining and predicting the balance and availability of fund. This resulted in the ability to predict the short-term obligations such as the demand for immediate payments by the contractors and supplies when they are due. In the interviews conducted on enquiring about how they determined the short-term financial resources as there were no identifications of the actual expenditure to date in the report, the respondents stated that the amount of expenditure incurred were not under their control and could be obtained from the 'Planning and Budget' Unit of DPSD or Project Management Consultants (PMCs) (Source: Appendix A – Interview Session).

Furthermore, the weakness of the report prepared, as well as the delays by PMCs in producing the requested reports to the officers-in-charge impacted the current status of the projects both financially and non-financially. This affected the accuracy of the figures as they were outdated when it was needed for decision-making purposes. This made the officers-in-charge unable to determine and predict the short-term financial resources in the most effective manner. This development has significantly

contributed to the failure of the completion of most projects as it can be seen in Table 6.4.

Table 6.4 - The comparison of the number of Primary Schools projects financed by the World Bank and Government of Malaysia for the New Primary Educational Infrastructure Development Project under the Eighth Malaysian Plan.

	Domestic Financing Phase 1 (managed by PMC)		World Bank (managed by JKR)	
	Unit	Percentage	Unit	Percentage
Completed on Schedule	93	31.84	30	88.24
LAD 1	103	35.27	3	8.82
LAD 2	46	15.75		
LAD 3	19	6.52		
LAD 4	3	1.03		
Postponed	20	6.85		
Terminated & Continued	4	1.37	*1	2.94
Under Construction	4	1.37		
Total	292	100.00	34	100.00

* *Terminate and Withdraw from the World Bank due to non-compliance of Bank Procedures.*

Based from the above Table 6.4, the results showed that about 88.24 percent of the projects by the World Bank approach were completed on schedule as compared to 31.84 percent by the Government approach. The results also indicate that out of 292 of the total projects managed by the Primary Education Unit for in the Government approach, 103 or 35.27 percent were delayed, 20 were postponed and 8 projects were terminated earlier and were still under construction even after the end of the 8th Malaysian Plan.

Furthermore, the failure in determining short-term financial resources that contributed to the projects being at risk was supported by other evidence obtained from the report as listed in the 'List of claiming of exemption of LAD Bil.No.4/2006'. In this report, there were about 197 schools consisting of 191

primary and 6 secondary schools in the Government approach managed by the Project Management Consultants (PMCs) claimed for exemption of the LAD. The reasons or justifications of the claims by the contractors involved according to the PMCs are shown in Table 6.5 below.

Table 6.5 - Justifications of the contractors in claiming the 90 days exemptions of 'LAD'

	Justifications / Reasons for delay and exemption of LAD	Primary School
1	Delay in Initial Payment by the MOE.	47
2	Delay in Progress Payment by the MOE.	37
3	Delay in soil and other matters by IKRAM.	7
4	Failure of PMC in managing the project.	0
5	Unpredictable weather.	11
6	Lack of experience in managing project.	4
7	Delay due to insufficient Cash flow by the contractor.	3
8	Delay in locating the project location by the School authority and the District Education Department.	43
9	Delay and shortage of material supplies.	56
10	Delay in starting the work by the contractor.	29
11	Delay by the Electrical Power Authority (TNB).	3
12	Delay and red tape by the Local Authority.	37
13	Shortage of Labour	8
14	No. Reasons but requested for LAD exemption.	32
15	Simply to avoid losses in proceeding the project	1

The findings from Table 6.5 above, discovered that 47 primary education projects were not completed according to schedule which were due to the delay in making the initial payment by the Ministry of Education (MoE). In addition, 37 of the projects delayed were due to a delay in making progress payment by MoE. The incompleteness of projects according to schedule brought a significant impact on service delivery.

The issue of delays in making payments to the contractors, regarding the fact that even though the projects were completed, caught the attention of the Prime Minister of Malaysia in 2005 (Source: Utusan Malaysia, February 17th, 2005). He instructed

the ministries to make immediate payments of the amount outstanding. The Prime Minister statement was stated in the Malaysian national newspapers including the 'Utusan Malaysia' dated February 17th, 2005. Subsequently, the Minister of Education, Malaysia promised to make the payment amounting to a total of RM15 million which would be made with the initial amount of RM3 million to RM6 million.

The above problem of the shortage of funds and delays in payments in the Government approach was also highlighted in the implementation strategies of the 'Ministry of Education - National Education Policy' (2005:pg.153). In the New Policy Statement, the Development and Supply Division suggested effective financial management strategies as below:

- No. 7 - Enhancing process of payment; and
- No. 10 - Expand and enhance the proficiency and expertise of the Ministry's staff in the field of development and procurement.

Economic condition

Can the PMR provide financial information useful for determining and predicting the economic conditions of the governmental unit and changes therein (1981: pg. 127)

As the project life will take more than a year, it should have a long term economic value. Likewise, a full disclosure of the projects through reporting will be helpful in

determining the value and predicting the potential resources for future outflows which results from existing commitments.

Summary of findings: The full disclosure in the World Bank approach proved that the PMR can provide useful information to determine and to predict the economic condition. As detailed in the Report 2-A in anticipation of future obligations such as maintenance of the assets.

The World Bank Approach

The findings revealed that the Report 2-A known as the 'Progress Report on Procurement of Works' is prepared in detail and comprehensively. It complies with the full disclosure of a good financial reporting which includes reporting on both financial and non-financial aspects of the project implemented. Information on the projects provided included the completion date, date of occupancy, revised contract sum and the actual expenditure. In addition, as the report is updated monthly, it is useful for the users, especially the decision-makers to determine the economic well-being of the government unit such as predicting the amount of maintenance needed for future outflows or commitments. Consequently, it achieved the objective of determining and predicting the cost of programs or services provided by the government unit involved. This would be useful for accounting and financial reporting purposes when the actual figures are disclosed in the report. This involves information regarding the 'Contract Date'; 'Date of Occupancy'; and 'Final Contract Sum' for the project. This information have significant impact on the future cash obligation such as retention funds, deposits as well as the warranty period of parties involved i.e. between the Government of Malaysia and the suppliers or contractors.

Therefore, information given is helpful in determining the amount to be paid by the government when the time is due.

Furthermore, the idea of determining the cost of programs or services provided by the government is to ensure that the government has enough funds in meeting the cost of the programs in the future such as the cost of maintenance after the lapse of the warranty period. The idea is to avoid risk in cash flow management in the future which will affect not only the current projects but also the future projects which had been planned.

The effectiveness of the Report 2-A is supported by the evidences from the Senior Assistant Secretary (Technical Unit) of the DPSD who is also the senior architect; and the PIUs Team (Project Manager, Architect, Procurement Officer, Civil Engineer and Accountant) for the World Bank approach (Source: Appendix A – Interview Session). According to them, the effectiveness in decision-making for planning was due to the transparent and detail reporting. The reports proves to be useful for other various purposes too including determining the amount and the date of when the retention fund need to be refunded to the contractors and suppliers.

The Government of Malaysia Approach

The findings revealed that the limitations of the report prepared by the implementers were unable to assist the users to make better decisions regarding matters for example, predicting the amount needed for future commitment to be bear by the government entities in terms of the cost of maintenance. As we compare the

approaches between the World Bank and Government of Malaysia, the differences can be seen as in Table 6.6 below.

Table 6.6 – Comparison of Content of Tthe Progress Report for Procurement of Works

Content of Progress Report for Procurement of Works (Primary Education Project)	
World Bank Approach	GoM Approach
<ol style="list-style-type: none"> 1. Name of Works/projects 2. Estimated Cost 3. Bids Invited Date – From 4. Bids Invited Date – To 5. Date of Award approved by GOM 6. Date of no objection by the Bank (where required) 7. Name of Contractor 8. Adjusted Contract Value 9. Agreement Number and Date 10. Date of Start of Work 11. Period of Completion (EOT) 12. Expenditure as per Payment Certified 13. Expenditure as per Actual Payment Made 14. Remarks regarding current progress of works (Original contract value RM) 	<ol style="list-style-type: none"> 1. Name of Works/Projects 2. Name of Contractor 3. Contract Value 4. Date as per contract – Start and End 5. Progress Status in Percentage 6. Status of project 7. Name of PMC 8. Final Account (empty) 9. Remarks regarding the current status such as date of operation 10. Date of LI and LA 11. Extension of Time (Numbers)

In Table 6.6 above, we can see that there is no ‘Revised Contract Cost’; ‘Actual Expenditure’; ‘Final Accounts’; and the ‘Date of Completions’ for the GoM approach as compared to the World Bank approach particularly for the Primary Education Unit. This difference also applied for other units such as Secondary and Supporting unit of DPSD.

Therefore, the non-disclosure of the revising contract cost and the actual amount of expenditure which were incurred through out the projects will contribute to the difficulties in determining and predicting the economic conditions of the government

unit such as predicting the amounts and timing of future outflow. This included difficulties in determining and predicting the cost of programs such as the future cash commitment by the government especially in forecasting the future maintenance cost or any penalty charges. This may also resulted in unauthorized amount paid to the contractors or suppliers which will then have a significant impact on the cash flow management. This situation can lead to overpaying or shortage in underpaying the contractors that will eventually put the projects at risks.

The weaknesses of the report are supported with the evidence gathered from electronic mails and interviews from the officers-in-charge of the reports. They stated that the non-standardization of reports prepared were due to the content of report which was handed down from a previous senior officers. One of the officers stated that the report was created by himself based on the needs of the projects (source: Appendix A – Interview Session).

Furthermore, during the interview sessions, according to the officers-in-charge, in order for the researcher to get more information about the project especially the figures that shows the actual cost and expenditure to-date as well as the date of occupancy, the researcher thus had to contact the Project Management Consultants (PMCs) who were responsible for the projects. The information can also be obtained through the ‘SPPII’ from a special unit in the DPSD. Therefore, it will be difficult and more risky in the Government of Malaysia approach in determining and predicting the demand for refund of the retention fund and future maintenance.

Legal, Contractual and Fiduciary Requirements

**Can the PMR provide financial information that are useful for monitoring performance under terms of legal, contractual and fiduciary requirements?
(1981: pg.127)**

This objective refers to the need of the project by programs or activities which are paid according to the terms of agreement in the contract. It ensures that the report is useful for monitoring the progress payment made to the respective project in accordance with the legal or contractual requirement.

Summary of findings: The evidence stated in the World Bank 'Implementation Completion Report' and the top management comments on the role of PCC and PIU had contributed to the successful implementation and completion of the ESSP in ensuring that the funds were disbursed only on approved activities.

The World Bank Approach

The comprehensiveness of the main PMR/FMR is useful for project monitoring that only authorized projects or programmes will be paid for when demanded. For example, The Progress Report for Procurement of Works (Report 2-A), Progress Report for Procurement of Goods (Report 2-B) and Progress Report for Procurement of Consultants (Report 2-C) showed the name of the contractors/suppliers and contract references. In addition, as it was complemented with the other reports, i.e. in the case where any charges for payments would also be noted in the Project Cash Withdrawals (Report 1-B) and on the allocated projects or programs or activities

(Report 1-A). Any unauthorized charges can be detected when the balance of the reports did not match each other. This also applies to the expenditure in the Annex 1 prepared by the implementers of the World Bank financing.

Therefore, the consistency and the comprehensiveness of the reports will assist in ensuring that only authorized and approved programs or projects were accounted for the payments made. This measure assisted in avoiding any misleading of fund to unauthorized activities or programs. It avoids risks in mismanagement of fund such as in the case of 'virement' and non-authorized projects or activities as well. Furthermore, it will be very useful for the auditors to proceed with their auditing duties.

The effectiveness of this report is supported with the evidence from the officers-in-charge for the soft component program such as 'Training' in the World Bank approach. They agreed that the Annex 1 and Annex 2 supplementary reports they prepared were really useful in ensuring that payments would be made according to activities or programs that had been approved as in terms of contracts. With the reports, they can also monitor the performance of both financial and non-financial components in their respective programs or activities so as to ensure that they reached the stipulated target (Source: Appendix A – Interview Session).

The main PMR/FMR is also supported by a statement from the ex-Deputy Secretary General (Finance and Development), Ministry of Education that is also the Chairman of the Project Coordination Committee (PCC) of the ESSP World Bank. According to him, the monthly PCC meeting held with the intention of monitoring the progress

of the programs or projects both financial and non-financial closely. This was to ensure that the funds were spent according to the programs or projects approved earlier. Furthermore, the reconciliation exercises carried out between the Project Accountant and the sub-implementers were useful in ensuring that expenditure made was only for authorized activities as in the terms of contract.

The commitment of the PCC is supported by the World Bank Task Manager, as reported in the Implementation Completion Report (SCL-44510), page 13, paragraph 6.2. on 'Transition arrangement to regular operations'. Among the content of the report is as following:

'MOE/MOHE uses a formal process to manage the transition of project activities to regular operations. Each project activity must first be fully completed under the project's budget and authority of the PCC and the PIU. After completion, each project activity must be reviewed and inspected by the PCC/PIU to ensure that all project objectives have been met for that activity, including required civil works and the procurement of goods and services. Concurrently, PCC/MOE and State/Institutional authorities must also review and inspect each activity, and must agree that all project objectives for that activity have been reached and that the quality of the work is satisfactory'.

The report above reflected the commitment of those involved in the World Bank approach for the ESSP in Malaysia especially the PCC, in ensuring that only approved activities were authorized for payments when demanded.

The Government of Malaysia Approach

The inconsistency in updating the reports which rely on the Project Management Consultants (PMCs) made a back lock in updating the current status of the projects in the GoM approach. Even though with the availability of the names of the contractors or suppliers as well as the contract cost and contract period but the non-existence of the expenditure incurred to-date contributed to difficulties in determining the actual amount paid and any future amount to be paid accordingly. Furthermore, the non-inclusion of the completion date and the date of occupancy had further contributed to the inability of determining the actual amount to be paid or reimbursed in the case for retention fees and deposits as well as penalties. Therefore, this can result in the risk of over-payment and unauthorized progress payment for a particular project.

The risks created in the GoM approach on unauthorized progress payment were supported with evidences from the electronic mails and interviews conducted with the officers-in-charge. They agreed that the lack of exposure in reporting and the non-standardization of the reports contributed to the problem in making payment. The situations worsen when officials claimed having difficulties in updating the reports due to difficulties in getting the necessary information requested from the PMCs (Source: Appendix A – Interview Session).

Planning and Budgeting

Can the PMR provide useful information for planning and budgeting, and for predicting the impact of the acquisition and allocation of resources on the achievement of operational objectives? (1981: pg. 128)

Summary of findings: Financial planning and budgeting are crucial in ensuring that enough resources for future obligations can be met and help reducing the risks in managing public fund. The comprehensiveness of the reports prepared in the World Bank approach is capable of assisting those involved in the project to do their planning and budgeting effectively as compared to the Government of Malaysia approach.

The World Bank Approach

In achieving the above objective for planning and budgeting, the result showed that the reports in the main PMR consisting of Report on Project Sources and Uses of Funds by Activity (Report 1-A); Report on Project Cash Withdrawals (Report 1-B); Report on Special Account Statement (Report 1-C); Procurement and Progress Report on Execution of Works (Report 2-A); Procurement and Progress Report on Goods (Report 2-B); and Procurement and Progress Reports on Consultants Services (Report 2-C) provided very useful financial information for the Project Accountant to prepare the Project Cash Forecast (Report 1-D) for the purposed of financial planning and forecasting.

In the Project Cash Forecast (Report 1-D), the financial for cash requirement for the next two quarters is accounted for. The report also has the current closing balance as in the Report on Special Account Statement (Report 1-C), and is useful in determining the amount of additional cash required for the next two quarter based on the expected financial planning and forecasting. Through this mechanism the implementers can avoid mismanagement of cash in hand or in the bank especially at the end of the year.

The effectiveness of the report prepared in the World Bank approach was also supported by the sub-implementers who prepared Annex 1 and Annex 2. The respondents stated that the disclosure of financial and non-financial information such as actual, planned and targeted as in the Annex 1 and Annex 2, contributed to the effectiveness of preparing their financial planning and forecasting. They added that the reports were very useful as a guideline in requesting additional fund from the Project Accountant especially during the beginning of the financial year. The reports also boost their capabilities in controlling the financial aspect of the ESSP World Bank under the Eighth Malaysian Plan (source: Appendix A – Interview Session).

The Government of Malaysia Approach

The nature of the Progress Report that does not include the expenditure incurred to-date contributed to a failure in effective financial planning and forecasting. The failure thus affected the ability of meeting short-term obligations when demanded by the contractors and suppliers. This inability has serious consequences toward the progress of the projects.

This inability in meeting these short-term financial obligations has resulted in complaints by the contractors and suppliers. For instance, in the analysis of findings, 47 out of 197 projects as reflected in the list of claiming for exemption of LAD Bil.No.4/2006 stated that delays of the projects were due to delay in initial payment by the MOE to the contractors. Furthermore, 37 of them claimed that the delay of progress payments affected the progress of the project simultaneously. Interviewed respondents agreed that the problem in shortage of funds during the Eighth Malaysian Plan in the Government of Malaysia approach had affected many projects resulting in delays, postponement and abandonment.

This situation is also supported by evidence gathered from documents of the Primary Unit Office File dated 19th of January, 2006, from one of the officers-in-charge of the project. From the document there was an overview status of project implemented in the Eight Malaysian Plan managed by this unit has shown in Table 6.7.below.

Table 6.7 - Overview Status of Implementation Project in the Eighth Malaysian Plan (Source: Officer file from Primary Academic Unit, DPSD, 19 January 2006)

Program	Total	Completed	Construction	Postponed
Pre School	6103	2803	496	2804
Primary Academic	1867	1583	14	270
Teachers Training College	20	2	0	18
Capital Assistant	Depends on Application			
Special Education	3	1	0	2
TOTAL	7993	4389	510	3094

The above table showed that about three thousand and ninety four (3,094) or 38.71 per cent of the overall total projects managed by Primary Unit were postponed and five hundred and ten (510) or 6.38 percent were under construction. For the Primary Academic Schools projects, about 270 or 14.46 per cent of the total 1,867 projects were postponed.

The huge numbers of projects were postponed and still under construction for both Primary Academic Schools and Pre-Schools with earlier plans were a great blow and failure to the MoE. This contributed to an increase level of risks in managing the original allocation amount which may have to be diverted to other non-priorities projects. This situation of insufficient fund may be due to bad cash flow management such as misleading in financial planning and forecasting or budgeting. This consequently impacted the delivery of the services planned nation-wide and subsequently teaching and learning process.

The impacts of the delay of the projects were also gathered from a focus group interviews carried out with the parents and teachers of two different schools. (Source: Appendix A – Focus Group). According to the parents, they were delighted and set high expectations when the MoE began the school project in their areas. This is because the school that their children were attended was quite far and they had to incur additional transportation expenses. But the delay of the project disappointed them until the project was completed at the end. Even though the school project were completed at a later date, the physical conditions of the buildings were not totally safe for the students who occupied the premises.

Furthermore, the delay in the completion and occupying of the schools had resulted in the MoE incurring additional cost such as cost for further repairs as most of the facilities were stolen and were destroyed due to vandalism. In general, the quality and the physical conditions of the schools visited were deteriorated. The visits and observations carried out by the researcher in interviewing the focus group (i.e. the

teachers and parents) and was supported by the statement given by the teachers and the officer from the Educational State District during the visits (Source: Appendix A – Focus Group). The issue was the complaint being carried out long time ago, but until the visits such further action not been taken.

ORGANISATIONAL AND MANAGERIAL PERFORMANCE

Can the PMR provide useful information for evaluating managerial and organizational performance? (1981: pg. 128)

Summary of findings: The evidence from various sources supported the World Bank financing approach which provided information needed for performance and managerial evaluation. The details of the report as in Annex 1 and Annex 2 were proven useful in the preparation of the final completion report as stated in the Implementation Completion Report.

The World Bank Approach

The results revealed that the comprehensiveness of the PMR such as, the Procurement and Progress Reports on Execution of Works (Report 2-A); Procurement and Progress Reports on Goods (Report 2-B); and Procurement and Progress Reports on Consultants Services (Report 2-C) as prepared by the Project Accountant of the PIU and the contents of the Progress Report by Program or Activities as in Annex 1 and Annex 2, prepared by the sub-implementers using the World Bank funds had been the significance in not just providing critical information for effective decision-making but in evaluating managerial performance. The reports

also served as useful key performance indicators in evaluating the effectiveness of the fund being allocated for the planned programs or activities.

For instance, the content of Report 1-A, Annex 1 and Annex 2 contain the actual, plan and variance which were useful in project or program monitoring either financial or non-financial objectives. Through the reports, the implementers and other users involved in the projects, especially the top management in MoE, the auditors and the World Bank itself can utilize them as evaluation tool in evaluating effectiveness fund management.

Furthermore, as reports were prepared on a monthly basis, they served as useful inputs and references for the Project Coordination Committee which consisted of representatives from the Economic Planning Unit (EPU) of the Prime Minister Department, the Treasury of the Ministry of Finance (MOF), the Auditor-General from the National Audit Office as well as from the World Bank. The reports proved to be significant in evaluating the performance of the MoE as an organisation in general, and more specifically its managerial performance in managing the allocated funds for the ESSP under the Eighth Malaysian Plan. This development was especially critical during the PCC monthly meetings, and the meetings with the World Bank Supervision Mission which were held twice a year through out the duration of the project. Even though profit is not a relevant measure of performance of governmental units, some reasonable measures of performance, such as the disclosure of critical information through reporting are deemed necessary. The reports presented had subsequently contributed in reducing the risks of mismanagement of funds.

The above mentioned benefits of preparing up-to-date reports were supported through the evidences gathered from the sub-implementers, project manager, the Head of Technical Unit of DPSD, and the Ex-Chairman of the PCC. They agreed that the monthly reports for PCC made them aware of the progress rate of their respective programs in achieving their stated main objectives or targets. The officers-in-charge, who were also the PCC members, stated that the strength of the reports such as the Annex 1 and Annex 2 were useful in monitoring the performance of their respective projects or programs or activities. The effectiveness of the reports were also supported by Dato' Islahudin Baba, the ex-Deputy Secretary General (Finance and Development) who was also the Chairman of the ESSP World Bank and chaired the PCC meeting. According to Dato' Islahudin Baba, the reports presented by the implementers during the PCC meeting were a critical reference for the purpose of maintaining and improving managerial performance and program evaluation. This is because from the reports the progress of the programs and activities managed by the implementers can be monitored effectively (Source: Appendix A – Interview Session).

In addition, the respondents recommended that the reports be used in other non-World Bank financing in the future. This is because the reports themselves provided critical information in determining the cost of programs, functions and activities in such a manner that they facilitated analysis and provided valid comparisons with established criteria, within specific time periods set, and with other governmental units.

Furthermore, according to the Financial Management Specialist of the World Bank, Ms. Nipa Sri Buddimas who was responsible in project monitoring and evaluation, the PMR is able to produce reports in a timely manner with reliable information. The reports ensured that the projects were managed within an efficient financial management system. Ms. Nipa added that the implementation of the PMR or FMR had resulted in effective project monitoring, project evaluation, project financial planning and forecasting, programme evaluation, internal control systems and cash flow management for the sub-implementers involved directly with the ESSP of World Bank financing (Source: Appendix A – Electronic Mail). In addition, as stated in the, ‘Implementation Completion Report of the ESSP’ in page 15, paragraph 7.6, the subcomponents reports prepared by these implementers were comprehensive, accurate and well-written. The statement issued was as follows:

‘In preparation of the Implementation Completion Report (ICR), the PCC coordinated the preparation of the ICR and insured that all implementing units within the ministry submit their contribution on a timely basis. These detailed inputs were then combined under the PCC Secretariat and submitted to the Bank as part of the Borrower’s input to the ICR preparation process. The ICR preparation team found these subcomponent reports to be comprehensive, accurate and well written (See Annex 7).’

Government of Malaysia Approach

As stated earlier, the content prepared by the implementers in the Government of Malaysia approach varied and was limited in terms of the availability of current and

accurate data or information. The inability of the relevant parties to cooperate with the MoE in the preparation of the reports as made the management of funds and risks difficult for the implementers. The non-existence of the financial figures required was crucial in helping top management in decision-making.

Furthermore, faced with the presence of the inexperienced staff in managing the project contributed in the failure to prepare a good financial management report such as the progress report of works. As stated earlier, according to the respondents involved in the preparation of the projects, the report were prepared by themselves based on either own experience and understanding or inputs given from the previous officer in charge (Source: Appendix A – Interview Session and Electronic Mails).

Comparison of PMR effectiveness between World Bank and Government of Malaysia approaches in managing risks using the Best Practice of ‘World Class Financial Management for Public Sector’ by Audit Commission of HM Treasury UK and PricewaterhouseCoopers (2005)

The study done by Drebin, Chan & Ferguson (1981) as in section 4.2.2 was used to measure the effectiveness of PMR. In addition, the researcher used the ‘World Class Financial Management for Public Sector’ by the Audit Commission and PricewaterhouseCoopers (2005). The additional criteria used were on financial reporting which were not stated in the study by Drebin, Chan & Ferguson. The researcher does not select other criteria for the purpose of this study as a review of related literature revealed that they were quite similar to those in the study by Drebin, Chan & Ferguson.

Financial Reporting

Summary of findings: The evidences especially from the Auditor-General Office claimed that the World Bank financing approach is practical and can be recommended for use in Domestic financing. The comprehensiveness and consistency in reporting at the Ministry of Education (MoE) level as presented in a timely manner.

The PMR in the World Bank approach was prepared and updated on a monthly basis even though the report needed to be submitted quarterly to the World Bank. The practice of monthly reporting was done and presented by the Project Accountant and sub-implementers in the PCC meeting. The report generated financial and non-financial information discussions on the current status or progress of the projects implemented.

The consistency in updating and preparing the related reports on a timely manner have assisted the project accountant to prepare the consolidated yearly financial report or financial statement for auditing purposes. The final yearly reports to be audited by the Auditor-General of Malaysia are the main PMR and the Source and Application of Funds. The reports were submitted upon request by the Auditor-General Office and World Bank every year on a timely basis. The preparation of the final financial report is also based on the International Accounting Standard (IAS) as required in the Financial Management Manual in the World Bank financing (1998).

The effectiveness of the PMR is supported by the evidence from the interviews conducted with the Head of Auditor for Education Sector of the Auditor-General Office of Malaysia. According to the auditor, the PMR prepared in the World Bank approach is very comprehensive and useful that can be used in Domestic financing. The consistency of the reporting ensured that the progress of the funding can be easily monitored by the World Bank. Furthermore, this also helped ensuring that the Government of Malaysia (GOM) would not have to face any difficulties in getting future funding from the World Bank (Source: Appendix A – Interview Session).

In comparing between the World Bank and the Government of Malaysia approach, the auditor commented that there was a lack in special reporting for projects whereby the prepared reports were submitted for auditing. Furthermore, she stated that the report prepared in the Government approach focused more on the status of the expenditure required. She added that the World Bank approach of PMR and other additional reporting such as the Source and Application of Funds are recommended in the future for Government of Malaysia approach.

The above statement from the auditor is supported with evidence from the World Bank in the ‘Implementation Completion Report’ (ICR) page 15, paragraph 7.5 on ‘Government implementation performance’, which stated the following:

‘The Borrower is in full compliance with all loan covenants, and all audit reports have been submitted without negative comments.’

6.4 Summary and conclusion

The effectiveness of financial reporting in managing risks can be substantiate and evaluated through the standard and criteria in the study by Drebin, Chan & Ferguson on 'Objectives of Accounting and Financial Reporting for Government Units' (1981) and also in the 'Best Practice of World Class Financial Management for Public Sector' by the Audit Commission of HM Treasury UK and Price Waterhouse Coopers (2005). The comparison of reporting known as Project Management Reports (PMR) implemented through the World Bank and Government of Malaysia approaches for the ESSP under the Eighth Malaysian Plan were carried out using the above standards and criteria.

The result of the analysis revealed the differences in reporting between the World Bank and the Government of Malaysia (GoM) approaches. This study also identified that the World Bank approach is more effective in reducing risks related to public financial management and aid as compared to the Government of Malaysia approach. The results were based on evidences from various reliable sources including the views from the implementers of the projects. The views were than supported with data gathered as to show the effectiveness of one approach as compared to another.

Among the criteria met in the World Bank approach is that the PMR have disclosed useful information both from the financial and non-financial data gathered for short-term financial planning and forecasting, project or program monitoring, and performance evaluation. They served as key performance indicators that proved useful for those involved especially the top management in decision-making

purposes. This simultaneously reduces the risks of the fund being mismanaged and aid in the preparation of the annual financial statements or reports. The comprehensiveness and transparency of the reporting was also useful for internal control systems and served as a good basis for a move to accrual accounting as it can reduced the risks in managing public funds such as shortage of funds, fraud and corruption.

In conclusion, as stated by the World Bank Financial Specialist, Ms. Nipa that ‘the function of the PMR of the World Bank approach is similar to performance-based budgeting system and monitoring according to the results. With the implementation and submission of PMR to the World Bank at quarterly, it is to ensure that the reports are prepared in a timely manner that nothing to be neglected. This enables us to produce a report in a timely manner with reliable information is a key measures to ensure that the project have efficient financial management system’.

Therefore, the results managed to achieve the objectives of addressing the research questions and the hypothesis set earlier in this chapter. This supports the claim of the effectiveness of the PMR of the World Bank in managing risks such as fraud and corruption.

Chapter 7

How well does the financial management system reduce risk and why? Comparison of the World Bank and the Government of Malaysia financial management system for the ESSP

7.1 Introduction

In the previous chapter, we discovered the effectiveness of the Project Management Reports (PMRs) implemented in the World Bank approach as managed by the Project Accountant of the PIU as compared to the Government of Malaysia approach for the ESSP under the Eighth Malaysian Plan. It also addresses one of the issues in the Paris Declaration on the need of harmonization in financial reporting.

This chapter aims to deliberate not only the importance of timely and accurate reporting but also the financial management system as a whole in managing risks between the World Bank approach and the Government of Malaysia approach. The implementation of the PMR in the World Bank approach of financial reporting had revealed the critical role which has been played by the Project Accountant as a team member of PIU. The PMR was used as a financial management tool or mechanism in managing or reducing risks related to public financial management in comparison with the Government of Malaysia approach.

In this chapter, we will compare, identify and deliberate further the findings related to effectiveness of either the World Bank or the Government of Malaysia Project Implementation Unit (PIU) in managing risks related to other issues such as procurements for the ESSP in Malaysia. This chapter also addresses the issues of the financial management system related to procurement procedures, and the abolition of PIU as debated in the Paris Declaration 2005. The results will revealed how and why PIU is still required in the public sector.

This chapter aims to distinguish the approaches to project financial management system and compares their impact on risks management. first of all, it outlines the purpose of the analysis in section 2 and presents its results on the factors that contributed to the success of the ESSP in the World Bank approach. Finally, Section 4 summarizes and concludes the analysis of the results and findings.

7.2 Purpose

The purpose of this chapter is to apply the research framework criteria (see Chapter 4 pages 86) to the Malaysian experience with ESSP in order to achieve the main objective; sub-objective no. 2 and 3; research questions no. 3 and 4; and hypothesis no. 2 (see Section 4 of Chapter 1 in this study). The criteria for an effective financial management system used in the research framework are based on the ‘governance and leadership’ criteria set in the, ‘Best Practice of World Class Financial Management for Public Sector’ by the Audit Commission of the UK and PricewaterhouseCoopers (2005).

7.3 Results of the Analysis

The findings revealed that there were differences in the project financial management system between the World Bank and the Government of Malaysia approaches implemented in the ESSP. The differences were identified as the factors which contributed to the success in the World Bank approach in reducing risk as compared to the Government of Malaysia. The factors are as follows:

- a) The Involvement and Commitment of Top Management;
- b) The Significant Role of the Project Coordination Committee;
- c) The effectiveness of the Project Implementation Unit;
- d) The Full Commitment of the World Bank Team;
- e) The World Bank Additional Conditions and Procedures on Financial Management of the Project, and
- f) The World Bank conditions and procedures related to Non-Financial Management of the Project.

The results of (a) to (d) were analyzed further through using the criteria stated in Section 2 of this chapter. In the analysis the followings findings were revealed:

7.3.1. The Involvement and Commitment of Top Management

World Bank Approach

Summary of findings: Based on the Audit Commission (2005) on the criteria of financial governance and leadership, the evidence showed that the involvement and

commitment of the top management contributed to the success of the World Bank financing as compared to Domestic financing.

The quality of financial governance and leadership is determined by the top management. This includes the understanding of the financial environment and fostering an organizational culture in which financial skills are valued and developed by individuals (Audit Commission, 2005).

Top management involvement and commitment with full understanding of their responsibilities and being accountable for the decisions and actions taken proved to be a significant contributing factor to the success of an organization. For instance, the commitment given by the Deputy-Secretary General for Finance and Development at the highest level of management in the MoE in ensuring that the World Bank funds be fully utilized accordingly as stipulated in the contract agreement is exemplary and worthy of be an excellent role model for effective leadership in project management to other government bodies. He took the initiative to set up a coordination committee known as the Project Coordination Committee (PCC) in ensuring that the financial flow of fund in the World Bank approach is well-managed. The PCC was assisted by a Secretariat from the Educational Planning and Research Division (EPRD) of the Ministry of Education. The Deputy Secretary-General (Finance and Development), Ministry of Education, Malaysia has been assigned as the Chairperson for PCC as well as, the Director the ESSP World Bank under the Eighth Malaysian Plan.

As Director of the ESSP World Bank, one of his priorities was to ensure that the projects were successfully implemented and completed as scheduled through proper and appropriate utilization of the funds procured. To this effect, the Director has taken the necessary steps such as chairing monthly PCC meetings of the ESSP projects. These meetings ensured that progress of the projects was well-monitored. In the meetings, officers reported and discussed the progress of the projects in areas of finance and physical development. These meetings thus facilitate decision making which will affect the progress of the project financially or non-financially. The Director also took the initiative to personally visit sites in remote areas as to keep tab of their progress status.

This high level of commitment from the top management in the Ministry of Education in managing large amount of funds should not be underestimated. The track records showed and proved that the objectives of the ESSP as planned were met within the specific time. Subsequently, cost savings had been successfully accrued at the end of the project.

The commitment of the Deputy-Secretary General (Finance and Development), Ministry of Education was supported with the statement given by those involved in the ESSP World Bank. From the feedback of interviews carried out, all ten respondents agreed that the success of the ESSP World Bank was due to the full involvement of the Ministry's top management especially the Deputy Secretary-General playing his role as the Chairman of PCC (Source: Appendix A – Interview Session).

The commitment of the top management in the Ministry was also stated by the World Bank in the Implementation Completion Report (ICR) in paragraph 6.1 page 24 on Bank and Borrower Performance as below:

‘The Ministry of Education wishes to express appreciation to members of both the World Bank and the MoE for having successfully implemented the ESSP. The success is attributed to the close cooperation forged between the Bank team and MoE personnel entrusted with the ESSP as well as the manifestation of the series of thorough and effective supervision on the Bank part, the commitment of MoE personnel towards the project and close monitoring and leadership of the Project Coordination Committee (PCC).’

In addition, in page 15, paragraph 7.6 of the Implementation Completion Report (SCL-44510), it is stated on ‘Implementing Agencies’ such as:

‘In its support of Bank supervision missions, the PCC/PIU often prepared operational studies, project performance audits, financial analyses, and architectural plans necessary to support the supervision process. The PCC/PIU also consistently provided advanced planning to improve Bank efficiency during its visits to remote project site. It can be safely said that the quality of the PCC and the PIU was a major factor in the success of the project.’

Furthermore, with exemplary leadership and full commitment from the top management, the Government of Malaysia (GOM) managed to have some savings from the total amount of loan from the World Bank. It is stated in the World Bank

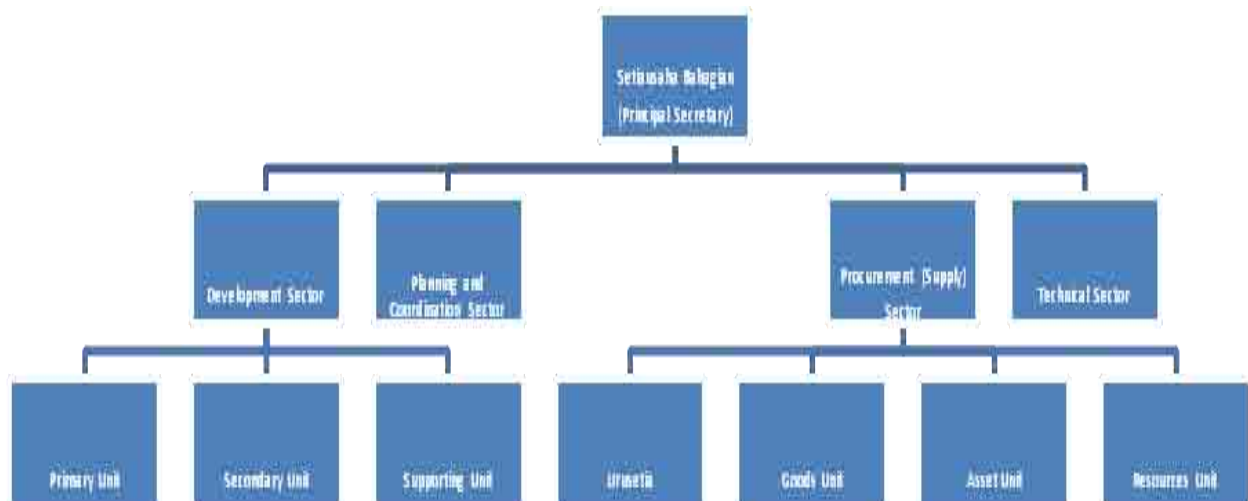
ICR paragraph 5.4 page 13 on ‘Cost and Financing’, paragraph 5 of Major Factors Affecting Implementation and Outcome’ as below:

‘As mentioned above (5.1) the Asian economic crisis in 1997-1998 created an unstable situation which, in the early stages of the project, made it difficult to estimate future costs and foreign exchange requirements. The initial estimates of project cost were reasonably accurate. The Government disbursed US\$216,709,941.12, or about 88.82% of the original loan amount of US\$244.0 million. All of the components were adequately financed for full project implementation. During the project period, only minor adjustments to the budget were required.

The Government of Malaysia Approach

In the Government of Malaysia approach, even though the Deputy Secretary-General (Finance and Development) is responsible for the projects development of the MoE, but he delegated his role to the Principal Secretary of the Development Division. Furthermore, in the case for Primary Education development projects, the Principal Secretary will then delegate his responsibilities to the Senior Assistant-Secretary of the Primary Unit of the Development and Procurement Division (DPSD) of MoE. This can be clearly seen in the Chart 1 below.

Chart 1 – Development and Procurement Division of MoE Organization Structure (Source: List of Reference from Government of Malaysia – Fail Meja Bahagian Pembangunan dan Perolehan, Kementerian Pelajaran Malaysia)



This is because in the Domestic financing, the top management entrusted their responsibilities to be delegated to middle grade officers through empowerment. Therefore, the officers-in-charge have the authority in managing the projects which also included the awarding of projects. The possibility of the fund will be mismanaged as the officers-in-charge has the authority to make his/her own decision in awarding projects via like Direct Negotiation.

7.3.2. The Significance Role of the Project Coordination Committee (PCC)

Summary: Based on the financial governance and leadership criteria of the Audit Commission (2005), the evidences gathered proved that the setting up and the significant role of the Project Coordination Committee (PCC) consist of internal and

external members also contributed to the success of the World Bank approach as compared to the Government of Malaysia approach.

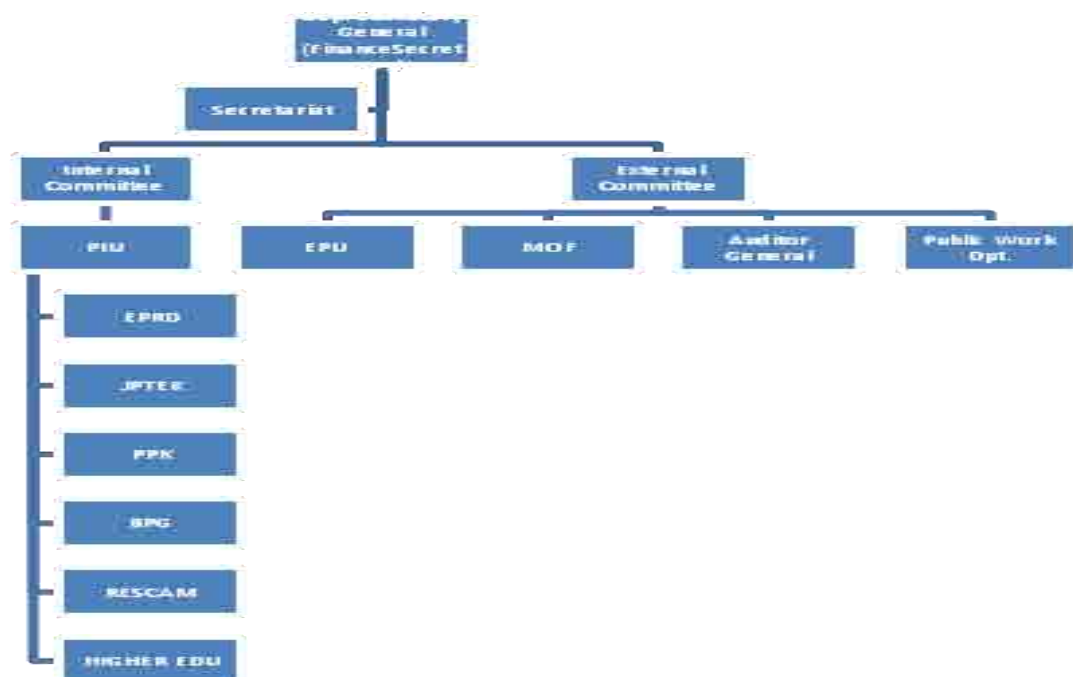
The World Bank Approach

The Deputy Secretary-General (Finance and Development) of the Ministry of Education, Malaysia, who is also the Project Director of the ESSP World Bank reflects a dynamic and committed work culture as demonstrated through monthly coordination meetings under the Project Coordination Committee (PCC).

The PCC is a governing board which consists of those who were directly accountable or involved in the ESSP World Bank financing at the Ministry level. The PCC were also represented by other external agencies that had interests in managing the funding from the World Bank. Among the external committee members were representatives from the Treasury of Ministry of Finance, the Economic Planning Unit of the Prime Minister's Department, the Public Works Department and also the National Audit Department or Auditor-General Office.

The Secretariat of the PCC was from the Strategic Planning Unit of the Educational Planning and Research Division (EPRD) of the Ministry of Education, Malaysia. The function of the Secretariat is to liaise with the Project Implementation Unit (PIU) in coordinating the PCC monthly meetings chaired by the Deputy Secretary-General (Finance and Development) of the Ministry of Education. Other than that, the PCC Secretariat was also responsible in ensuring that all reports such as those in Annex 1 and Annex 2 be submitted as required for the PCC meeting.

Chart 2 – ESSP World Bank Project Coordination Committee Organization Structure



Through PCC meetings, those involved in the projects or programs or activities were requested to present both their financial and non-financial progress reports such as in Annex 1 and Annex 2. This is also a part of the monitoring tool and internal control system in ensuring that the allocation of funds provided for was used responsibly in achieving the objectives of the funding. Any requests for additional allocation will be pre-approved and any problems faced will be solved through this meeting.

On the basis of the evidence, the PCC meetings promote a culture of transparency and accountability among those involved in the projects. The committee members became fully committed especially, in the preparation or implementation of the PMR or FMR according to the World Bank requirements. This transforms into compliance to World Bank terms and conditions and thus discrepancy in reporting and delays of projects or programs were avoided.

Furthermore, with the involvement of external parties such as Economic Planning Unit of the Prime Minister's Department, the National Audit or Auditor-General Office which also acted as the external auditor of the World Bank financing, and the Treasury Office of the Ministry of Finance, Malaysia, as committee members, has shown commitment and responsibilities that is exemplary. The makeup of the committee then acts as a part of an internal control mechanism which increases the effectiveness of reducing risks in managing public fund in the ESSP and heightened the reliability and effectiveness factor. Thus, the funds provided were effectively and efficiently utilized.

The above result is also supported by the statements given during an interview with the Deputy Secretary-General (Finance and Development), Ministry of Education of Malaysia, is also the Project Director of ESSP World Bank. According to him, the success of the project was due to the full commitment he received from team members of the PCC in presenting their monthly progress reports. He added that the reports presented in the monthly PCC meeting were very useful for the purpose of project monitoring and decision-making (Source: Appendix A – Interview Session).

Furthermore, in an interview with all the ten (10) respondents who were directly involved in the World Bank approach, including the Head of Auditor for Educational Sector of the Auditor-General Office, a consensus was reached the project success was due to the effectiveness of the PCC meetings held monthly (Source: Appendix A – Interview Session).

In addition, the Head of Auditor stated that the monthly Project Coordination Committee (PCC) meeting was very useful and helpful and it contributed to the success of the ESSP. The consistencies of the PCC meetings held at various locations were also part and parcel of the project internal control system where project progress being evaluated and monitored (Source: Appendix A – Interview Session).

The effectiveness of the PCC was also mentioned in the World Bank Implementation Completion Report (SCL-44510), page 13, paragraph 6 regarding to ‘Sustainability’ as in paragraph 6.2 on ‘Transition arrangement to regular operations’ as below:

‘MOE/MOHE uses a formal process to manage the transition of project activities to regular operations. Each project activity must first be fully completed under the project’s budget and authority of the PCC and the PIU. After completion, each project activity must be reviewed and inspected by the PCC/PIU to ensure that all project objectives have been met for that activity, including required civil works and the procurement of goods and services.

Concurrently, PCC/MOE and State/institutional authorities must also review and inspect each activity, and must agree that all project objectives for that activity have been reached and that the quality of the work is satisfactory. Unfinished work and quality concerns noted during this process must be corrected by the PIU, with the oversight of the PCC, before final acceptance and transition to regular operations is allowed. Once the acceptance agreement is reached between all parties, the new

institutions, upgraded institutions, new staff, etc will be shifted to regular budgets as required by MOE/MOHE operational policies. This transition arrangement is well facilitated because responsible individuals for regular operations have been selected as PCC members. As these activities become fully implemented within the project these PCC members take over more and more responsibilities for their transition into regular operations. This approach has proven to be effective without issue. All project activities, suitable for transitioning, are now fully transitioned into regular operations.'

As in page 15, paragraph 7.6 on 'Implementing Agencies' it also stated the following:

'In its supports of Bank supervision missions, the PCC/PIU often prepared operational studies, project performance audits, financial analyses, and architectural plans necessary to support the supervision process. The PCC/PIU also consistently provided advanced planning to improve Bank efficiency during its visits to remote project site. It can be safely said that the quality of the PCC and the PIU was a major factor in the success of the project.'

In addition, as in the ICR page no. 25, paragraph 6.5 on Borrower Performance it mentioned the following:

'The coordination sub-committees set-up under the training component to monitor the progress of the programs at the various levels was crucial to the efficient management of the programs. The Project Coordination Committee and its

Secretariat were established to monitor the overall development of the ESSP which was effective in providing general oversight to project implementation and was instrumental to the overall success of the ESSP.'

This is further emphasized by the World Bank again in the ICR in paragraph 7 page: 25 on the 'Lessons Learned', which stated that the successful implementation of the Project was attributed to its effective management and coordination. This also included the organisation structure in the ESSP World Bank such as stated in the statement in paragraph 7.1 mentioned below:

'The Project Coordination Committee and its Secretariat were established to monitor the overall development of the ESSP which was effective in providing general oversight to project implementation. The effectiveness and success of the projects also depended on the mechanism and organisation structure within the implementing agencies.'

Therefore, due to the above high commitment, the World Bank in its Implementation Completion Report (SCL-44510) rated 'highly satisfactory' on the overall Borrower performance which should not be underestimated. This was due to higher rating by the World Bank in the achievement in managing public fund. The achievement can be seen in the output indicators as stated in the Implementation Completion Report (ICR) as in Table 7.1 below:

Table 7.1 – World Bank Implementation Completion Report Output Indicators:

Indicator/Matrix	Projected in last PSR (End of Project)	Actual/Latest Estimate
<p>Component 1. Basic Education Output Indicator – All schools and associated facility construction completed on schedule by End of Project (EOP). Target was: 33 primary schools; 26 secondary schools; 600 units teacher quarters; and 2750 units students hostels.</p>	<p>Completed were: 33 primary schools (100% of target); 26 secondary schools (100% of target); 447 (units) teachers quarters (75% of target); and 2700 (units) student hostels (98% of target)</p>	<p>Same as in last Project Status Report (PSR).</p>

(Source: Implementation Completion Report (SCL-44510))

From the above output indicator, we can see that the projects for the primary and secondary education achieved the 100% target. This achievement is very significant especially in relation to providing basic or primary education needs especially for children in remote areas. This augurs well with the Education for All movements of UNESCO. The construction of school facilities were completed on schedule by the end of the project deadline. This was again due to the working culture of those who were involved in the project which included close monitoring of the project progress through out the project period.

The Government of Malaysia Approach

Unfortunately, the results as in Section 3.1.2 for the Government of Malaysia approach for the Domestic financing significantly showed how poor the performance

was when it is being compared to the World Bank approach in the ESSP. This is because the implementation of the ESSP and meeting were carried out among internal staff at Department or Division level. There was no special committee set up like the PCC in the World Bank approach.

The non-effectiveness of the PCC in the Government of Malaysia approach can be observed through evidence from the interview with an Officer from the Educational Planning, Research and Development Division (EPRD), MoE who was also involved in both types of financing. She stated that even though there was a PCC but it was not as effective and efficient as it was in the World Bank approach. This is because in the domestic financing the projects were led by the Under Secretary of the Development and Procurement Division (DPSD) or even by its Senior Assistant Secretary of every unit (Source: Appendix A – Interview Session). The effect of this situation is decision making in selecting and awarding projects which will not be based on collective decision-making like the World Bank. Therefore, the possibility that the fund will be mismanaged as non-priority projects will be awarded.

7.3.3. The Effectiveness of the Project Implementation Unit (PIU)

Summary of findings: Based on the evidences gathered, the Project Implementation Unit (PIU) worked effectively in ensuring that the World Bank financing were managed in an effective and efficient manner. By comparison in the Government of Malaysia approach, there was no specific PIU but dependence on a Project Management Consultant in managing and monitoring the projects.

The World Bank Approach

The setting up of PIU with senior professional staff within the Ministry of Education in the team contributed to the success of the project and as well as the proper allocation of funds which was in the form of a Loan from an external source. The success was supported by the Deputy Secretary-General (Finance and Development) of the Ministry of Education, Malaysia. He added that the implementation of the ESSP World Bank such as how the organisation structure worked and the appointment of professional team member as PIU should be a lesson learned by the Government of Malaysia approach. In addition, the reasons of failures in the Government of Malaysia approach was the lack of professional staff that one officer had to in-charge of many projects (Source: Appendix A – Interview Session).

The effectiveness of PIU is stated in the World Bank Implementation Completion Report (ICR) (SCL-44510), Report No. 31822-MA, page 13, paragraph 5.3. (June 9th, 2005) as regarding the ‘Factors generally subject to implementing agency control’ that is:

‘The PIU was generally responsible for planning, monitoring & evaluating, and processing of tenders, contracts, etc. Early in the project, due to some inadequacies in staff, there were some difficulties with schedule slippage in these areas. However, as the project progressed, these concerns were systematically reviewed. Staff and procedural changes were made to resolve the problems. It is noteworthy to mention that the PCC and the PIU were able to effectively address all these issues in a timely

manner, even when many were located in remote sites. This demonstrates the quality of oversight and control that the PCC and PIU maintained during the project.'

Subsequently, the World Bank also rated the performance of the PIU as highly satisfactory in their 'Overall Borrower Performance' as reported in paragraph 7.7, page 15 of the Implementation Completion Report (ICR). The rating was based on the World Bank ICR in paragraph 7.6 on 'Implementing Agency' starting from line no. 5 as below:

'The PIU was well-staffed with experienced, well-trained, and dedicated members who, for the most part, remained in place throughout the duration of the project implementation period. Even with some early delays in civil works and procurement, the PIU was consistently effective in the management and coordination of the project. During the early phases of project implementation, the PIU was able to identify and reach agreement with the Bank on the ways to address each of the delay-related issues.'

The Government of Malaysia Approach

In the Government of Malaysia approach, there was no special team like PIU set in the World Bank approach. This is supported by the claim of the Deputy Secretary-General (Finance and Development), Ministry of Malaysia which stated earlier in 3.3.1 that weaknesses in the government approach was due to lack of staff especially qualified professionals in the PIU. Furthermore, the work load and responsibilities of the officer-in-charged was very high since the officer had to manage many projects

simultaneously which often were beyond their capacities and capabilities. This consequently resulted in problems such as delays and wastage in most projects (Source: Appendix A – Interview Session).

The weaknesses in the Government of Malaysia approach were supported by most of the staff in the DPSD. The management of projects highly depends on the consultants known as the Project Management Consultants (PMCs). Most of the PMCs lacked expertise and experienced staff compared to the dedicated PIU staff in the World Bank approach who managed the projects permanently. This created problem in cash flow management. For instance, the shortage of funds was due to under estimation of the costs related to certain projects managed by the Project Management Consultants (PMCs). According to one of the officer-in-charge, the PMC had many projects on their hands to supervise and monitor resulting in out dated reports (Source: Appendix A – Interview Session).

Furthermore, in the findings, the minimal involvement of qualified professional staff such as the accountants in the project management team in every unit of the DPSD had caused problems for effective financial planning and forecasting. This is supported with the evidence through interviews with the accountants in the DPSD. The accountants agreed that they were assigned to jobs pertaining to approving payments to the suppliers and contractors which have reached the final stage of the process rather than at the earlier which involved budgeting, financial planning and forecasting. This also included the shortage of staff who was assigned to manage the projects for all primary schools at the Ministry of Education Malaysia level. This can be clearly seen in Table 7.2 below:

Table 7.2 - Number of Staff in the Primary Education Unit, DPSD of MoE
 (Source: List of Government of Malaysia – Fail Meja Unit Rendah Akademik,
 Bahagian Pembangunan dan Perolehan, Kementerian Pelajaran Malaysia)

Position	Allocated	Occupied	Vacant
Head of Principal Secretary	1	1	0
Senior and Principal Secretary	5	4	1
Senior and Executive Officer	5	3	2
Administrative Assistant	5	5*	0
Junior Administrative Assistant	2	2	0
Total	18	15	3

Note: Allocated – Number of staff approved to be allocated for the position.

Occupied – Number of staff been occupied for the allocated position.

Vacant – Number of position still available

Based on the above information, there were about 7,993 projects that needed to be managed by only 18 staff for the Primary Unit of DPSD. This included coordinating with the appointed PMCs that managed the projects. It is very risky to manage so many projects with limited number of staff, especially since most appointed PMCs lack the needed experience in managing projects. If compared to the World Bank approach of the ESSP, it was managed accordingly with the appointment of proper PIU team and also working together with other experienced implementers such as the Technical Unit of MoE and Public Works Department (JKR), performance would have been much better if the situation was replicated in DPSD.

As a result, most projects failed to be completed as schedule. Table 7.3 below showed the list of projects contractors that were managed by the PMCs.

Table 7.3 – Primary School Projects managed by Project Management Consultants

No	List of PMC/ Region	North	East	Central	South	Sabah	Sarawak	Postpone	Total
1	Ambang Heights	21						1	22
2	DPIK Project Management Sdn. Bhd.						4	1	5
3	East Design	2						1	3
4	Elementrade (M) Sdn. Bhd.		3	1				1	5
5	HSS Project Management Sdn. Bhd.					1	2		3
6	Ikhtisas PMC Sdn. Bhd.							1	1
7	Key Class Sdn. Bhd.							1	1
8	Kinta Samudera			41					41
9	KIP Management Sdn. Bhd.					10	8		18
10	Kumpulan Wibawa Consultant Sdn. Bhd.					1			1
11	NAZ Progressive Consultant Sdn. Bhd.	1		5				2	8
12	Opal Development Sdn. Bhd.				3			2	5
13	PB-PMC Sdn. Bhd.		4						4
14	Pengurusan PMN Sdn. Bhd.			1					1
15	Prices Resources			2					2
16	Professional Themes Sdn. Bhd.			2					2
17	Prowatch Mgt. Sdn. Bhd.					4			4
18	PZK Mgt. sdn. Bhd.			1					1
19	Rapihan Sdn. Bhd.				6				6
20	Triomac Engineering						8		8
21	Urusbudi Sdn. Bhd. (PKMM)	6	4	7	7				24
22	Urusbudi Sdn. Bhd.		1		2				3
23	Urusbudi Sdn. Bhd. (DPMM)	8	2	13	6				29
24	Urusbudi Sdn. Bhd. (Pemaju)	5	1	8	4				18
25	Urusbudi Sdn. Bhd. (Zon Selatan)				27				27
26	Venture Sdn. Bhd.	1							1
27	Wawasan utama Sdn. Bhd.		43					7	50

Based from Table 7.3 above, the total project managed by each PMC varied. Some had more whereas others had only a few to manage. For instance, the project managed by the Urusbudi Sdn. Bhd. amounted to 101 or 34.59 per cent out of 292 projects. This is followed by Wawasan Utama Sdn. Bhd. having 50 projects or 17.12

per cent and Kinta Samudera with 41 projects or 14.04 per cent out of the total projects. The imbalance distributions of projects to the PMC in supervising and monitoring finally led to the incompleteness of the projects within the stipulated time.

This is supported with strong evidences from the top management and the Auditor-General Office. According to them, the appointment of the PMC and also contractors were due to political influences. It was also supported through interviews with the immediate officers-in-charge of the projects within the Ministry of Education. The appointments of the PMCs were done by the Treasury, Ministry of Finance Malaysia. The awarding of contracts in the Government approach was through Direct Negotiation between the Ministry of Finance and the PMCs (Source: Appendix A – Interview Session).

7.3.4. The Full Commitment of the World Bank Team

Summary: Based on the evidences gathered, full commitment, guidance and cooperation also contributed to the success of the World Bank financing as compared to the Domestic financing.

The full commitment of the World Bank team members also played an important role in ensuring that the ESSP in the Eighth Malaysian Plan were implemented and completed as according to the terms and conditions of the contract agreement between the Government of Malaysia and the World Bank. The researcher believed that without the commitment from the project leaders and cooperation of team members through out the loan period, the project might have been a failure due to

leadership and management issues as the project was huge not only in terms of money but also in terms of magnitude of implementing them out.

The high commitment of the World Bank team is stated in the evidences collected from interviews carried out with those were involved in the ESSP World Bank. According to them, the World Bank team was very helpful in assisting those who were involved in ensuring that the project would be on track (Source: Appendix A – Interview Session). This is also mentioned in the Implementation Completion Report (ICR) as in paragraph 6.2, page 24 on Bank Performance as below:

‘The Bank’s supervision mission team under the leadership of the task manager had provided constant encouragement and motivation to the GOM officials involved in the ESSP. The supervision mission had also been very responsive and supportive in resolving implementation issues that required Bank approval or NOL. Their continuous support and assistance as well as their helpful comments and feedback had also assisted the implementers to be consistent in their project implementation, especially with respect to monitoring and evaluation, which are important aspects of the project cycle.’

Paragraph 6.3 page 24 on Bank Performance as below:

‘The team also helped to improve implementers’ understanding of the Bank’s guidelines and procedures in operating the projects. This is especially true during the initial stage of the project, when newly recruited Government officials entrusted with the projects were unfamiliar with the Bank’s procurement procedures.’

Furthermore, as stated below in one of the paragraph 7.2 on Supervision of the Bank and Borrower Performance on page 14 commented that the close working relationship of the PIU members have contributed to the World Bank Team to the success of the project as described below:

'The supervision team was able to maintain an intensive and pro-active relationship with the PIU throughout the duration of the project. Relations with the Borrower were good during the early stages of the project and grew to excellent in the later stages of implementation. This relationship under the last task team and the Borrower grew over time to become closely collaborative. It should be noted that the supervision teams gave significant advice and showed considerable flexibility in solving implementation problems.'

7.3.5. The World Bank Conditions of Negotiations

Summary: Based on the evidences gathered the findings showed that the additional conditions and procedures set by the World Bank during the Negotiation had also contributed to the success of the World Bank financing as compared to Domestic financing.

The World Bank additional conditions during negotiations in getting the funding from the World Bank had also influenced the success of the World Bank financing project. For instance, in order to secure the funding, the Government of Malaysia (GOM) had to accept the IRDB additional conditions and procedures through out the funding period. The conditions were stated in the Agreed Minutes of Negotiations

between Malaysia and the International Bank for Reconstruction and Development for the Proposed Education Sector Support Project, February, 11th, 1999. The conditions have been stated earlier in section 4.1 of chapter 3 in this study. Part of the conditions set by the World Bank have been discussed the effectiveness such as PMR in Chapter 6, the setting up of a PIU in the earlier section. But in this section, the findings now emphasized on the impact of the differences in procurements criteria between the World Bank and Government of Malaysia approaches.

The Impact of Differences in Procurement Procedures and Conditions between the World Bank and Government of Malaysia approaches

Summary of findings: The evidences showed that the differences in procurement procedures especially in the method and awarding of contracts to contractors, project management consultants, as well the special conditions exclusively for 'Bumiputra' had contributed to an increase in managing risks of public fund in the Government of Malaysia approach as compared to the World Bank approach in the ESSP.

As noted above, the World Bank approach is managed by PIU and also Public Works Department (JKR), whereas in the Government of Malaysia approach, the projects were managed by the Development Division and also by Project Management Consultants (PMCs). The appointments of the PMCs were done by the Treasury, Ministry of Finance Malaysia. The awarding of contracts in the Government approach was through Direct Negotiation between the Ministry of Finance and the PMCs.

The differences in procedures on procurements in the Government of Malaysia approach can be noted from the early evidences stated in the ‘Strategic Planning Meeting of the Ministry of Education in 2004 on Methods and Infrastructure Projects Implementation Strategic for the Ninth Malaysian Plan’.

The meeting noted that the financial performance of the development expenditure showed had exceeded the allocated ceiling. There were 20,632 projects that had been planned earlier had failed to be completed on time. Furthermore, 6,264 projects or 30.36 per cent of the total projects were postponed due to insufficient funds.

Insufficient funding has been blamed for the failures. For instance, the findings revealed the Federal Government of Malaysia (GOM) has allocated approximately one fifth of the total annual allocation of the public sector to the Ministry of Education (MOE). Though the amount is increased annually, the allocation is insufficient to fulfil the needs of the country in developing the education sector. The Ministry of Education (MoE) is responsible in making sure that financial allocations were optimally utilized and that they are efficiently and effectively managed.

The insufficient funding is noted in the Education Development Plan 2001-2010. It stated that ‘the budget allotted by the Treasury of Ministry of Finance (MoF) for the MoE in its annual allocation and Five-Year Development Plan is always lower than the amount requested.’ Although the estimated budget for the Seventh Malaysia Plan was RM42.3 billion, the amount received was RM17.1 billion but the additional amount was only received during its Mid-Term Review. The amount received for

the Eighth Malaysia Plan was RM18.7 billion, although the estimated budget was RM49.5 billion' (source: Education Development Plan 2001-2010: pg. 6.8).

Furthermore, the strategies planned by the Division of Development responsible for educational infrastructure projects in the Government of Malaysia approach reflected the slow progress of primary education physical or infrastructure projects under the Eighth Malaysian Plan for the Domestic financing as illustrated in the table below:

Table 7-4 Overview Status of Implementation Project under Eighth Malaysian Plan (Source: Academic Primary Unit Files, 19 January 2006)

Program	Total	Completed	Under-Construction	Postponed
Pre School	6103	2803	496	2804
Primary Academic	1867	1583	14	270
Teachers Training College	20	2	0	18
Capital Assistant	Depends on Application			
Special Education	3	1	0	2
TOTAL	7993	4389	510	3094

Based on the above table, there were about 3,094 or 38.74 per cent of the total 7,993 projects that were postponed. This figure included the 2,804 or 35.08 per cent of projects for Pre-School and about 14 per cent from the total Primary Academic schools that had been postponed. The figures indicated the inefficient management of fund which finally resulted in only 55% or 4,389 projects being completed – a far cry from the expectation of the nation.

The weaknesses of the Government of Malaysia approach contributed to restrictions in the number of project scheduled for the Ninth Malaysian Plan for domestic financing, as in Table 7.5 below.

Table 7.5 - Project Plan in the Ninth Malaysian Plan (NMP)
 (Source: Table 6.1 Infrastructure Plan Under The NMP In Strengthening the National Schools, page 28, of the Education Development Blue Print 2006 – 2010)

Primary Schools	2006	2007	2008	2009	2010	Total Project	Total Cost (RM)
New Project	35	54	89	-	-	178	1,296,855,000
Additional Project	-	203	113	21	-	337	656,828,000
Replacement Project	22	360	375	133	-	890	2,170,507,000
Continuation Project	206	-	-	-	-	206	229,870,111
Total	263	617	577	154	-	1,611	4,354,060,111

Table 7.5 indicates that the numbers of projects planned in the Ninth Malaysian Plan were below expectation if compared to Table 7.4 on Overview Status of Implementation Project under Eighth Malaysian Plan. For instance, the number of continuation projects is only 206 compared to 284 under the Eighth Malaysian Plan for Primary Schools projects. This means that there was a shortage of 78 projects or 24.46 per cent from the total number of projects under the Eighth Malaysian Plan.

The additional conditions set up by the World Bank in the Agreement for Loan between the World Bank and the Government of Malaysia stated in the Procurement of Works all project tenders should be opened to the public irrespective of their status i.e. Bumiputra or Non-Bumiputra. The impact of the non-compliance with the World Bank additional conditions in the domestic financing can be clearly seen in Table 7.6 below.

Table 7.6 - The comparison of the number of Primary Schools projects financed by the World Bank and Domestic financing for the New Educational Infrastructure Development Project in the Eighth Malaysian Plan for ESSP

Stage of Progress	Domestic Financing Phase 1 (managed by PMC)		World Bank (managed by JKR)	
	Unit	Percentage	Unit	Percentage
Completed on Schedule	93	31.84	30	88.24
LAD 1	103	35.27	3	8.82
LAD 2	46	15.75		
LAD 3	19	6.52		
LAD 4	3	1.03		
Postponed	20	6.85		
Terminated & Continued	4	1.37	*1	2.94
Under Construction	4	1.37		
Total	292	100.00	34	100.00

* Terminated and Withdrew from the World Bank due to non-compliance of Bank Procedures.

From Table 7.6, only 93 units or 31.84 per cent of the total 292 projects were completed on schedule. In comparison, 88.24 per cent of the total projects were completed on schedule based in the World Bank approach. The postponements and delays of the projects as shown in Table 7.4 earlier have resulted in the inability to provide and expand educational opportunities.

The Maintenance of a Special Account

The introduction of a Special Account in a commercial bank for the World Bank financing in this ESSP Eighth Malaysian Plan is a new approach since the implementation of the PMR-based was proposed and was used in the project. The idea of having the Special Account is to ensure that the project will be not be experiencing difficulties such as a shortage of fund through out the project period. Prior to this ESSP, the Government of Malaysia (GOM) used the traditional method of reimbursement from the World Bank by using the Statement of Expenditure

(SOE). In the PMR environment, all the disbursements of funds will be channelled through the Special Account.

With the PMR, the reimbursement procedure as in the World Bank Loan Administration Change Initiative (LACI) implementation Hand Book (September, 1998) in page 13, paragraph 4.10 stated that under the PMR-based disbursements the only supporting documentations will be the quarterly PMR. However, all supporting documentation authenticating the expenditure reported in the PMR will be maintained by the Borrower and made available for review by auditors and Bank missions as indicated in the Loan Agreement. Where direct payment and Special Commitment procedures are used, existing documentation requirements, outlined in the Disbursement Handbook, will apply.

But the usage of a Special Account in a local commercial bank for the ESSP was not clearly understood by the officers in the Federal Government such as the Treasury and the Economic Planning Unit. This was stated in the lessons learned in the Implementation Completion Report (ICR) page 25; paragraph 7.4 stated the following:

‘The Special Account method of disbursing allocations for projects funded under the Bank loan must be clearly understood by all parties involved in the project. This is especially important to the central agencies (the Treasury and the Economic Planning Unit) in order to optimize its benefit and in ensuring adequate funds are made available for payments to the contractors within the stipulated time.’

The implementation of Project Management Reports (PMR-based) rather than Statement of Expenditure (SOE-based).

The implementation of PMR-based was introduced for the ESSP in the Eighth Malaysian Plan. Previously the Government of Malaysia was using the Statement of Expenditure Model (SOE) proposed by the World Bank. As in the earlier chapter 6 has discussed the effectiveness of PMR-based, therefore it will not be discussed again in this chapter.

7.4 Summary and conclusion

The financial governance and leadership criteria from the best practice of ‘World Class Financial Management for the Public Sector’ by the Audit Commission of HM Treasury UK and PricewaterhouseCoopers (2005) were used in testing the effectiveness of financial management system in World Bank and Government of Malaysia approaches. The testing including the involvement and commitment of top management; the function of project coordination committee; World Bank conditions such as PIU, Project Management Report (PMR-based), maintenance of Special Account and the procurements of goods and services.

The findings revealed the effectiveness of the World Bank approach as compared to the Government of Malaysia approach for the ESSP under the Eighth Malaysian Plan. The effectiveness in reducing the risks is justified by evidences from various sources especially from the Deputy Secretary-General (Finance and Development) of MoE; Head of Auditor for Education from the Auditor-General Office; and the Head of Technical Unit of DPSD that involved both type of approaches.

Furthermore, the respondents' views were also supported with data tables through out this chapter such the appointment of contractors through direct negotiation and political influences which are the problems in the Government of Malaysia approach that had contributed to failures of most projects. Therefore, the conditions set by the World Bank, including open procurement procedures proved valuable in improving and strengthening the financial management system for the World Bank funded projects. This also reduces the risks that the fund will be mismanaged which will lead to subsequent projects failures.

Therefore, in this chapter, based on the evidences with specific evidences in Chapter 6 regarding the greater effectiveness of World Bank financial reporting, we can conclude that the financial management system for this ESSP in the World Bank approach as compared to the Government of Malaysia is more effective in managing risks related to public financial management and aid.

Chapter 8

What are the risks factors that contribute to the difference in performance between the Government of Malaysia approach and the World Bank approach and why?

8.1. Introduction

The previous chapters have studied the comparison of how effective the Project Management Report (PMR) were and how the financial management system between the World Bank and Government of Malaysia approach in managing risks related to public financial management and aid were. The results have shown that the World Bank approach was more effective as compared to the Government of Malaysia approach of the ESSP in the Eighth Malaysian Plan.

This chapter seeks to provide further evidence for what has contributed to the performance in the Government of Malaysia approach. It firstly defines the purpose of this chapter. Secondly, it presents the research findings related to the awareness and knowledge of risks among DPSD staff. Thirdly, it analyses the perceptions of risks factors as in the Risk Management Model of the HM Treasury UK (2004) and Canadian Treasury (1999), among the DPSD staff. The final section will summarize and conclude.

8.2. Purpose

The purpose of this chapter is to identify and discuss the risk factors which determined the performance of the Government of Malaysia approach as compared to the World Bank approach in the ESSP. This addresses the research framework questions in achieving the research question no. 5; sub-objective no. 4; and hypothesis no. 3 as also stated in Chapter 1 of this study.

The source of the evidence on which the analysis in this chapter is based is the survey carried out among the DPSD staff of MoE. The survey is described in Chapter 5. The questionnaire for the survey is at Appendix 2. The tables summarizing the results of the survey are presented in this chapter.

8.3 Results of the Analysis

8.3.1. Summary of the Results

Based on the evidences gathered through the survey carried out for this chapter, as well as those supported with other sources of evidences such as interviews and supporting documentations, it can be summarize that the results of the findings revealed about more than fifty percent (50%) of the respondents in the survey agreed that the level of risks associated wit all the internal and external environmental factors as proposed in the 'PESTLE MODEL' of the HM Treasury UK (2004) were above average or specifically at 'Medium' and 'High' levels of risks (Refer Table 8.1 and 8.2 in page 186).

The summary of the internal and external environment factors as the sources of risks will be discussed further below.

Factors in the Internal Environment

The Development and Procurement Division (DPSD) of Ministry of Education, Malaysia (MoE)

The causes of failures of the projects were due to the following related risks such as lack of i) staff with technical expertise; ii) high turnover of staff at the officer level; iii) lack of supporting staff; iv) exposure to work procedures; v) lack of appropriate staff training; and vi) delay in payment due to checks-and-balance procedures within the DPSD.

State Education Departments (SED) and District Education Offices (DEO) of MoE.

The causes of failures identified were due to the related risks such as i) not entirely involved in monitoring the project; ii) being unable to submit progress report in a timely manner; iii) lack of technical expertise staff; and iv) acceptance of proposals for an inappropriate project sites.

Contractors and Suppliers

The causes of failures identified here were due to i) being inexperienced in managing projects; ii) not enough skilled workers; iii) too many projects to be managed; and iv) insufficient fund or cash flow difficulties.

Project Management Consultants (PMC)

The causes of failures identified were due to related risks such as i) too many projects to manage; ii) lack of skilled and experience staff; iii) delayed in processing payments to be paid; iv) not monitoring the projects closely; and v) not submitting progress report accordingly.

External Environment Factors:

Local Authorities (LA)

The causes of failures identified were due to related risks such as i) delay in project approval to start the projects; ii) inclusion of additional conditions during mid-way of project implementation; and iii) delays in approving the Certificate of Occupancy.

Intervention from Others

The failures from other sources were due to the related risks such as interventions of certain interested parties in, i) bids for building contracts; ii) obstructing the termination of projects; iii) demanding exemptions of penalties; and iv) selections of contractors based on Direct Negotiation.

The findings showed that more than fifty percent (50%) of DPSD staff needed a proper introduction to risks awareness in public expenditure by their superiors. Issues on the sources or types of risks that affected the failures of Domestic

financing for the ESSP are illustrated from the Table 8.1 and 8.2 of the summary below.

Table 8.1 - Internal Environment Factors:

	Main Source of Risks	Sources or types of risks	Detail in page no.
1	Development and Procurement Division (DPSD) of Ministry of Education, Malaysia (MOE)	The failures were due to related risks such as i) lack of technical expertise among staff; ii) high turnover of staff at officer level; iii) lack of supporting staff; iv) exposure to work procedures; v) lack of staff training; and vi) delays in payment due to checks-and-balance procedures within DPSD.	198 - 204
2	State and District Education Offices (SDE) of MOE.	The failures were due to related risks such as i) not involved monitoring the projects entirely; ii) unable to submit progress report accordingly; iii) lack of non-technical expertise among staff; and proposed of an inappropriate project site.	204 - 215
3	Contractors and Suppliers	The failures were due to related risks such as lack of i) inexperience in managing project; ii) not enough skill workers; iii) too many projects to be managed; and iv) insufficient fund or cash flow difficulties.	215 - 226
4	Project Management Consultants (PMC)	The failures were due to the related risks such as i) too many projects; ii) lack of skill and experienced staff; iii) delays in processing payments; iv) not monitoring projects closely; and not submitting progress report accordingly.	226 - 240

Table 8.2 External Environment Factors:

	Main Source of Risks	Sources or types of risks	Detail in page no.
1	Local Authorities (LA)	The failures were due to related risks such as i) delays in approval to start the projects; ii) inclusion of additional conditions at mid-way of projects; and iii) delays in approving the Certificate of Occupancy.	240 - 247
2	Intervention from Others	The failures were due to related risks such as interventions of certain interested parties for i) building contracts; ii) obstructing termination of projects; iii) exemptions of penalties; and iv) selections of contractors based on Direct Negotiation.	247 - 258

(Source: Appendix A – Survey: Research Questionnaires)

8.3.2. Details of the analysis of findings

To what extent was there awareness and knowledge of risks among DPSD staff on public expenditure management in the ESSP?

The success or failure of any particular stage of project management and implementation were also dependent upon the extent of the knowledge and awareness of the risks involved in public expenditure management among the staff especially those in the DPSD of MoE. The idea of identifying the level of knowledge and awareness is to ascertain whether they have had other experience in risks management. Earlier results collected had shown that the level of risks knowledge and awareness among the DPSD staff involved were as in Table 8.3 below.

Table 8.3 - Level of Staff Perception or Knowledge and Awareness on Risks in managing public fund

	Variables / Level of Problems	0	1	2	3	4	Total
1	On getting the job offer in DPSD						
	- Professional	0	15	19	10	1	45 (37.2%)
	- Supporting	0	14	35	18	9	76 (62.8%)
		0 (0.0%)	29 (24.0%)	54 (44.6%)	28 (23.1%)	10 (8.3%)	121 (100.0%)
2	On holding the current position						
	- Professional	1	22	21	1	0	45 (37.2%)
	76. Supporting	0	23	36	13	4	76 (62.8%)
		1 (0.8%)	45 (37.2%)	57 (47.1%)	14 (11.6%)	4 (3.3%)	121 (100.0%)
3	As a Government Servant						
	77. Professional	1	18	19	5	2	45 (37.2%)
	78. Supporting	0	18	42	14	2	76(62.8%)
		1 (0.8%)	36 (29.8%)	61 (50.4%)	19 (15.7%)	4 (3.3%)	121 (100.0%)

(Source: Appendix A – Survey: Research Questionnaires)

Based on the above Table 8.3, the results revealed the levels of knowledge and awareness of risks in managing public expenditures were as followings:

On getting the Job Offer

The perception of risks of new DPSD staff has shown that about 54 respondents or 44.6 percent out of 121 respondents had 'Average' level of knowledge on risks in public expenditure management. This is followed by 29 respondents or 24 percent who had a 'High' knowledge level, while 28 respondents or 23.1 percent had 'Low' level. There were 10 respondents or 8.3 per cent had 'Very Low or almost non existent' knowledge level of risks awareness. Therefore, it can be stated that more than fifty (50) percent or seventy six (76) respondents were at an 'Average' knowledge level and below.

From the above results it can be concluded that about 92 respondents or 76.03 percent out of 121 respondents had the least awareness of risks in a public sector organization such as in the DPSD of MoE.

On holding the current position

In analysing the level of knowledge and awareness of risks among the respondents who hold the current position, the results shown that about 57 respondents or 47.1 percent believed that their perceptions of risks were at a 'Lower' level as compared to 45 respondents or 37.2 per cent which perceived their knowledge of risks were at a 'High' level as soon as they hold the position in the unit or division of DPSD.

As a Government Servant

The reason for analysing this variable is because some of the staff in the DPSD may have had working experience in other departments or ministry before joining the DPSD. It is assumed that, their knowledge, experience and awareness as a government servant may influence and contribute to their work performance that would affect the ESSP. The results showed that about 61 respondents or 50.4 per cent of the total 121 respondents agreed that their level of knowledge or perceptions on risks were at the 'Lower' level while 36 respondents or 29.8 percent were at a 'High' level.

In conclusion, we can summarize that the overall results of the three variables indicate that the DPSD staff who were involved in this study had little awareness of how important their roles were in managing public funds.

Have the staff been instructed on risk management in the organization, and if so when, and by whom?

In correlating the above findings in relation to the knowledge and awareness of risks, the study also aimed to ascertain if it has been introduced to the staff in the DPSD by their superiors. The staff should be introduced to the importance of the knowledge and awareness of risks in an appropriate and official manner. This exposure is crucial as it involved various projects irrespective of its sizes and the due to the huge amount of money involved. Furthermore, the influences exerted by interested parties in obtaining contracts tended to lead to risks in bribery.

The three variables that were included in this study are i) when was the matter relating to risks management introduced by the top management; ii) if there was any briefing given, which officers should be informed about the risks matters; and iii) if the briefing was given, to which officers should the information related to risks be given? The results can be seen in Table 8.4 below.

Table 8.4 - Introduced to matters relating to risks management in the organization

Variable	Respondents
Q4. How were you introduced to matters relating to risks management?	
1. Briefing upon reporting for duty	25
2. In weekly or monthly meeting by superior	23
3. Memos of letters to staff	21
4. Notes circulated to staff	39
5. Not informed at all	10
Q5. If briefing been given, so which officers the information on risk management should be conveyed?	
1. Only to those officers of DG48 and above	1
2. Only to those officers of DG41 and above	6
3. Only to Executive Officers and Chief clerks	1
4. All staff	108
Q6. If briefing not given, so to which officers the information on risks management should be given?	
1. Only to those officers of DG48 and above	23
2. Only to those officers of DG41 and above	5
3. Only to Executive Officers and Chief clerks	2
4. All staff	91

(Source: Appendix A – Survey: Research Questionnaires)

Introduction of Risks Management among DPSD by their Superiors

The findings in Table 8.4 show that the results were inconsistent and vary in terms of when and how the awareness of risks related management were introduced to the staff of DPSD. Based on the analysis, the results show that about 39 respondents or 32.2 percent of the 121 respondents stated that they knew about the risks involved

through 'Notes circulated to staff'; 25 respondents or 20.7 percent on 'Briefing upon reporting for duty'; 23 respondents or 19.0 percent stated that 'In weekly or monthly meeting by their superiors', 10 respondents or 8.3 percent of the respondents indicated they were 'Not informed at all' and about 3 respondents or 2.48 percent of them did not respond to the questions.

Appropriate DPSD staff that should be informed on risks matters.

There were two variables tested in this study:- firstly, if a briefing was given, then which groups of officers should be informed on the risks, and secondly, if briefing was given, to which officers should the information related to risks be given.

In the case of the first variable, the results of the analysis showed that 108 respondents or 89.3 per cent of the 121 respondents preferred that the briefing should be informed to 'All staff'. This meant that all levels of staff irrespective of their positions should be made aware of the risks related to their duties in the DPSD. The agreement that all staff should be introduced on the risks matter was also supported by the results on the findings related to 'if the briefing was not given' to all staff that about 91 respondents or (75.21 %) of the respondents agreed with it.

In summary, more than fifty percent (50%) of DPSD of MoE staff surveyed agreed that there was a need to educate DPSD of MoE staff in the managing of public fund risks. This is to avoid misuse of the huge public funds managed by DPSD for the development of ESSP.

8.3.3. The impact of risks factors to Domestic financing of the ESSP

The Internal Factors as Sources of Risks

The results of the findings that are associated with the following bodies such as i) DPSD of MOE; ii) State and District Education Offices (SDE) of MOE; iii) Contractors and suppliers; and iv) Project Management Consultants (PMC) as the internal factors or the main sources of risks as indicated earlier in this chapter will be elaborated as below in this study.

The Development and Procurement Division (DPSD), Ministry of Education (MOE)

The role of all the DSPD staff is very crucial in the Ministry of Education because they are directly involved either financially or non-financially in the development of the ESSP infrastructure. Failure or delays in certain aspects of their role will have a significant impact on the educational development carried out like incompleteness of a project as per schedule.

In this study, the researcher believed that needs analysis related to the sources of risks elaborated in detail below contributed to the failure of most Domestic financing ESSP as compared to World Bank financing. Among the risks that will be discussed here are i) lack of technical staff; ii) high turnover of staff at the officer-level; iii) lack of supporting staff; iv) lack of exposure to work procedures; v) lack of staff

training; and vi) late payment to contractors due to check-and-balance procedures.

The results of the analysis can be clearly seen in Table 8.5 below.

Table 8.5 – Risk factors: Opinions of staff in Ministry of Education (Development and Procurement Division)

	Source of Risks	Risk Level	Professional	Supporting	Total
1	Lack staff with technical expertise for project management	High	12	16	28
		Medium	19	32	51
		Low	9	18	27
		No risk at all	2	6	8
2	Frequent change of staff at the officer level during tenure of project	High	16	24	40
		Medium	19	38	57
		Low	6	10	16
		No risk at all	2	1	3
3	Lack of support staff	High	14	23	37
		Medium	19	31	50
		Low	7	15	22
		No risk at all	2	3	5
4	Lack of exposure to work procedure	High	14	19	33
		Medium	24	35	59
		Low	4	15	19
		No risk at all	0	1	1
5	Lack of training for staff involve in the project	High	9	21	30
		Medium	27	34	61
		Low	7	15	22
		No risk at all	0	3	3
6	Late payment to supplier or contractor due to checks-and-balance procedures within Divisions.	High	13	22	35
		Medium	18	28	46
		Low	12	20	32
		No risk at all	0	3	3

(Source: Appendix A – Survey Research Questionnaires)

Lack of staff with technical expertise for project management

Based on the Table 7.5, 79 respondents (65.2%) agreed that the lack of staff with technical expertise for project management in the DPSD contributed to the medium and above risks of failure in Domestic financing project. Out of that, 28 respondents (23.1%) believed that the lack of technical staff is a 'High' contribution to the failure and 51 (42.1%) had a 'Medium' perception level of risks due to lack of technical staff in the MoE.

High turnover of staff at the officer level during tenure of project

The high turnover of staff at the officer level during tenure of the project, lack of supporting staff and as well as lack of exposure to work procedures to the DPSD staff as stated in Table 5.5 below were found to have contributed to the failure of most of the projects in the domestic financing of ESSP. For instance, the survey revealed that about 97 respondents (80.2%) felt that the risks to development and completion of the projects as per schedule caused by too frequent changing of staff at the officer level were 'Medium' or 'High'.

Lack of supporting staff

This is followed by the lack of supporting staff. The results showed that about 87 respondents (71.9%) consisting of 33 professional staff and 54 supporting staff agreed that the lack of supporting staff caused both the 'High' and 'Medium' level of

risks that might have contributed to the failure to complete all projects planned under the Eighth Malaysian Plan.

Lack of exposure to work procedures related to projects

The findings above also correlated with the lack of exposure to work procedures and lack of training for staff involved in the project at both professional and supporting staff level. In the findings, it was revealed that 92 respondents (76.1%) agreed that this factor is another source of risks.

Lack of training for staff involved in the projects

The staffs employed with experience were invaluable especially in the DPSD of MoE. This is to avoid the risks that contributed to project failures as well as misleading of public fund. However, the lack of experience among the staff can be overcome with proper related exposure and training.

Therefore, in the case of ‘lack of training for staff involved in the projects’, the results shown that about 91 respondents (75.2%) felt that the lack of training for staff involved in the projects was a risk factor that also contributed to the failure to complete most projects as per schedule. For instance, 38 respondents of the professional staff and above ‘Medium’ level agreed that the lack of exposure to work procedures had contributed to the risks of project failures in Domestic financing. This is supported with the 54 respondents of the supporting staff which accounted for

a higher number of respondents in this category of lack of training for staff involved in the projects.

Late payment to suppliers or contractors due to checks-and-balance procedures within Divisions

The study further seeks to identify if the source of risks such as ‘late payment to suppliers or contractors due to check-and-balance procedures within the Division of DPSD’ is another contributory factor that leads to the failure of most of the projects under Domestic financing. Based on the findings, the results had shown that more than 50 percent or 60 respondents agreed that it was a legitimate source of risk. There were 35 respondents among both professional and supporting staff levels with 28.9% who stated to cause ‘High’ level of risks and 46 respondents (38.0%) who stated to have ‘Medium’ level of risks.

The evidence of risks caused by late payment can be supported with the claims made by the contractors and suppliers under the ESSP Domestic financing in the Eighth Malaysian Plan as reported in the exemption claims list of LAD Bil.No.4/2006, which involved 197 schools consisting of 191 primary and 6 secondary schools respectively. According to the contractors, the justifications for the delay were due to the following shown in Table 8.5.1 below.

Table 8.5.1 - Justifications of the contractors in claiming the 90 days exemptions of 'LAD'

	Justifications / Reasons for delay and exemption of LAD	Primary School
1	Delay in Initial Payment by the MOE.	47
2	Delay in Progress Payment by the MOE.	37

The results in the above Table 8.5.1 has shown the extent of the risk impacts involved in late payments as claimed by the contractors and suppliers who contributed to delay in completing the project as per schedule. Based on the above information too, we can state that the delays caused at least 37 Primary School projects in ESSP to break off from their original schedule. This had also impacted other service delivery of the education system especially in relation to the provision and access to opportunities for primary education which is important in achieving the 'Education for All' objectives. Furthermore, the delays have left an impact not only at the national level but also at the international level since the schools were unable to be used as planned. This undoubtedly impacted the end-users of the projects i.e. the children and the local communities.

The statement is also supported by the evidence showing that many projects were delayed and abandoned under the Eighth Malaysian Plan, according to the Report on Lessons Learned by the DSPD during the Ninth Malaysian Plan as shown in Table 5.5.2 below.

Table 8.5.2 Overview Status of Implementation Project under Eighth Malaysian Plan (Source: Fail Meja Unit Rendah Akademik , 19 January 2006)

Program	Total	Completed	Construction	Postponed
Pre School	6103	2803	496	2804
Primary Academic	1867	1583	14	270
Teachers Training College	20	2	0	18
Capital Assistance	Depends on Application			
Special Education	3	1	0	2
TOTAL	7993	4389	510	3094

The table above showed that there were 3,094 or 38.74 per cent of the total 7,993 projects were postponed. This figure included the 2,804 projects or 35.08 percent for Pre-School projects and about 14 percent from the total Primary Academic schools projects. The figures indicated the extent of poor management of fund, as the total number of completed project which is 54.91 percent or 4,389 projects was far from the expectations of the nation.

The State and District Education Offices (SDE) of MoE

The roles played by the State and District Education Officers through out Malaysia are very important in ensuring the success or failure of any development or infrastructure projects. This is because every State and District Education Officers has a special unit mainly for the purpose of ensuring smooth implementation and development of the projects either under construction or completed. The purpose of the appointment of this unit at the state and district educational offices is to support

the DPSD of MOE in ensuring that all projects either in existing premise such as school buildings and facilities that are in good conditions and are safe for use.

In this section, the researcher suggests four variables which may be related to the State and District Education offices in contributing to the risks that had impacted the Domestic financing infrastructure projects. The variables are the following:

- a) Non-involvement in project management;
- b) Non-submission and delay in submission of report to DPSD of Ministry of Education (MoE);
- c) No staff with technical expertise; and
- d) Selection of a hazardous or inappropriate site for school projects.

The summary of the results as related to the above risks can be seen in the Table 8.6 below.

Table 8.6 – The Result related to State and District Education Officers of Ministry of Education. [The respondents are DPSD staff involved in the survey]

	Variables / Causes	Risks Level	Professional	Supporting	Total
1	Were not requested to be involved in monitoring of projects	High	6	15	21
		Medium	23	36	59
		Low	10	16	26
		No risk at all	3	4	4
2	Did not submit progress reports or late in submitting the progress reports of the projects to the MOE	High	8	12	20
		Medium	23	42	65
		Low	9	16	25
		No risk at all	2	3	5
3	No staff with technical expertise were involved with infrastructure projects	High	22	25	47
		Medium	15	26	41
		Low	5	16	21
		No risk at all	1	4	5
4	Proposed a hazardous or inappropriate site for school projects	High	21	24	45
		Medium	12	22	34
		Low	5	18	23
		No risk at all	5	6	11

(Source: Appendix A – Survey: Research Questionnaires)

Non-involvement in project management by the State and District Education officials

The result of the analysis revealed that about 106 (87.60%) of the 121 respondents consisting of the DPSD staff in this survey agreed that the ‘non-involvement of the state and district officials in the project management’ had contributed the risks of the failure to the Domestic financing from the ‘Low’ to ‘Higher’ level. Out of that, 21 respondents or 17.4 percent agreed that it was at a ‘High’ level and 59 respondents or 48.8 percent agreed it was at ‘Medium’ level which consists of 23 professional staff and 36 non-professional or supporting staff. The overall number of agreement for this variable should be given serious consideration as it was above average. The purpose of this section is to try to triangulate the results from the survey above with the interviews and electronic mail carried out to the implementers such as officers-in-charge at the State and District as well as officers-in-charge at Ministry level of DPSD.

The above survey result correlated with the evidence gathered from interviews and electronic mail carried out to the officers-in-charge both at the state and district level as well as from the DPSD officers at federal level. For instance, according to the officers-in-charge of the Development Unit of the Educational District Office, the role of the officer was minimal which only refers to work focused on existing schools where the allocations were for repair and maintenance purposes. However, in the case of new development projects, it will be in the control of the DPSD at the Ministry of Education level.

The findings were also supported by a few officers through the interviews in the Domestic financing of the DPSD on the minimal involvement of officers at the state and district level in managing the projects. This was because of the perception that the project was managed by Project Management Consultant (PMC) appointed by the Ministry of Finance (MoF). Furthermore, according to the interviews, the district and state education officers were involved in monitoring the physical development aspect but not its finance. However, the role of the state and district officers in effectively monitoring the projects can be questioned because there were many occurrences of project delays and incompleteness which were included among other issues of quality workmanship which subsequently lead to safety issues of the buildings for the end-users. Evidence from the observations made to the site-visits by the researcher in a few schools during the data collection period indicated that the problems of these schools had been highlighted by the Deputy Secretary-General of the Ministry of Education too. However, the expected improvements to the situations were late or unattended to.

Failure or delay in submitting progress report to MoE

The information provided by the state and district offices to the DPSD on the progress of projects should involve both physical and financial aspects. The progress report should reflect the current status when requested since any delays or non-submission will have an impact on the subsequent cash flow and financial planning. The direct implication of the shortage of cash flow will be the delay in project completion. The delay in completion will lead to other related impact especially on the service delivery of the educational system. Due to that, the study also tries to

identify if the 'delay in submission of reports to the MoE' had also contributed to the failure of domestic projects. This is because any delays in submission will inevitably resulted in outdated information.

Therefore, this study tries to identify if the non-submission or delay in submission of reports to the DPSD was another risk factor that have contributed to the projects failure in most domestic financing. The results of the findings revealed that about 110 (90.90%) of the 121 respondents believed that the delay or non-submission of the progress reports of the projects to the MoE had indeed contributed to the risks that caused the failure of the Domestic financing project to be completed per schedule as shown in the above Table 8.6. Furthermore, the results also shown that about 85 (77.27%) of the 110 respondents had stated that the risks were at medium and higher level.

The evidence obtained from the officers-in-charge who were as respondents also varies. According to officers at the district level, there were actually no reports prepared. But according to the officers at the state level there were reports prepared on the progress of the projects. According to an electronic mail as in Appendix 7.1 received from one of the respondents who was formally an officer-in-charge at the DPSD of MoE, all the state and district development units were directly involved in monitoring the progress of the projects (on behalf of the MoE), on site but only relating to the physical development of the projects only because the development occurred in their districts or states.

The above evidence contrasted with the results from the survey carried out on the DPSD staff as stated above. An analysis correlating with the results for the first sources of risks which was 'non-involvement in project monitoring' the results correlated with about 106 of the respondents agreed with their non-involvement in project monitoring and 110 agreed with the non-submission of the progress report (Refer to Table 8.6). Further investigation through observation during the data collection had discovered that the DPSD was depending more on the Project Management Consultant (PMC) for the progress report rather than the state and district officers.

Therefore, the claimed made by the state and district officers that they were responsible for close monitoring of the projects, and preparation and submission of progress report for the projects that would be similar to the management reports in the World Bank ESSP can be questioned. These findings showed one of the reasons that contributed to most of projects being delayed or abandoned. For instance, the evidence obtained from the focus group of two different schools in the state of Johor showed that both parents and teachers faced problems such as building safely due to the delay in occupying the school as per schedule (Refer to Appendix 2). According to the parents, their expectations that the school would be ready as planned were not met and as a result, they still had to send their children to another school which was quite a distance away and thus they had to incur additional expenses. The parents were very disappointed due to the delay of the project until finally the school was completed and was occupied. After occupying the school, issues about the safety conditions of the schools relating to workmanships were again raised by the parents.

In addition, the non-occupancy of the schools for quite sometimes had also contributed to additional cost such as cost for further repairs since much of the facilities were stolen while some were destroyed due to vandalism. Other than that, the quality of the schools was in a bad condition and some parts of the school buildings were still not safe to be occupied. This was identified and confirmed during the visits and observations carried out by the researcher and the situations were supported by the statements given by the teachers and the officers from the State Educational Department and the District Education Office. It was also noted that complaints had been made by the parents and teachers to the State Education Department and the District Education Office but until the visits no such follow-up actions had been taken. The issue was later reported to the top management of the ministry by the researcher for further actions.

An interview with the Deputy Secretary-General (Development and Finance) of the Ministry of Education confirmed that some of the projects failures were due to the recommendation and selection of inappropriate lands for the schools. This contributed to the increase in risks to the constructed schools structure making unsafe for occupation. Some of the schools were only used for a short time, and one of the schools needed to be demolished after part of its building collapsed.

Lack of staff with technical expertise to monitor infrastructure projects

The role played by staff with technical skills especially related to the infrastructure project such as the ESSP is very useful for project monitoring. This is to ensure that the building will be built according to the specifications set as well as in determining

that safety standards are met upon its completion. Therefore, the study tries to identify that if the lack of technical expertise staff involved in the infrastructure projects at the State and District level had contributed to the risks of failure to most of the domestically financed ESSP projects.

The results shown indicates that 47 (38.80%) of the respondents consisting the DPSD staff in the survey agreed that the lack of technical staff was a problem at the 'High' level. The data also showed that 41 (33.90%) agreed at 'Medium' level of risks. Meanwhile, at the 'Low' level of risks, 21 (17.40%) agreed, followed by 5 (4.1%) agreed that there was 'No Risk' at all from this factor (Refer to Table 8.6). The overall result shown that 109 (90.08%) stated that the non-existence of technical expertise staff at the State and District Officers through out the country contributed to the risks of projects failure which included failure to complete the projects as per schedule and irrespective of whether it is small or big development project.

The above results were confirmed by the personal observation of the researcher and personal interviews with some of the staff. It was found that there were no professional technical staffs such as engineers or quantity surveyors under the officers-in-charge at the state and districts Education Offices. Most of the staff were trained as teachers with other backgrounds but they were attached to the development unit at the state and district education offices.

Most of the present technical staffs were seconded to the Technical Unit of the DPSD in MoE. Furthermore, accounting personnel like an accountant did not exist at

the state level. This brought difficulties for DPSD in doing the financial planning and forecasting at the state and district level.

The lack of technical and accounting staffs have indeed contributed to the delays and postponement of most domestic financing as indicated in Table 8.7 below. The table shows that about 171 (58.57%) of similar projects in the domestic financing as compared to World Bank financing were delayed. The evidences can also be seen in the ‘Liquidated Ascertained Damages (LAD)’ claimed made by the contractors. In addition, there were many domestic financing projects such as computer laboratories and small size schools that were also delayed in abandonment under the Eighth Malaysian Plan which had become a national issue in the Parliament.

Table 8.7 - The comparison of number of Primary Schools projects financed by the World Bank and Domestic for the New Educational Infrastructure Development Project under the Eighth Malaysian Plan for the Education Sector Support Project (ESSP)

Status of Projects	Domestic Financing Phase 1 (managed by PMC)		World Bank (managed by JKR)	
	Unit	Percentage	Unit	Percentage
Completed on Schedule	93	31.84	30	88.24
LAD	171	58.57	3	8.82
Postponed	20	6.85		
Terminated & Continued	4	1.37	*1	2.94
Under Construction	4	1.37		
Total	292	100.00	34	100.00

* Terminate and Withdraw from the World Bank due to non-compliance of Bank Procedures.

Proposing of a hazardous or inappropriate sites for school projects

The location of a school project is also an important consideration in providing a conducive learning and teaching environment. Normally, the location of the school projects either primary or secondary schools were proposed by the State and District Education Offices. The role played by the state and district officers in proposing and being responsible for selecting an appropriate site for the project is stated in the electronic mail as the evidence as in Appendix 7.1 by one of the officer-in-charge at the ministry level in the DPSD of MoE. According to officer-in-charge, the state and district educational officers were also responsible in determining the lands/sites and setting the priority of the projects which included preparing the project's briefs.

The result for the findings had shown that about 102 (84.30%) of the respondents in the survey consisting of the DPSD staff who agreed that the proposed of hazardous or inappropriate sites for school projects as one of the risks that have contributed to the failure of most projects to be completed on schedule under the Domestic financing. The situation was considered critical when further analysis revealed that about 45 of the 121 respondents agreed at 'High' level of risks factor.

The above problem in locating hazardous or inappropriate location is supported through a statement made by the Director-General of Public Services in the daily national newspaper 'Berita Harian' dated 27th of February, 2008. It was mentioned during the Officiating Ceremony of the 'Danau Kota Dua Primary School', which is one of the 268 abandoned educational sector projects for domestic financing. The

Director-General of Public Service also emphasized on all government agencies to be very careful in the selection of land at the earlier stage of planning as well as selection of potential contractors to be awarded for the projects.

The failures due to the risks of allocating inappropriate site were also stated in the lesson learnt under the Eighth Malaysian Plan in the 2004 Strategic Planning Meeting (Persidangan Perancangan Strategik), Ministry of Education, Malaysia by the DPSD. The report of the meeting stated the followings which were related to acquisition of land for educational infrastructure development projects:

- a) The selection of a suitable location for a particular ESSP infrastructure projects was not being attended to during the initial planning of the projects. Due to that, the project incurred higher cost in construction and maintenance.
- b) Some of the locations proposed lacked basic facilities such as access road, electricity and water supplies.
- c) The data terminal known as the SPPII as the source of information for the issues related to educational land or location at the district level that included the parliament constituency were found to be incomplete and inaccurate.

The above risks were also supported with the claims made by the contractors and suppliers in the ESSP Domestic financing in the Eighth Malaysian Plan. According to reports, the list of claiming of exemption of LAD Bil.No.4/2006, consisting of 197 schools include 191 primary and 6 secondary schools. According to the report, 43

contractors blamed that delays were caused by project location by the school authority and district office for selecting an inappropriate site such as being away from the main road and lack of water and electricity.

Selection of contractors

The selection of potential contractors in an infrastructure project is important for the success of either big or small projects. This is to ensure that the appointed contractor can successfully manage the project as per schedule as well as to provide excellent quality workmanship of the completed building especially in relation to building safety. This aspect of the contractors' ability to deliver quality workmanship of completed project is important because their performance will affect the whole planning of the MoE in the achieving its 'Education for All (EFA)' objectives. This situation will have a consequential impact on the planning of financial and non-financial resources such as the training and posting of the teaching personnel, supporting staff and as well as potential students. Further, parents in the local community where the project was built had set themselves high hopes and expectations that the school project would be completed on time. They were hoping that the timely delivery of the school helped improve their future costs and benefits in monetary terms as the case of the incurred transport cost of sending their children to a school situated further than the currently under construction school. Therefore, the selection of the contractors should be done with great care and consideration especially in relation if they have a strong financial foundation as well as the ability to manage non-financial aspects of getting the project done such as having ample skilled workers.

Therefore, in this section, the researcher seeks to identify four variables believed to have contributed to the risks that had an impact on the domestically financed infrastructure projects. The summary of the analysis is shown below in Table 8.8 and the risks associated with the contractors for this study are as follows.

- a) Less than 2 years of experience in handling infrastructure projects
- b) Not having enough skilled workers
- c) Managing too many projects within the same stipulated timeframe
- d) Not having adequate financial resources for revolving working capital

Table 8.8 – The Result related to the Contractors

	Source of risks	Level of Risks	Professional	Supporting	Total
1	Less than 2 years experience in handling infrastructure projects	High	16	23	39
		Medium	21	39	60
		Low	3	10	13
		No risk at all	3	1	4
2	Not having enough skilled workers	High	16	28	44
		Medium	22	34	56
		Low	4	8	12
		No risk at all	1	2	3
3	Managing too many projects within the same stipulated timeframe	High	20	42	62
		Medium	12	25	37
		Low	11	5	16
		No risk at all	0	2	2
4	Not having adequate financial resources for revolving working capital	High	29	47	76
		Medium	9	19	28
		Low	2	5	7
		No risk at all	2	1	3

(Source: Appendix A – Survey: Research Questionnaires)

The contractors had less than 2 years experience in handling infrastructure projects

As been stated earlier, the selection of contractor is crucial. If the contractor is inexperienced the risks of the project failure will be high. The project will not be successfully completed as per schedule but issues of safety of the completed buildings may be questionable. This may also contribute to the perception of a misuse of public fund since the cost incurred in repairing the completed building will be higher.

Complaints on the contractors' performance in completing the projects awarded to them under the ESSP during the Eighth Malaysian Plan, is one of the focus of this study. The study also seeks to identify if the contractors' length of working experience such as less than two years in handling infrastructure projects is a contributory factor of risks.

In the earlier analysis, the results showed that the overall level of risks contributed by this variable were 92.50 percent that 39 or 32.20 percent of the respondents agreed that it were at a 'High' level and 60 or 49.60 percent said that it were at 'Medium' and 12 or 10.70 percent said it was at 'Lower' level of risks.

The above results were also supported by evidence obtained from the interviews carried out with the officers-in-charge of the Domestic financing. According to these officers, the delays and failure of most Domestic financing projects were due to most in most situations because of hiring inexperienced contractors with less than one year

experience in carrying out a construction project. This put the project at a high risks level. This was further supported by a statement from one of the Head of Unit in the DPSD that some of the contractors which were selected politically such as those under the Dewan Perniagaan Melayu Malaysia (DPMM) had even less than six month experience in construction work. Due to this political intervention, most of the projects were actually awarded to contractors that did not have a proven track record in construction and subsequently which finally led to project delays and abandonment with potential end-users facing the consequence.

The above findings obtained from the officers-in-charge should not be underestimated because based on the findings obtained from the Report of Claims for Exemptions for ‘Liquidated and Ascertained Damages (LAD)’ No. 4/2006 dated 9th, January 2007, one of the reasons that the contractors requested for the exemptions was due to lack of experience in managing the project physical or financial development. The findings also revealed that about 165 or 93.22 percent of 177 primary school and 33 secondary projects were affected as stated in the same report of the LAD Bil. No. 4/2006. The details can be seen in the Table 8.9 below.

Table 8.9 - Claimed for exemption for the Liquidated and Ascertained Damages’ or normally known as (LAD)

Types of Projects	Number of Project	Less than 90 days	More than 180 days	Out of More than 180 days were more than 365 days	Minimum Amount Exemption of LAD per contract for 90 days
Primary School	177	42	84	39	RM2,883.60
Secondary School	33	6	26	17	RM5,046.30
Total	210	48	110	56	

The above practices creating risks in most projects were delayed and even abandoned were criticized by the Director-General of the Malaysia Public Services, Tan Sri Sidek Hassan during the officiating ceremony of the Danau Kota Dua Primary School in February 27, 2008. According to his statement which was quoted in the national newspaper, the Berita Harian dated February 27, 2008, that ‘government agencies should be more careful in the selection of the contractors during the initial stage of planning. This is to avoid abandonment and delays in many projects such as the above primary school which should had been completed year back in 2002 but took about another seven (7) years to be completed with additional cost of RM3.1 million with three different contractors involved in its completion. The Danau Kota Dua Primary School was one of the 268 known as ‘Sick Projects’ by the Government of Malaysia (GoM) that were supposed to be completed under the Eighth Malaysian Plan that ended in December, 2005.

Issues of lack of skilled workers to complete the projects

Having skilled workers is an important requisite in any project implementation. This is to ensure that projects can be completed according to the planned schedule and specifications. This would also include that the projects are delivered in acceptable conditions and meeting the necessary safety standards for occupation as required by laws. This study also seeks to identify if the failure of Domestic financing projects were also due to the risks of a lack of sufficient skilled workers provided for by the contractors. The results of the analysis showed that the lack of skilled workforce had an impact to the project completion. About 100 (80.70%) of the 121 respondents which consisted of both professional and supporting staffs of the DPSD agreed that

the level of risks was at a 'Medium' level and above, which consisting of 44 (36.36%) at the above level of risk. Lacking skilled workers among the contractors had not only contributed to the risks in completing the Domestic projects as per schedule, as shown in Table 8.10 below, but have also contributed to the risks that the projects were completed with poor workmanship quality even though the projects were at last completed.

The above findings can be also justified from the interviews carried out with the officers-in-charge from the State and District Education Offices as well as the DPSD. According to the interviewees, most project failures were also due to the shortage of labour especially skilled labour faced by most of the contractors. This situation is also supported by the report on justification for exemption of 'Liquidated Ascertained Damages (LAD) Bil.No.4/2006 as shown in Table 8.10 below in which 8 of the contractors agreed that the delayed were due to shortage of labour.

Table 8.10 - Justifications of the contractors in claiming the 90 days exemptions of 'Liquidated Ascertained Damages (LAD)'

	Justifications / Reasons for delay and exemption of LAD	Primary School
1	Delay in Initial Payment by the MOE.	47
2	Delay in Progress Payment by the MOE.	37
3	Delay in soil and other matters by IKRAM.	7
4	Failure of PMC in managing the project.	
5	Unpredictable weather.	11
6	Lack of experience in managing project.	4
7	Delay due to insufficient Cash flow by the contractor.	3
8	Delay in locating the project location by the School authority and the District Education Department.	43
9	Delay and shortage of material supplies.	56
10	Delay in starting the work by the contractor.	29
11	Delay by the Electrical Power Authority (TNB).	3
12	Delay and red tape by the Local Authority.	37
13	Shortage of Labour	8
14	No. Reasons but requested for LAD exemption.	32
15	Simply to avoid losses in proceeding the project	1

Furthermore, as correlated evidence gathered from supporting documentations, indicated that about 93 units (31.84%) of the total 292 projects were able to be completed on schedule for the Domestic financing, compared to about 88.24 percent of the total projects completed on schedule for the World Bank financing. This can be clearly seen in Table 8.11 below.

Table 8.11 - The comparison of number of Primary Schools project financed by the World Bank and Domestic (MoE) for the New Educational Infrastructure Development Project under the Eighth Malaysian Plan for the (ESSP)

	Domestic Financing Phase 1 (managed by PMC)		World Bank (managed by JKR)	
	Unit	Percentage	Unit	Percentage
Completed on Schedule	93	31.84	30	88.24
LAD 1	103	35.27	3	8.82
LAD 2	46	15.75		
LAD 3	19	6.52		
LAD 4	3	1.03		
Postponed	20	6.85		
Terminated & Continued	4	1.37	*1	2.94
Under Construction	4	1.37		
Total	292	100.00	34	100.00

* *Terminate and Withdraw from the World Bank due to non-compliance of Bank Procedures.*

The above failures of most Domestic financing projects are also supported by the frustrated parents who were part of the focus groups during the data collection period. The parents expected that the completed school project can provide education for their children as well as help to reduce part of their cost of sending their children to the current school which was quite a distance away. But unfortunately the school project in their communities was abandoned for sometimes and was completed very late. Furthermore, the quality of the school buildings as well as other related facilities were unsafe for occupation to schools children.

Moreover, the very bad condition and quality of workmanship of some of the school buildings at selected locations for this study had also created complaints from the focus groups consisting of parents and teachers. As to obtain first-hand information and to personally look into the complaints, the researcher had visited the project site accompanied by an officer from the District Education office. The visit indicated that the project was in dire need of further repair before it is safe for occupancy.

It was very stressful to all parties involved especially the Parents and Teachers Association of the schools involved since their complaints after a few years earlier about the condition of the school projects were not been taken seriously even though top officials from the MoE had visited the schools and who had also voice their concerns about the quality of workmanship of the school. The top officials and subsequent researcher's visits to the schools were really timely and most welcomed by the parents and teachers involved in the focus groups of the schools. The complaints brought up by the parents and teachers concerning the poor conditions of the schools have been brought up to the Deputy Secretary-General (Development and Finance), of the Ministry of Education (MoE) and immediate follow-up actions were taken during the closing of the data collection period. To ensure that the corrective measures were carried out accordingly, the Deputy Secretary-General (Development and Finance) of MoE had suggested to the researcher to visit a few schools which were involved.

Too many projects to be managed within the same stipulated time frame

The delays in completion of the projects and their poor quality of the school buildings might also be due to the inability of the contractors who were awarded many projects simultaneously under the Eighth Malaysian Plan for the Domestic financing.

Due to that, the researcher also seeks to identify if the above risks in managing too many projects were a contributing factor to the failure of most Domestic financing projects. The results of the analysis showed that about 62 or 51.20 percent of the respondents agreed at a 'High' level of such risks and 37 or 30.60 percent at a 'Medium' level and 16 or 13.20 percent at a 'Low' level of risks. These findings showed that about more than fifty (50) percent had agreed that this variable was part of the source of risks that had caused the failure of most Domestic financing projects in terms of its completion as per schedule and their unsatisfactory level of quality and safety.

The above result of the findings is further supported by the evidences from most of the officers-in-charge of the projects at various levels of authority. According to the officers interviewed, the failure of Domestic financing was also due to the inability of the contractors to manage too many projects that were awarded to them. The evidence pointing to this risk factor lies in the report obtained from the Briefing to the new Secretary-General of MoE in March, 2006 by the Principal Secretary of DPSD. In the briefing, it was stated that many contractors have to sub-contract their projects and in the case of the computer laboratory projects, there were two

thousand one hundred and twenty seven (2,127) projects were given to five (5) contractors.

Therefore, it can be anticipated that, the burden of handling too many projects which is similar in nature have contributed to the risks that projects will later fall under the category of problematic projects as mentioned in the Report on Sick Projects.

Inadequate financial resources for revolving working capital

Contractors that are financially strong in their cash flow throughout the implementation of the projects would have the least problems in managing their working capital needs. This is because with the financial stability, the contractors have managed to buy the materials and pay the wages and salaries of their employees.

Due to that, in the final section of the variables related to the contractors, the study also seeks to identify if the shortage of cash flow by the contractors is a contributory risks to the failures of most Domestic financing. The findings revealed that about 76 or 62.80 percent of the 121 respondents of the DPSD staff agreed at a 'High' level and 28 or 23.10 percent at a 'Medium' level and 7 or 5.80 percent at a 'Low' level.

The above were also supported by evidences from the report of the Domestic financing in the 'Blueprint' of the 'Aims of Development in Education Financing 2001-2010'. In this 'Blueprint', the DPSD has stated that one of their policy

statements is to offer business opportunities to capable “Bumiputra” entrepreneurs in planning and implementation of development and procurement projects.

The policy statement stated above can be translated to mean that the DPSD of MoE were instructed to assist the selection of capable “Bumiputra” contractors and suppliers in carrying out the projects under the ESSP. The contractors and suppliers should possess strong financial capability. This criteria served as an early indicator that the will be managed in the most effective and efficient manner.

The evidences stated in the ‘Report on Claimed for Exemption of LAD Bil. No. 4, 2006’ as shown in the Table 8.12 below showed that about 47 contractors made the LAD claims stating delays in initial payment, while 37 contractors stated that it was due to delays in progress payment by the MoE. The above claims for exemptions by the contractors for LAD as subsequently resulted in delays in the completion of their respective projects as per contract. This situation could be avoided if they started the projects with a strong capability in their cash flow management or working capital.

Table 8.12 - Justifications of the contractors in claiming the 90 days exemptions of ‘LAD’

	Justifications / Reasons for delay and exemption of LAD	Primary School
1	Delay in Initial Payment by the MoE.	47
2	Delay in Progress Payment by the MoE.	37

Under the World Bank project, the Government of Malaysia had to comply with one of the World Bank terms and conditions which were brought up during the negotiation in getting the funding from the World Bank. Among the conditions were related to the selection of the contractors were as follows:

- a) All bidders shall be treated equally, and preferential treatment will not be granted to any bidder or group of bidders. Specifically, civil works contracts valued below 50,000 Ringgit will not be reserved for Bumiputra contractors.

- b) The “two envelope” system for technical and financial proposals in bid submissions will not be used.

The above, conditions as in (a) was to ensure that the selections of the potential contractors or suppliers were based not only on one criteria of contractors but was opened to everybody who were interested and had the capacity in terms of expertise and finance. Whereas the second condition or (b) that refers to the ‘two envelope’ system, the selected contractors or suppliers should have the capability and strength in both the technical and financial aspects of managing the project. This second condition might not apply in the Domestic financing project that had resulted in an increase in risks that eventually became a factor that contributed to project failure due to bad cash flow by most contractors.

Project Management Consultants (PMCs)

In the Eighth Malaysian Plan of the ESSP, there were projects being managed by the government agency that is the Public Works Department and by the private sector organization known as the Project Management Consultants (PMCs).

In the case of the World Bank financing, all their projects which were similar to the Domestic financing such as primary and secondary schools were managed or

supervised by the Public Works Department or normally known as ‘Jabatan Kerja Raya’ (JKR), on behalf of the Ministry of Education besides the appointment of the Project Implementation Unit (PIU) team members.

The question the researcher seeks to answer is, “Why do many of the projects under the supervision or management of the Project Management Consultants (PMCs) in the Eighth Malaysian Plan for the Domestic financing failed to be completed as per schedule and were costlier than a similar type of projects under the World Bank financing?”

The study thus seeks to identify and to investigate further if any of the following variables which were considered as sources of risks had impacted the Domestic financing of projects under the ESSP. The variables and the analysis of the findings are shown in the Table 8.13 below.

- a) Managing too many projects
- b) Lack of skill and experienced staff
- c) Frequently late in processing approved payments to be forwarded to the DPSD of MoE.
- d) Not closely monitoring the projects undertaken
- e) Not submitting monthly reports according to stipulated datelines

Table 8.13 – The Variables and Findings related to Risks under the Project Management Consultants (PMCs)

	Source of Risks	Level of Risks	Professional	Supporting	Total
1	Managing too many projects	High	25	32	57
		Medium	13	30	43
		Low	3	8	11
		No risk at all	1	1	2
2	Lack of skill and experience staff	High	23	28	51
		Medium	15	35	50
		Low	3	9	12
		No risk at all	1	0	1
3	Frequently late in processing approved payments to be forwarded to the DPSD of MOE.	High	13	18	31
		Medium	18	33	51
		Low	8	18	26
		No risk at all	3	4	7
4	Did not closely monitor the projects undertaken	High	21	32	53
		Medium	13	29	42
		Low	8	11	19
		No risk at all	0	1	1
5	Not submitting monthly reports according to stipulated datelines	High	9	15	24
		Medium	20	37	57
		Low	10	16	26
		No risk at all	3	4	7

(Source: Appendix A – Survey: Research Questionnaires)

Managing too many projects

The respond to managing too many projects by the project management consultants (PMCs) showed that about 111 or 91.73 percent of the respondents agreed that one of the factors most projects in the Domestic financing failed to be completed was due to the risks of giving to many projects to the same Project Management Consultant. In the analysis, across a spectrum of ‘Low’ to ‘High’ levels of risks, 57 or 47.10 percent agreed at the ‘High’ level and 43 or 35.50 percent at the ‘Medium’ level. The number of respondents and the percentage amounted to above average which are considered as an important contributor of risk with about 100 respondents or 82.64 percent of the respondents agreeing on it.

The above result is supported by evidences obtained from new projects managed by the PMCs for Phase I of the Domestic financing in the Eighth Malaysian Plan of the ESSP. Based on an initial analysis carried out from the list of projects obtained from the Primary Unit of DPSD, the projects managed by the PMCs were divided into different zones or area as shown in Table 8.14.1 to 8.14.4 below.

Table 8.14.1 - Northern Zone

	PMC	Number of Projects
1	Ambang Heights	21
2	East Design	2
3	Naz Progressive Consultant Sdn. Bhd.	1
4	Urusbudi Sdn. Bhd. (PKMM)	6
5	Urusbudi Sdn. Bhd. (DPMM)	8
6	Urusbudi Sdn. Bhd. (Pemaju)	5
7	Venture Sdn. Bhd.	1
	Total Projects	44

Table 8.14.2 - Eastern Zone

	PMC	Number of Project
1	Elementrade (M) Sdn. Bhd.	3
2	PB-PMC Sdn. Bhd.	4
3	Urusbudi Sdn. Bhd. (PKM)	4
4	Urusbudi Sdn. Bhd.	1
5	Urusbudi Sdn. Bhd. (DPMM)	2
6	Urusbudi Sdn. Bhd. (Pemaju)	5
7	Wawasan Utama Sdn. Bhd.	43
	Total Projects	62

Table 8.14.3 - Central Zone

	PMC	Number of Project
1	Elementrade (M) Sdn. Bhd.	1
2	Kinta Samudera	41
3	NAZ Progressive Consultant Sdn. Bhd.	5
4	Pengurusan PMN Sdn. Bhd.	1
5	Price Resources	2
6	Professional Themes Sdn. Bhd.	2
7	PZK Mgt. Sdn. Bhd.	1
8	Urusbudi Sdn. Bhd. (PKMM)	7
9	Urusbudi Sdn. Bhd. (DPMM)	13
10	Urusbudi Sdn. Bhd. (Pemaju)	8
	Total Projects	81

Table 8.14.4 - Southern Zone

	PMC	Number of Project
1	Opal Development Sdn. Bhd.	3
2	Rapihan Sdn. Bhd.	6
3	Urusbudi Sdn. Bhd. (PKMM)	7
4	Urusbudi Sdn. Bhd.	2
5	Urusbudi Sdn. Bhd. (DPMM)	6
6	Urusbudi Sdn. Bhd. (Pemaju)	4
7	Urusbudi Sdn. Bhd. (Zon Selatan)	27
	Total Projects	55

(Source: Appendix A – List of References from Government of Malaysia)

The tables above showed that the distribution of contracts awarded to the Project Management Consultants (PMCs) varies from zone to zone and in terms of the number of projects awarded. Some of the PMCs got only one or two projects but there were those who got more than twenty (20) projects. For instance, in the Northern Zone, the PMC known as Ambang Heights had to manage about 21 or 47.72 percent out of 44 projects, while in the Eastern Region or Zone, 43 or 65.15 per cent projects out of 66 were managed by Wawasan Utama Sdn. Bhd. Further, in the case for the Central Zone, 41 or 50.62 per cent out of 81 projects by Kinta Samudera while 46 or 83.63 per cent out of 55 projects in the Southern Zone were managed by Urusbudi Sdn. Bhd.

This showed that the awarding of contracts may be influenced by elements that may reflect biased and which may not done in a fairly manner in terms of meeting the stated terms and conditions of the selection and awarding of contracts. This situation had contributed to an increased level of risks in the effective and efficient management of the projects. The findings were correlated with the agreement of the staff of DPSD with 111 or 91.73 percent of the 121 respondents agreeing that the risks of managing too many projects by the PMCs amounted to an increased level of risks.

Some of the Project Management Consultants (PMCs) had to manage too many projects at one particular period of time which stretched their financial and workforce capabilities to the limit. This situation developed into high-risk situations which finally left a negative impact on the delivery of the projects and subsequently the planning and implementing of the teaching and learning process.

In an interview with one of the respondents was understood that the appointment of the PMCs were carried out by the Treasury of the Ministry of Finance (MoF). The bias and unfair distribution of contracts to the PMCs as well as the contractors involved were also stated in the Lesson Learnt in the Domestic financing projects report. Other than that, in the presentation of the new Secretary-General of the Ministry of Education, Malaysia by the Principal Secretary of the DPSD in March, 2006, it was stated that the problem of the most projects delays and failures as in the case of the IT Computer Laboratory Projects was because of the inability of the contractors and PMCs in managing too many projects which were awarded to them by the Treasury. According to the report, about 2,127 projects were awarded to only 5 contractors for the Phase 1 and 4,044 projects to only 1 PMC. The situation was getting worse when most of the Class F contractors who awarded the contracts faced the difficulties in managing their limited working capital.

Lack of skill and experience staff in PMCs

The study also seeks to study if the lack of skill and experience staff in the PMCs was one of the factors affected the Domestic financing projects. The findings showed that about 113 or 93.38 percent of the respondents agreed that this factor had contributed to the risks of project delays and failures. The figure included that 51 or

42.10 percent agreed that it is at a 'High' level of risks while 50 or 41.30 percent agreed at 'Medium' level and 12 or 9.90 percent at 'Low' level of risks from a total of 121 respondents.

Therefore, from the above findings we can conclude that more than the half of the respondents of the DPSD staff agreed that 'lack of skill and experience staff of the project management consultants' is a part of the risks that had contributed to the failure of most Domestic financing in the Eighth Malaysian Plan of the ESSP.

The above evidence is further supported from the results of the interview sessions with the Domestic financing officers from the various units of the DPSD. According to the officers who were also involved in the World Bank financing projects, most of the PMCs staff were inexperienced and lack the essential knowledge and skills in the work associated with project management. Some of them were new to the job and there was also a high turnover of staffs in the PMCs.

Frequent delay in processing approved payments to be forwarded to the DPSD of MoE.

In the World Bank financing projects, the initial process for approval for payments were carried out by the Public Works Department before handing it over to the DPSD for the progress payment. The Public Works Department which is a government agency have many professional technical staff in every states and districts through out Malaysia. But in the case of the Domestic financing, the

approval for progress payment will be from the appointed independent Project Management Consultants (PMCs) before being submitted to the DPSD for approval.

The situation showed that most of the PMCs, managing too many projects of the ESSP as compared to the Public Works Department for the World Bank financing. Furthermore, the numbers of staff between the two were really obvious in terms of size and professionalism or expertise as well as experience with the PMCs at a serious disadvantage. Therefore, any delay in processing the progress payment for the contractors for work done will affect the delivery of the said projects.

The study, thus, also seeks to find out if ‘the frequently late or delays in processing approved payments to be forwarded to the DPSD of MoE’ was a contributory risk factor that had caused failures to most Domestic financing. The results of the findings revealed that about 108 (89.26%) of the respondents agreed that it was a risk factor. 26 (21.50%) considered it as a ‘Low’ risk, 51 (42.10%) stated that it was at a ‘Medium’ level and 31 (25.60%) agreed that it was at a ‘High’ level of risks.

The results of the findings indicates that it was a high risk factor as more than fifty percent (50%) of the respondents agreed that the inefficient of the PMCs processing approved payments to be forwarded to the DPSD is one of the risks that had in time contributed to the failure of the Domestic financing projects as compared to the World Bank.

The above result was also supported by most of the officers-in-charge of both types of financing, that is, with the World Bank and domestic financing who were

interviewed during the data collection process. According to the officers especially those from the Payment Unit of DPSD quoted the lack of experience staff and managing too many projects simultaneously by the PMCs were the reasons cited as to the occurrence of delays and late payments. For instance, seeking approval of payments the supporting documentations and other non-compliance with stated procedures were not completed. There were occasions when submissions for payment approval were made with repeated mistakes in documentation. Therefore, these resulted in delays in most Domestic financing and most contractors faced insufficient fund or working capital to progress with their projects.

Furthermore, according to the respondents interviewed, due to the PMCs experiencing shortage of experienced technical staff, the submission of the documents for payments needed to be corrected and resubmit and this had taken more time to process and approved the payments. However, the DPSD especially, the Payment Unit were always wrongfully blamed for the delays in payments by the contractors or even the public. This was stated in the Report on the Claims of Exemption for Liquidated Ascertained Damages (LAD) Bil. No. 4.2006, where the contractors involved were to be charged a penalty for project delayed. According to the report, the justification for the exemption should be given due to the delays of the MoE in making payment when demanded as shown in Table 8.15 below.

Table 8.15 - Justifications of the contractors in claiming the 90 days exemptions of 'LAD'

	Justifications / Reasons for delay and exemption of LAD	Primary School
1	Delay in Initial Payment by the MOE.	47
2	Delay in Progress Payment by the MOE.	37

The above findings are also supported by the report given in a presentation by the Principal Secretary of the DPSD to the new Secretary-General of Ministry of Education, Malaysia in March 2006. One of the reasons mentioned with regards to the caused of 'Sick or Problem Projects' was that the PMC was managing too many projects simultaneously and this had resulted in the delay in authorizing payments to the contractors involved.

The frustration of getting payment on time was voiced out by one of the contractors involved in Domestic financing. According to the contractor, some PMCs were delaying the process of their claims because they were stretched in terms of ability in managing too many projects. Therefore, this resulted in the delay for the contractors to get their payments for work which has been done.

Absence of project progress monitoring

The study also seeks to identify if the PMC had closely monitor the progress of projects undertaken as this factor had contributed to the risks of failure in Domestic financing. According to the findings, 53 or 43.80 percent of the 121 respondents agreed that this factor was a 'High' level risk, while 42 or 34.70 percent agreed that it was at a 'Medium' level, and 19 or 15.70 percent considered it to be at a 'Low' level risk. This showed that a total of 114 or 94.21 percent agreed that this factor was a risk at all the three levels above.

From the above findings, the result correlated with the variables or sources related to 'too many projects managed by the PMC' which was 111 or 91.74 percent and to the

‘PMC had lack of skill and experience staff’ as shown by 113 or 93.34 percent have agreed that these factors do account for the problems in most Domestic financing.

The above findings are also supported by the Domestic financing officers-in-charged of the projects. Therefore, it would not be possible for the PMCs to closely monitor the progress of the projects undertaken by them. These findings were also mentioned in the report on ‘Lesson Learnt’ from the Eighth Malaysian Plan as presented in the Strategic Planning Meeting held by the DPSD for the Ninth Malaysian Plan Projects. According to the report, there were too many projects managed by the PMCs and this factor that affected the payments due to the contractors. It was also mentioned that the expertise of the staff in the Technical Unit of the DPSD should not be underestimated in ensuring the completion of the ESSP.

Furthermore, the evidence from the Primary Unit report has shown that the projects which managed by the PMCs varies. Based on the different zones or areas within Peninsular Malaysia for the Phase One of the ESSP of new schools in the Domestic financing, it clearly shows that at a certain point a specific PMC were awarded with contracts of more than 2 projects.

Table 8.16 – Project Management Consultants (PMCs) with highest projects awarded

No.	Zone	Project Management Consultants (PMCs)	Number of Primary School project Managed	Total Projects
1	Northern	Ambang Heights	21	44
2	Eastern	Wawasan Utama Sdn. Bhd.	43	62
3	Central	Kinta Samudera	41	81
4	Central	Urusbudi	28	81
5	Southern	Urusbudi	46	55

(Source: Primary Unit Report)

Other than that, the impact of the lack in closely monitoring and too many projects to be managed by the PMCs can be justified by the evidence from the Table 8.17 below during the briefing session to the new Secretary-General of the Ministry of Education Malaysia.

Table 8.17 – Briefing on Development Projects in the Eighth Malaysian Plan by the Principal Secretary of DPSD to Secretary-General of MoE on 13th March 2006

No.	Unit Responsible	Plan	Complete	Construction	Postpone
1	Primary	292	262	9	21
2	Secondary	324	275	18	31
3	Teachers' Quarters	1,037	606	3	428
4	Hostels	465	250	7	208
5	Others	104	26	1	77
	Total	2,222	1419 (63.90%)	38 (1.70%)	765 (34.40%)

Based on the above table, we can see that about 1,419 (63.90%) of the 2,222 projects that had been planned for the Eight Malaysian Plan achieved their objectives. Even though the figures shown that more than fifty percent of the target were achieved, unfortunately only 93 (31.84%) were completed on time or as per schedule stipulated in the original contract for the Primary School projects as shown in Table 8.18 below.

Table 8.18 - Breakdown of New Primary Schools Projects in Domestic financing for the New Educational Infrastructure Development Project under the Eighth Malaysian Plan for the Education Sector Support Project (ESSP).

Project Status	Domestic Financing Phase 1 (managed by PMCs)	
	Unit	Percentage
Completed on Schedule	93	31.84
LAD	171	58.57
Postponed	20	6.85
Terminated & Continued	4	1.37
Under Construction	4	1.37
Total	292	100.00

The above table reflected an overall level of risks of the projects in relation to being delayed or abandoned as they were managed by the PMCs. These findings had drawn the criticism of the Director-General of the Malaysian Public Services, Tan Sri Sidek Hassan. His disappointment was mentioned in the national newspaper, the *Berita Harian* dated February 27, 2008, whereby 268 schools projects were announced as 'Sick Projects' by the Ministry of Education. These were the projects that were supposed to be completed under the Eighth Malaysian Plan that ended in December 2005.

The inability to meet monthly reports submission within the stipulated datelines

Initially, all PMCs were required to submit their progress reports of their respective project on a monthly basis. The purposed of the submission was to ensure that projects closely monitored in terms of finance and physical progress. Their inability to meet this basic requirement significantly affected the financial and non-financial planning and forecasting for the projects and had disrupted the overall effectiveness and efficiency of project management and public financial management of the Domestic finance.

Consequently, in this study, the researcher also seeks to identify and ascertain whether if the non-submission of the monthly progress reports according to the stipulated datelines is a contributory risks factor that eventually resulted in the failure of most Domestic financing. The findings revealed that about 107 or 88.43 percent of the 121 respondents in the DPSD agreed at differing levels that had contributed to the failure in most Domestic financing projects.

The above findings which were revealed through the responds given to the set of questionnaires administered to officers and staff involved in ESSP, is supported with evidences obtained from the interviews carried out with the officers-in-charge of the Domestic financing. According to the officers, the PMCs have failed to comply in submitting the required progress reports at the stipulated datelines. This non-compliance resulted in the ability in ensuring effective financial planning and forecasting since the report has become out-dated and unreliable.

The delay in the submission of the progress reports by the PMC had contributed to projects failure in terms of delays in project completion on schedule. This was because the reports affected the financial planning and budgeting ability at the ministry level. Furthermore, it had also impacted the project in terms of the cash flow management of the DPSD itself. This situation has also contributed to the shortage of fund for domestic financing as mentioned in the 'Lesson Learnt and Problems' in the Ninth Malaysian Plan Strategic Planning Meeting by the DPSD.

The outdated data provided in the reports by the PMC had created problems in the DPSD as the Department cannot use the 'Project Monitoring System' or the 'Sistem Pemantauan Projek (SPP2)' as recommended by the Economic Planning Unit (EPU) of the Prime Minister Department. In short, the system was not fully utilized under the Eighth Malaysian Plan.

The difficulties in getting the project progress reports were also faced by the researcher even with the assistance from the officers-in-charge during the data

collection period. The PMCs had been notified through electronic mailing and telephone calls to submit the progress report of the projects managed by them. But unfortunately, only one of the PMCs managed to respond appropriately. The other PMCs were late in their responses to the electronic mails queries sent by the DPSD while some gave an invalid email address. When contacted through the telephone, some of the PMCs promised to reply to the email queries later. Therefore, it can be shown that most of the appointed Project Management Consultants (PMCs) were quite irresponsible in managing public fund effectively and efficiently.

External Factors that had contributed to the failure of Domestic Financing in the ESSP

Local Authorities

All educational infrastructure projects such as the ESSP must get the approval of the local authority before any construction work can be carried out. The approval process normally started from the acquisition of land until the project is completed and has met the specifications. All construction approvals lay with the local authority where the project was carried out.

Therefore, the local authority played an important role in ensuring that the proposed planned project such as the ESSP can be carried out without any unnecessary hindrances. Any delay in the approval of the project will contribute to the risks of the project being delayed. Project delay will affect the overall system of the ministry in

posting teachers to the schools as well as providing the convenience for parents to send their children to a school located within their communities.

The study also seeks to identify if local authority interventions contributed to the risks of most projects in Domestic financing. In this case, there were three (3) variables related to the local authorities which were considered as sources of risks as listed in Table 8.19 below:

- a) Lateness or delay in giving approvals;
- b) Inclusion of extra or additional conditions at mid-way of the projects; and
- c) Lateness or delay in approving the certificate of occupancy.

Table 8.19 –The Result related to the Project Management Consultants (PMC)

	Source of Risks	Level of Risks	Professional	Supporting	Total
1	Late in giving approvals	High	20	30	50
		Medium	18	23	41
		Low	3	15	18
		No risk at all	2	3	5
2	Inclusion of extra conditions at mid-way of the projects	High	18	17	35
		Medium	18	38	56
		Low	5	16	21
		No risk at all	2	0	2
3	Late in approving the Certification of Occupancy	High	16	25	41
		Medium	17	25	42
		Low	8	19	27
		No risk at all	2	0	2

(Source: Appendix A – Survey: Research Questionnaires)

Local authorities lateness or delay in giving approvals

The results of the analysis shown that more than fifty percent of the respondents in this survey agreed that the delay was related to the risks that the local authorities lateness or delay in approving the said projects at the initial stage had contributed to

the failure of domestic financing projects. Out of 121 respondents in the DPSD of MoE, 91 (75.20%) which consists of 50 or 41.30 percent considered this factor or variable contributed a 'High' level of risks, followed by 41 or 33.90 percent at 'Medium' level and only 18 or 14.90 percent at the 'Low' level of risks. The delay in giving approvals also will cause the project delay to complete as per contract. This might also made the potential projects be postponed to another date that affected the planning stage in the MoE.

The delay in giving approval by the local authority to proceed with construction is supported by the officers-in-charge of Domestic financing through the evidences obtained from interviews during the data collection period. In support of both findings, the data collected from questionnaires and interviews, as well as from the report related to 'Lesson Learnt in the Eighth Malaysian Plan by the DPSD' in the Strategic Planning Meeting for the Ninth Malaysian Plan by the DPSD' stated that many projects were unable to be implemented at the proposed sites because of the failure to obtain the necessary clearance related to the acquisition of land for construction to begin.

Furthermore, from evidences gathered from documentation as stated in the list of claiming of exemption of LAD Bil. No. 4/2006, about 43 or 20.48 percent of the contractors who were managing 210 of the projects stated that one of the justifications for claiming exemption of LAD was due to 'delay in allocating the project location by the school authority and the district education office'. The delay by the school authority and district education office were normally related to the authorization by the local authority as giving permission and consent for executing

or implementing the project. Out of the 210 projects undertaken, 37 of the projects were due to delay and red tape by the local authorities.

The land acquisition problem faced by the Ministry of Education was supported by the Deputy Secretary-General (Finance and Development) of the MoE. According to her, there were a lot of problems that relate to land acquisition with the local authorities pertaining to recommended or proposed locations which were found to be unsuitable. Some of the projects that were carried out were on lands that were not suitable for education purposes even though the lands were later approved by the local authorities. Therefore, in the Ninth Malaysian Plan, the MoE will firstly resolve land matters with the local authorities before proceeding with the implementation of the projects.

Inclusion of extra conditions at mid-way of the projects

Another factor that the researcher found out to be part of the sources of risks related to local authorities is the inclusion of extra conditions at mid-way of the projects. This interference happened mid-way during project implementation and have resulted in project delays. Changes such changes to the original plan of buildings in the project brief have created various problems such as incurring additional costs. The interference by the local authority affected the financial planning done in the earlier stages.

This study also seeks to identify and to confirms if the inclusion of extra conditions at mid-way of the projects have contributed to the failure or delay in most Domestic

financing. The findings of the analysis showed that the 112 or 92.56 percent of the 121 respondents agreed at various levels of risks from 'Low' to 'High'. A breakdown of the figures revealed that 35 or 28.90 percent agreed at the 'High' level and 56 or 46.30 percent at the 'Medium' level. Therefore, the result showed that the inclusion of additional or extra conditions at the mid-way of the project by the local authorities was a risk factor that contributed to the project was unable to be completed and delivered on time.

The above findings from the survey were supported from the Deputy Secretary-General of Finance and Development, Ministry of Education. According to the Deputy Secretary-General, the problems faced by most projects in the Domestic financing in the Eighth Malaysian Plan for the ESSP were due to certain difficulties faced with the local authorities. For instance, local authorities will request the contractors or the MoE to do additional works which will involve additional costs. The contractors or the MoE will have to oblige. otherwise the projects will not be approved for occupancy by the local authorities.

This is also supported by the evidences obtained from the Strategic Planning Meeting for the Ninth Malaysian Plan in 2004. One of the strategic planning goals involved financial planning. This takes the form of capping the ceiling amount of a project which includes an estimation of additional cost such as works beyond the location of the project and other conditions imposed by the local authorities. In addition, the additional evidence from the Report of Exemption of Liquidated Ascertained Damages (LAD) Bil. No. 4/2006 stated that out of 177 Primary schools projects, 43 were delayed due to red-tape enforced by the local authority. Besides

that, an analysis showed that 29 of the contractors involved had experienced delays in starting the projects due to the need to meet local authority requirements.

Delay in approving the Certification of Occupancy (CPC)

A completed project such for the purpose of education cannot be utilized unless a Certification of Occupancy (CPC) was approved by the local authority. The need of the certification is to ensure that the completed project has met all the requirements stipulated by the local authority. This condition is included as an assurance for safety of the end-users.

Any delays enforced by the local authority in relation to giving the approval for occupancy had affected the earlier planning for the posting of teachers to the new schools. This also affected the effectiveness of financial and non-financial planning by the MoE in relation to the deployment of teachers and their remuneration. The delays resulted in the government bearing additional cost for storing supplied equipments and ensuring its safety.

This study also seeks to confirm if the issue such as the delay in getting the Certificate of Occupancy (CPC) was part of the risks that had contributed to the service delivery failure. The results of the analysis showed that about 41 or 33.90 percent of the respondents from the DPSD agreed that this factor was at a 'High' level of risks, while 42 or 34.70 percent stated that it was at a 'Medium' level and 27 or 22.30 percent considered it as a 'Low' level risks. Based on the figures above, 110 or 90.90 percent of the 121 respondents agreed that the delay in getting the approval

of Certificate of Occupancy had contributed to the risks of project failure to be delivered as per schedule. The high percentage which was above average in the above analysis had shown the importance of speedy approval for the occupancy of the projects by the local authority. The certificate of approval will also helped reduce the impact of many associated risks which can affect future financial implications. As an instance, the lapse of warranty period will add maintenances cost.

The evidences gathered to support the above result included statements made by the Deputy Secretary-General of Finance and Development of MOE through an interview. According to the Deputy Secretary-General even though the projects were completed, issues with some of the local authorities in regard to getting the Certificate of Occupancy (CPC) for the completed buildings. According to the Deputy Secretary-General, approval will be given by the local authorities subjected to additional works that needed to be carried out. Some of the additional works required to be done by the contractors or the MoE include road works to the school location which is not stated in the contract for the project.

The above additional requirements for the project that were enforced by the local authority are supported by the other officers-in-charge of the projects in the MoE such as the Head of Technical Unit of MoE and also the officers from the State and District Education Offices. This issue was brought up and deliberated in the Strategic Planning Meeting of the DPSD in 2004. The delay in getting the certificate of fitness or certificate for occupancy was due to non-compliances to additional conditions requested by the local authorities.

As a consequence, the MoE decided to address such issues with local authorities with assistance of officers from the State Education Departments and District Education Offices at the initial stage of planning and before embarking to implement the planned projects at the allocated land sites.

Other External factors

Interferences to the success of the projects may also be a source of risks and may come from external parties such as political organizations or even interested influential individuals or bodies. This included the nature of the projects which have been awarded to the contractors and the PMCs which through Direct Negotiation method instead of through Open Tender. The sources of risks studied related to external factors are:

- i) Intervention of certain interested parties for building contracts;
- ii) Intervention of certain interested parties in obstructing the termination process of contractors at the early phase of the project due to the contractors' disability to proceed;
- iii) Intervention of certain interested parties in exempting fines due from contractors; and
- iv) The selection of contractors not based on open tender but on Direct Negotiation.

The results of the analysis related to the above risks can be clearly seen in the Table 8.20 below.

Table 8.20 – Sources of Risks related to Other Interested Parties

	Source of Risks	Level of Risks	Professional	Supporting	Total
1	Intervention of certain interested parties for building contracts	High	19	33	52
		Medium	18	27	45
		Low	5	8	13
		No risk at all	1	4	5
2	Intervention of certain interested parties in obstructing the termination process of contractors at the early phase of the project due to the contractors' disability to proceed	High	16	24	40
		Medium	17	28	45
		Low	9	16	25
		No risk at all	1	4	5
3	Intervention of certain interested parties in exempting fines due from contractors	High	10	23	33
		Medium	18	32	50
		Low	10	12	22
		No risk at all	4	6	10
4	Selection of contractors not based on open tender but on Direct Negotiation.	High	12	26	38
		Medium	15	30	45
		Low	12	12	24
		No risk at all	4	4	8

(Source: Appendix A – Survey: Research Questionnaires)

Intervention of certain interested parties for schools building projects contracts

The objections to the intervention of certain interested parties such as those with strong political influences for an educational infrastructure projects were frequently voiced out by the public. The public was concerned that the award of contracts to inexperience and incapable contractors based on political affiliations might be a source of risks for project failures. Other than that, the issue was also related to the quality of workmanship of the end projects regarding which questions were raised by the public of building safety since many schools collapsed or sustained damages after being allowed for occupation. Such incidences brought about public distrusts

and impacted both the financial and non-financial aspects of project management. It had also left a negative impact on the capability of the MoE to provide quality service delivery for teaching and learning purposes as it aspires to achieve the Education for All (EFA) objectives.

The results of the analysis carried out from the survey within the DPSD revealed that about 52 or 43.0 percent of the 121 respondents agreed at a 'High' level of risks, 45 or 37.20 percent at a 'Medium' level and 13 or 10.70 percent at a 'Low' level of risks that external influences do contribute to risks of project failures. A total of 110 or 90.90 percent of these respondents in the DPSD of MoE that were involved in the study that is from the 'Low' to 'High' level agreed with the findings.

The intervention of certain interested parties for contracts of the ESSP infrastructure projects in Domestic financing was supported by most of the respondents in the interviews conducted during the data collection period. The range of respondents was from officials in the top management posts as well as the lower level staff of the MoE especially to those directly involved in the management of the ESSP infrastructure projects.

For instance, according to the Deputy Secretary-General of Finance and Development, the problems faced in the Eighth Malaysian Plan of the ESSP for Domestic financing were due to the awarding of most of the projects to the contractors and project management consultants who had least exposure and experience in implementing big projects. The selection and awards of the projects to these groups of implementers were due to external interference which involved other

interested parties such as influential political figures. The interference of influential political figures were also supported by others such as the Head of Technical Unit of DPSD, officers-in-charge of the respective projects from the DPSD and as well as from the officers of the State Education Department and the Districts Education Offices.

The above issue was voiced out by those directly involved in the management of the projects at the Ministry level as well as at the state and district level. Their concerns were also supported by the Head of Auditor for Education from the Auditor-General Office (AG). According to the Head of Auditor (Educational Sector), the problems faced in most Domestic financing projects in the Eighth Malaysian Plan were issues related to interferences from external interested parties such as from influential politicians. After a search into the background experience of the contractors awarded for the projects under ESSP, it was found out that some of them were financially unstable and had little technical experiences in successfully managing big projects. This also included the selection of the project management consultants (PMCs). According to her, in comparison with the awards of projects under the ESSP in the World Bank financing, the terms and conditions for selections of contractors would have selected only the most capable contractors with a proven track record. The selection process was agreed upon by the Government of Malaysia with the World Bank in relation to the criteria in the selections of potential developer or contractors and suppliers.

The need for good contractors was also been highlighted by the Head of Technical Unit of MoE. According to her, in the World Bank financing, the selection process were very transparent and fair. She added that, due to that, most projects in the Domestic financing ended up to be very costly because of awarding of the projects through the 'Design and Build' approach. Other than that, due to the political influences of the contractors and project management consultants, most the projects awarded to the contractors and PMCs suffered delays and even failures due to the contractors and PMCs inability to manage successfully the projects.

The evidences of projects failures and delays were also mentioned by the Malaysian Secretary-General of the Public Services in a statement in the local newspaper, the 'Berita Harian, dated February, 2008. Referring to the projects that failed as 'Sick Project' he stated that it would take the government an additional seven years to complete the additional costs amounting to Ringgit Malaysia: Three point one million (RM3.1 million). According to Tan Sri Sidek Hassan, the Danau Kota Dua Primary School had to take three different contractors to complete it which according to the plan, it should have been completed in 2002. This school is one of the 268 'Sick Projects' identified by the Ministry of Education, Malaysia under the Eighth Malaysian Plan which should end in December 2005.

Intervention of certain interested parties in obstructing the termination process of contractors at the early phase of the project due to the contractors' disability to proceed

A non-performance contractor can be terminated in the process of implementing the project. This procedure would allow enough time for the new contractor to complete the project as scheduled. The delay in the termination process of the affected contractors may also affect the cost of the project as it may be the case of an increase in prices of building materials at a later date. This will be a contributory factor to the risks of insufficient fund in managing the planned project for the Domestic financing.

Consequently, the study seeks to identify if the intervention of certain interested parties in obstructing the termination process of contractors at the early phase of the project due to the contractor's inability to proceed as a risks that had contributed to delays and failures in most Domestic financing. The results of the findings had shown that the total number of respondents had agreed at various levels from 'Low' to 'High' which is similar or correlate with the first or previous variable (3.3.2.2.1.Intervention of certain parties for schools building projects contracts) as a source of risks. From the total of 110 respondents, 95 or 70.30 percent agreed that the intervention in obstructing the termination of the contractors at the early phase of the projects was above average that is more than the 'Medium' level of risks.

According to one of the officers-in-charge at the ministry level, there was a situation where some of the contractors were identified to be unable to manage the project well and should be terminated early. But, due to interferences from certain interested parties, the termination of the contractor had to be put on hold or postponed. Due to that fact, the results can be seen from the following Table 8.21 that showed the overview status of project implemented and also Table 8.22 that showed the status of projects completed on time or per schedule in the Eighth Malaysian Plan from the Primary Unit of DPSD.

Table 8.21 showed that 1,583 projects had been completed, 14 were under construction and 270 had to be postponed for the Primary Academic School projects. Furthermore, further analyses showed that from the total figure of 1,583 projects, 292 are new projects under the Phase 1, but only 93 or 31.84 percent of the projects have been completed as per schedule.

Table 8.21- Overview Status of Implementation Project under Eighth Malaysian Plan (Source: Fail Meja Unit Rendah Akademik, 19 January 2006)

Program	Total	Completed	Construction	Postponed
Pre School	6103	2803	496	2804
Primary Academic	1867	1583	14	270
Teachers Training College	20	2	0	18
Capital Assistant	Depends on Application			
Special Education	3	1	0	2
TOTAL	7993	4389	510	3094

Table 8.22 - New Primary Schools Educational Infrastructure Development Project under the Eighth Malaysian Plan for the Education Sector Support Project (ESSP) for Domestic financing

Project Status	Domestic Financing Phase 1 (managed by PMC)	
	Unit	Percentage
Completed on Schedule	93	31.84
LAD 1	171	58.56
Postponed	20	6.85
Terminated & Continued	4	1.37
Under Construction	4	1.37
Total	292	100.00

Intervention of certain interested parties in exempting fines due from

contractors

In a normal case, contractors who failed to complete their projects as per schedule stipulated in the contract should be subjected to penalty charges or fines. The fines or penalty charges would be a lesson learnt to the contractors in order to motivate them to speed up the progress of completing the projects. Furthermore, the charges will be an added income to the government and the amount can be huge if it's the case where many of them had been fined or charged for the penalty because of the delays in completion.

Therefore, the study also seeks to look at the factor if the interference of any interested parties such as certain influential figures or any political entities, in exempting the fines due from the contractors as one of the sources of risks which had caused the projects failures. The study revealed that 83 or 68.60 percent of the respondents agreed at above average of the 'Medium' level of risks and above. Out of that, 33 or 27.30 percent agreed at the 'High' level of risks as compared to 22 or

18.20 percent at the 'Low' level of risks. But the overall, figure showed 105 or 86.80 percent of the total 121 respondents in the survey agreed with this factor as a source of risks.

The above interventions were also admitted by some of the officers-in-charge of the projects at the ministry level. This is because the interventions will make the government lose a huge source of income from the imposed fines. Undoubtedly, the exemption of the fines will lead to a decrease in government income or revenue. For instance, based on the evidence obtained from the claimed for exemption of Liquidated Ascertained Damages (LAD), as in Bil. 4/2006 dated January 9, 2007 the maximum number of days given for this exemption by the committee or Board is 90 days. The claim will be subjected to the following:

- a) Clause in the Treasury Secular (Surat Pekeliling Perbendaharaan) 14.2.4 SPP Bil.8 Year 1995 as the 'Bumiputra' status of the contractors;
- b) The contractors are categorised as small category class which is the Class 'F' category; and
- c) None or lack in experience in managing construction projects and/or financially unsound.

Selection of contractors not based on open tender but on Direct Negotiation.

The selection of potential contractors as well as the project management consultants to manage the ESSP Domestic financing can be carried out in various ways such as the open tender process that had been done in other types of financing like in the case of the World Bank and Asian Development Bank financing of projects under the Eighth Malaysian Plan.

But it was understood that, the ESSP projects under the Eighth Malaysian Plan for Domestic financing were carried out through the Direct Negotiation method. Through this method selected contractors and project management consultants were directly awarded the job of implementing the projects without any need of considerations from other applicants.

Therefore, due to that, the study also seeks to identify to what extent the method of selection was based on Direct Negotiation for the Domestic financing and it was considered as a source of risks that had contributed to failures of most projects in the ESSP. The results of the analysis showed that 107 or 88.43 percent of the 121 respondents agreed from the 'Low' to 'High' level of this factor as a source of risks. Out of that, 38 or 31.40 percent agreed with it at the 'High' level, 45 or 37.20 percent at the 'Medium' level and finally, 24 or 19.80 percent at the 'Low' level.

The above is supported from the evidences from the interviews with various top management or the decision-makers within the Ministry of Education, Malaysia.

According to the Deputy Secretary-General of Finance and Development of MoE, the Head of Technical Unit of the DPSD, MoE and also the Head of Auditor for Education from the Auditor-General Office the problems with most Domestic financing projects failures were due to the method in awarding the contracts through the Direct Negotiation method which was not transparent. This had allowed contractors who were incapable of quality construction work and without sound financial capability to be awarded the contracts to implement construction projects under the ESSP.

Furthermore, the numbers of projects under Domestic financing were big and costly in comparison with the projects under the World Bank. The Deputy Secretary-General of MoE had added that under the Ninth Malaysian Plan the MoE avoided the appointment of contractors through Direct Negotiation. This is the lesson learnt from the Domestic finance. As compared to the World Bank projects, the projects awarded to the potential contractors were based on Open Tender process. The statements above were supported by the Head of Technical Unit of MoE as well as the Head of Auditor for Education Sector from the Auditor-General Office. It was understood that the Domestic financing projects were awarded to the contractors and PMCs based on the 'Design and Build' concept were carried out by the Ministry of Finance (MoF) in the Eighth Malaysian Plan under the Eighth Malaysian Plan as according to one of the officers-in-charge.

The numbers contracts awarded to the contractors is also stated in the lesson learnt on the Strategic Planning for Ninth Malaysian Plan of the DPSD. In the lessons learnt, it was stated that projects should be given to one or two contractors, and that

the track records of the contractors should be analysed further and the projects should be managed by the Technical Unit in the DPSD rather than the Project Management Consultants (PMCs). According to one of the officer-in-charge, some of the contractors were new to the infrastructure projects so much so that they had to sub-contract their projects. The appointments of such contractors were due to interference from interested parties such as from politicians.

8.3.4. Factors that relate to issues of late payment by the Ministry of Education (MoE)

The issue on late payment to the contractors and suppliers especially in the ESSP for Domestic financing under the Eighth Malaysian Plan had been brought up in the Parliament. This had dealt a great blow to the MoE especially to the DPSD in managing the projects and payments due to the contractors and suppliers involved.

In this section, the researcher seeks to identify which of the factors or the sources of risks related to late payment that had contributed most in the failure of the ESSP. Six variables were identified as sources of risks as listed with an analysis of findings as seen in Table 8.23 below.

- a) Involvement of many units in the DPSD in processing payments,
- b) Lack of funds due to inefficient budgeting,
- c) Lack of coordination in reporting the financial and physical progress of projects between different Units in the DPSD to its Payment Unit which is in the same Division,
- d) Lack of monitoring on the part of the Manager of the projects in the MoE,

- e) Lack of involvement by accountants in planning budgets and financial planning, and
- f) Financial and physical progress reports were not constantly updated.

The levels of risks are categorised into ‘High’, ‘Medium’ and ‘Above Average’. The purpose of categories is to identify which of them contributed to the failure of most projects of the ESSP under domestic financing which include delays in completion, postponement, and even abandonment of projects during the Eighth Malaysian Plan.

Table 8.23 - Factors Contributed to Delay in Payment by DPSD of MoE

No.	Source of Risks / Cause of problems	Level of Problem	Professional	Supporting	Total
1	Involvement of many Units in the Development and Procurement Division in processing payments	High	21	33	54
		Medium	17	31	48
		Low	6	6	12
		No problem at all	0	3	3
2	Lack of funds due to inefficient budgeting	High	7	12	19
		Medium	15	38	53
		Low	13	16	29
		No problem at all	8	7	15
3	Lack of coordination in reporting the financial and physical status of projects between different Units in the DPSD with its Payment Unit within the same Division	High	8	19	27
		Medium	26	43	69
		Low	10	10	20
		No problem at all	0	1	1
4	Lack of monitoring on the part of the Manager of the projects in the MOE.	High	10	14	24
		Medium	16	32	48
		Low	16	24	40
		No problem at all	1	2	3
5	Lack of role played by accountants in planning budgets and financial planning	High	6	10	16
		Medium	16	40	56
		Low	19	18	37
		No problem at all	3	2	5
6	Financial and physical progress reports were not constantly updated	High	7	18	25
		Medium	26	34	60
		Low	8	20	28
		No problem at all	3	0	3

(Source: Appendix A – Survey: Research Questionnaires)

High Level of Risks

Based on the analysis carried out in this study, the findings revealed that 102 respondents as shown in Table 8.24 below, identified and agreed that the factor of ‘involvement of many units in the DPSD in processing the payments’ as contributed to the delays in payments to contractors and suppliers had subsequently affected the progress of the projects.

This finding is supported by evidences from the officers-in-charge especially the staff of the Payment Unit in the DPSD of MoE. According to some of the staff who were interviewed, the involvement of too many units in processing the application for payments before the actual documents reached the Payment Unit was troublesome especially when the officers involved at the initial stages of approvals were not in the office for quite some time because of carrying out other official duties that required them to be out of office.

Other than that, the role of accountants in the payment unit were not utilized effectively as by practice the accountants were the professional staff that should be entrusted for approving and processing final payment. In fact, the situation worsened when each claim for payment must have been made through a warrant prepared by the payment unit to be submitted every each time to the budget unit of the DPSD.

Tabel 8.24 - 'High Level of Risks'

	Source of risks / cause of problems	Total Respondent
1	Involvement of many units in the DPSD in processing payments.	102
2	Lack of coordination in reporting the financial and physical status of projects between different units in the DPSD with its payment unit within the same Division.	27
3	Financial and physical progress reports were not constantly updated.	25
4	Lack of monitoring on the part of the manager of the projects in the DPSD of MOE.	24
5	Lack of funds due to inefficient budgeting by the DPSD	19
6	Lack of role played by the accountants in financial planning and forecasting.	16

(Source: Appendix A – Survey: Research Questionnaires)

Medium Level of Risks

The agreement of the respondents at a 'Medium level of risks' did not vary too much as compared to the analysis done on 'High level of risks'. The lowest number of respondents who agreed that the delay in payment is a source of risk is 48 while the highest is 69.

For instance, the 'lack of coordination in reporting the financial and physical status of projects between different units in the DPSD with its payment unit within the same Division' scored an agreement with the highest respondents. The score correlated with the second and the third highest with the respondents. The second highest being the, 'Financial and physical progress reports were not constantly updated' and the third being the 'Lack of role played by the accountants in financial planning and forecasting'. The correlation reflected that the findings were in interrelated and were in agreement.

Therefore, from the above, we can conclude the importance of the role that can be played by the accountants in the DPSD in contributing the effectiveness of funds management. Based on the analysis, about 69 respondents agreed with the first source of risks. This is followed by 60 for the second source of risks, and 56 for the third source of risks as the factors that had contributed to the delays in payments. Other than that, it can be also associated with the fourth level of risks which is the 'lack of funds due to inefficient budgeting by the DPSD' that about 53 respondents agreed that contributed to the delay in payment.

The roles of the accountants in the DPSD were very minimal in the Domestic financing as compared to the World Bank financing. This was because the accountants at the payment unit for instance were not being involved in the financial planning and budgeting as well as in managing the financial management report unlike the project accountant in the World Bank financing. This evidence was obtained from the observation and also through the interviews with the accountants and officers involved in the ESSP.

The above situation was also supported by the Head of Auditor (Education Sector), of Auditor-General Office who commented that it would be advisable that the accountants in the DPSD play their role effectively as in the case for World Bank financing.

Table 8.25 - 'Medium Level of Risks'

	Source of risks / cause of problems	Total Respondent
1	Lack of coordination in reporting the financial and physical status of projects between different units in the DPSD with its payment unit within the same Division.	69
2	Financial and physical progress reports were not constantly updated.	60
3	Lack of role played by the accountants in financial planning and forecasting.	56
4	Lack of funds due to inefficient budgeting by the DPSD	53
5	Involvement of many units in the DPSD in processing payments.	48
6	Lack of monitoring on the part of the manager of the projects in the DPSD of MOE.	48

(Source: Appendix A – Survey: Research Questionnaires)

Above Average level of Risks

The study also seeks to identify which of the sources of risks which were above the average level of risks that were related to delay in payment and subsequently became problems in the ESSP infrastructure developments. The above average was obtained from the 'Medium' level and above risk levels. The results were in the Table 8.26 below.

Table 8.26 - 'Above Average Level of Risks'

	Source of risks / cause of problems	Total Respondent
1	Involvement of many units in the DPSD in processing payments.	102
2	Lack of coordination in reporting the financial and physical status of projects between different units in the DPSD with its payment unit within the same Division.	96
3	Financial and physical progress reports were not constantly updated.	85
4	Lack of role played by the accountants in financial planning and forecasting.	72
5	Lack of funds due to inefficient budgeting by the DPSD	72
6	Lack of monitoring on the part of the manager of the projects in the DPSD of MOE.	72

(Source: Appendix A – Survey: Research Questionnaires)

From the analysis in Table 8.26 above, the 'involvement of too many units in DPSD in processing payments had contributed the highest score of 102 respondents as

compared to other sources of risks. Even though the number of respondents who stood at only 72 for the lowest score but the number can be significant because the percentage can be considered high if the total overall percentage calculated is 59.50 percent, which is slightly above the average score of fifty percent.

As the first source of risks has been discussed earlier, the evidence obtained to other risks associated with the delays in payments, are stated below.

The source of risks which is related to the 'lack of fund due to inefficient budgeting' is supported by evidence obtained from the Strategic Planning Meeting (Persidangan Perancangan Strategik) of the Ministry of Education 2004. According to the report, the DPSD of MoE should complete 20,632 projects under the Eighth Malaysian Plan. However, due to insufficient fund allocation, about 6,264 projects had to be postponed. The lack of role played by the accountants is supported by the statement given by the ex-Deputy Secretary-General of Finance and Development, MoE and also by the Auditor-General for Education as well as the accountants in the DPSD who were involved in both Domestic and World Bank financing projects.

This situation was again supported by the evidences gathered from documents of the Primary Unit Office File dated 19th of January, 2006 from one of the officers-in-charge of the project. From the document, there was an overview status of the projects implemented under the Eighth Malaysian Plan which was managed by this unit has indicated in Table 8.27.below.

Table 8.27 - Overview Status of Implementation Project under Eighth Malaysian Plan
(Source: Fail Meja Unit Rendah Akademik , 19 January 2006)

Program	Total	Completed	Construction	Postponed
Pre School	6103	2803	496	2804
Primary Academic	1867	1583	14	270
Teachers Training College	20	2	0	18
Capital Assistant	Depends on Application			
Special Education	3	1	0	2
TOTAL	7993	4389	510	3094

The findings above revealed that about three thousand and ninety four (3,094) or 38.71 percent of the overall total projects managed by Primary Unit were postponed and five hundred and ten (510) or 6.38 percent were under construction. While in the case of the Primary Schools projects, about 270 or 14.46 percent of the total 1,867 projects were postponed.

The issue of late payments in Domestic financing might be due to a lack in the contract condition pertaining to penalty for late payment. As in the World Bank Contract, it was stated that the MoE can be sued for late payment if it does not comply with the contract. The above issue of late payment by the MoE was also mentioned by the Prime Minister of Malaysia and brought up in the Parliament of Malaysia too.

For instance, the problems of delays in payments to some projects which should have been completed three to four years ago had resulted in the accounts not being closed. This situation had also been highlighted by the Prime Minister of Malaysia, Datuk Seri Abdullah Ahmad Badawi who instructed the Ministries which had not made any payments due to the contractors on completion of their projects must do so immediately. The Prime Minister statement was stated in the Malaysia national

newspaper, the 'Utusan Malaysia' dated February 17, 2005. Due to order of the Prime Minister, the Ministry of Education promised and guaranteed that it will make the due payments to the contractors that failed to get their payments even though the projects have been completed. The guarantee was given by the Minister of Education, Malaysia, Datuk Seri Hishammuddin Tun Hussien to the President of the Malaysian Malay Contractor (PKMM, Dato' Roslan Awang Chik). The amount was about RM3 million to RM 6 million out of the RM15 million allocated to address the need for making immediate payments.

8.4 Summary and conclusion

In this chapter, a survey was carried out among the officers and staff of the DPSD of MoE. The aim of conducting this overall survey was due to demand of the staff during the data collection period while at the initial stage the survey only involved selected staff. The response to the survey was very encouraging as it involved all the units within the DPSD and the various levels of staff. The involvement of the support staff level proved useful in understanding weaknesses in the financial management system. The survey that was conducted was related to the knowledge and awareness of risks among the staff.

Other than that, the survey also covers the perceptions of the staff related to sources of risks based on the "PESTLE MODEL" as in the Orange Book on Risk Management in Public Sector by the HM Treasury of UK (2004). The "PESTLE MODEL" which consists of various sources of risks that are related to the internal and external factors can be applied in this study. The internal and external factors in

this study were analysed in identifying the extent of risks and the sources of risks that contributed to the failure in completing the projects as per schedule.

The analysis of this chapter also tries to identify which of the sources of risks that are related to the issues of late payments to the contractors and suppliers of MoE. The intention of analysing this risks factor is because the issue of late payments had been brought up and discussed in the Parliament.

These results are supported with evidences obtained from interviews and relevant documentations as sources for triangulation. It was identified that most of the staff, both at professional and supporting level within the DPSD had agreed to both the internal and external environment factors as proposed in the “PESTLE MODEL” of the HM Treasury UK (2004) were sources of risks that were above average or more than fifty percent. Furthermore, it was agreed that the knowledge and awareness of risks related to their jobs should be highlighted by the top management to all staff irrespective of their positions. This would also include the perception of staff on the factors related to delays in payments by the MoE.

Finally, it can be stated that the contribution of the sources of risks listed above should be taken into full consideration by the top management in the near future based on the evidences gathered. This is because failures in meeting the demand of the contractors and suppliers due for payment by the DPSD or MoE will definitely increase the risk of project failures which will eventually affect the service delivery of the projects for education purposes. Furthermore, this condition will reflect failure to achieve the objectives planned earlier due to bad cash management within the

ministry especially in the DPSD. Therefore, based on the above results, the researcher believed that the objective of this chapter was achieved as stated in the sub-objective and hypothesis of this study.

The level of awareness and knowledge of risks among staff should be given serious consideration by the top management of the MoE as well as officers in the DPSD according to the role they play in determining the success of MoE's project management either in ensuring the success of projects implemented and the effective financial management. This also included the opinion in the open-ended question that 43 of the respondents in the survey agreed that bribery or corruption is a major challenge in their daily duties.

PART 3

CONCLUSION

Part 3 consist of the final chapter, conclusion and implications. It summarizes the conclusion, and implications of this thesis. It also includes the limitations faced by the researcher in conduction this thesis.

Chapter 9

Conclusion and Implications

9.1 Introduction

This thesis set out to compare the World Bank and the Government of Malaysia approaches in financial management systems. The effectiveness of the financial management systems is evaluated within the context of the Educational Sector Support Project (ESSP) under the Eighth Malaysian Plan. It examines the effectiveness of the financial management system in managing risks related to public financial management and aid. It highlighted the various aspects and process of implementation by analyzing the issues brought up by all those involved in the ESSP and set its focus on public financial management in relation of the claims of failures and poor management of funds. The claims became national issues as in the case of Malaysia and were justifiably raised in the Parliament of Malaysia as well as similar experiences in other countries that sparked international debates as in the Paris Declaration 2005.

The study focused on three main areas which are financial reporting, the roles of project implementation unit and procurements. This chapter has two main purposes, firstly, it summarised the key findings and conclusions. Secondly, it examined the theoretical, policy and practice implications of the study. It also included the limitation in carrying out this research and finally, the implications for further research were mentioned.

9.2 Summary

The central proposition of the thesis was to compare the effectiveness of a country's financial management system, in this case Malaysia, as compared to a donor financial management system that is the World Bank. For instance, in this research study, the issues raised were related to country's financial management system such as its weaknesses in the PFM under the ESSP in Malaysia. The sharing of the Malaysian experience in managing its financial system, the lessons learnt from it and the steps taken to improve the system in the near future has benefited many participating countries in the Paris Declaration 2005. However, the question still begs the answer whether the objectives set in the Paris Declaration can yet be fully achieved by 2010. This is in line with the worrying results of the findings of the Evaluation Study 2008, which indicates that the percentage of countries committed to strengthening the country financial management system is still considered very low.

Even though the findings acknowledged certain weaknesses in country's financial management system but in the Paris Declaration, that emphasized of the discussions centers around donors' leniency in using the country's own financial management system rather than an insistence on using donors' financial management system. Therefore, what remains of the focus of the debates in the Paris Declaration was still on issues like why donors were still reluctant to use the respective countries financial system in comparison with their own system. Among the financial management systems discussed in this study, special attention was given to financial reporting effectiveness, project implementation and monitoring, and on procurements procedures.

In this study, the weaknesses in the country financial management system was discussed in Chapter 2 on Problems in PFM which had been identified in Part II of the analysis of the findings. The study also examines the weaknesses in the Government of Malaysia a financial management system under the ESSP which led to the conclusion that managing the financial management system must be taken risks management into account. Risk management of public fund should therefore be identified and studied further as the effective and efficient management risks directly contribute to the effective and efficient management of the financial system.

Therefore, in Chapter 3, the research managed to identify the risks associated with public financial management and aid such as fiduciary risk and development risk, where fiduciary risk includes fraud and corruption as the main risks. Furthermore, with the guidelines for managing risks referred to as in the Risk Management Model of the HM Treasury UK and the Canadian Treasury of the Integrated Risk Management Model, other associated risks that can be linked with managing public fund identified which were related to this study.

In Chapter 3 too, the evolution of risks in the public sector model by ALARM were referred to as the basis in exploring the important financial management in managing risks. This is supported with various studies by the World Bank (2005), Oche and Ballack (1999), as well as professional bodies such as CIPFA and CIMA. This chapter explores the effective financial management approaches that can be used in managing risks related to public financial management and aid effectiveness. This chapter leads to the development of an analytical framework discussed in Chapter 4.

Chapter 4 examined and elaborated the analytical framework of risks management. The study by Drebin, Chan & Ferguson (1981) on “Objective of Accounting and Financial Reporting for Government Units” and the joint study by Audit Commission of HM Treasury UK and PricewaterhouseCoopers (2005) on ‘World Class Financial Management for Public Sector’ were used as the basis for analyzing the data in order to compare the effectiveness of the World Bank approach and Government of Malaysia approach in managing risks related to public expenditure management and aid effectiveness. Among the areas of financial management systems included in the analysis were on effectiveness of financial management reporting, project implementation and monitoring, and procurements procedures between the World Bank and GoM implemented in the ESSP under the Eighth Malaysian Plan. The findings of the analysis were discussed in Chapter 6, 7 and 8. The results of the analysis were based on various evidences such as interviews and reports.

Later, through the analytical framework, in Chapter 5, a research method was selected and used to analyze the research findings. This includes the collection of data from various sources such as those collected through interviews - individual and focus group, questionnaires, and official documents. This study used both the qualitative and quantitative techniques. The later is to triangulate the evidence obtained from the qualitative method.

9.3 Key findings and conclusions

The key findings and conclusions in this section are based on the hypothesis set for this study. They are as follows:

9.3.1. Main Hypothesis

The PMR implemented in the World Bank approach is more effective than the Government of Malaysia approach in managing risks related to public financial management and aid of the ESSP in the Eighth Malaysian Plan.

The evidence presented in Part II of the thesis leads to a number of conclusions on the implementation of financial management system in the World Bank approach and the Government of Malaysia (GoM) approach as presented by the Ministry of Education. The context of the study is Educational Sector Support Projects (ESSP) undertaken by the MoE under the Eighth Malaysian Plan.

The findings in this chapter showed the weaknesses found in implementing ESSP in the GoM approach led to the risks of public fund mismanaged as compared to the World Bank approach.

For instance, the result of the analysis in Chapter 6 on the effectiveness of financial management reports or project management reports (FMRs/PMRs) implemented by the Government of Malaysia were less favourable in fulfilling the standards and criteria set in the study by Drebin, Chan & Ferguson (1981) and the study by the

Audit Commission and PriceWaterhouseCoopers (2005). The non-effectiveness of the PMRs in the GoM approach was supported with evidence from the interviews with the implementers as well as from official documentation on the impact of the weaknesses in financial reporting. As compared to the World Bank approach, the detailed reports in the PMRs as prepared by the Project Accountant of PIU, and the subsidiaries reports prepared by the sub-implementers were very useful in determining as well as fulfilling the standards and criteria of effective financial reporting. This led to the findings that the World Bank approach was more successful in implementing the ESSP as compared to the Government of Malaysia approach. For example, in the World Bank approach, the PMRs played a critical role in assisting the implementers in determining and predicting the cash requirements for meeting the short and long term demands. However, problems due to shortage of fund occurred in the Government of Malaysia approach in the ESSP.

The project financial management systems, such as the role of project implementation unit (PIU) and the procurement procedures were more effective in reducing risks in the World Bank approach as compared to the Government of Malaysia.

Chapter 7 shows the results related to how effective the World Bank financial management system were compared to the Government of Malaysia approach in reducing risks in the ESSP. The financial management system included financial reporting, project implementation and monitoring, and procurement procedures which were highlighted and debated in the Paris Declaration 2005. The analysis also included other factors such as the involvement of top management and project

coordination committee (PCC) which played a critical role had contributed to the success of the World Bank approach in managing risk as compared to the Government approach. The criteria of 'good governance and leadership' as stated in the "World Class Financial Management for Public Sector" by the Audit Commission and PricewaterhouseCoopers (2005), identified and recognized the effective role of top management such as the Deputy Secretary-General (Finance and Development) of MoE, and the commitment of the Project Coordination Committee which included the Project Implementation Unit (PIU), and a representative from the Auditor-General Office contributed to the success of the World Bank approach in managing risks.

Furthermore, the pre-conditions set by the World Bank to the Government of Malaysia as part of their financial management systems such as the setting up of the Project Implementation Unit (PIU), procurement procedures, the need for financial reporting which was the Project Management Reports (PMRs) had shown the effectiveness of the World Bank financial management system in managing risk as compared to the Government of Malaysia approach. For instance, the results revealed the non-existent of PIU in the Government approach and the used of the services of on Project Management Consultants (PMCs) in managing projects under the ESSP had experienced major setbacks as in the completion of the projects as per schedule, and issues of incurring escalating additional costs. The study had shown the impact of risks to infrastructure and development projects when they were managed by those who were inexperienced in managing a major project such as the ESSP. In comparison, the conditions stipulated in awarding contracts to the contractors and suppliers in the World Bank approach had successfully minimized

risks and had contributed to the success of the ESSP. This is because in the Government of Malaysia approach, the leniency in awarding contracts especially to companies with the “Bumiputra” status, as well as the approach of awarding the contracts based on ‘Direct Negotiation’ to the contractors and project management consultants led to fraud and corruption as compared to the World Bank which was based on ‘Open-tender’. Furthermore, the findings revealed that political influences in the Government approach and lack of experience in parallel with exposure to those involved with the projects resulted in many failures of the projects under the Government of Malaysia approach.

The lack of competency in risk management among those involved in the ESSP had caused a failure in managing public fund effectively, efficiently and economically under the Domestic financing.

In Chapter 8, the researcher collected and analyzed the evidences from the questionnaires administered to the staff in the Development and Procurement Division (DPSD) of MoE. The data collected from the questionnaires seeks to identify the different levels of awareness of risks among staff in the DPSD and to understand the implications of risks and to suggest ways of improving risks management. It also identifies and discusses the risks factors and evaluates them based on the “PESTLE MODEL” of the HM Treasury UK (2002). The risks identified were found to have contributed to the low performance of the Government of Malaysia approach. As a result, it also reflected the general weakness in the country financial management system as compared to the World Bank approach.

In conclusion, the findings in this chapter also supported the study by Youker (1999). According to Youker, the factors that were identified as problems in all projects that were financed by the World Bank were the lack of detailed, realistic, and current project plans (schedule, budget, procurement), unclear lines of authority and responsibility (organization not structured for project management), lack of adequate resources, poor or no analysis of major risk factors; and delays caused by bureaucratic administrative systems (approvals, procurement, personnel, land acquisition, and release of funds).

9.3.2. Theoretical Perspectives

The issues on the weaknesses of a country's financial management system had raised concerns among fund donors and consequently this had affected their stand on aid contributions. These issues had been deliberated in the Paris Declaration 2005 and various strategies and recommendations were proposed to tackle and overcome them such as, by strengthening a country's financial management system. It is expected by the year 2010 that the objectives set and agreed upon in the Paris Declaration by participating countries will be achieved. In the review of related literature, the results on the Performance Evaluation by PEFA in 2008 had shown that indicators for efforts taken to enhance and to improve the financial management system of most countries were still weak and at a minimal level of improvements. The Performance Evaluation results reflected the weaknesses that still plagued most of the country's financial management system which continues to be of concern to fund donors. Some of the issues raised in the Paris Declaration are whether it is relevant and practical to get rid of the PIUs? Is a country's financial management system in

relations to project implementation and monitoring, financial reporting and procurements effective enough in reducing risks such as fraud and corruption?

As stated earlier in the review of related literature, there were mixed opinions on the PIU. In the Paris Declaration 2005, one of the proposals made by most participating countries is aimed at getting rid of the PIU, but on the other hand, donors such as the World Bank (2006) and ADB (2005) were still not ready to do that. This also included the lack of confidence of PIU internally staff (ADB, 2005) which considered less efficient due to lack of experience and exposure as well as demoralize on low salaries.

This research has demonstrated the effectiveness of the internal PIU staff and suggested the reasons why PIU is still needed irrespective of its nature. The findings in Chapter 7 revealed that the effective role of PIU in the World Bank approach for the ESSP in Malaysia had indeed become a significant factor that had contributed to the successful management of the projects. Consequently, the role played by the PIU had reduced the risks in managing public fund in comparison to the Government of Malaysia approach as claimed by the Deputy Secretary-General (Finance and Development) of MoE, and Head of Auditor for Education from the Auditor-General Audit Office, as well as the World Bank in its Implementation Completion Report (ICR).

The findings of good performance by PIU internal staff (integrated PIU) contrasts with the finding from the study conducted by ADB (2005) which emphasized the ineffectiveness of PIU internal staff. As observed in this study, the World Bank

approach entails the MoE appointing their own staff in the PIU. The appointed staff had performed better as compared to the Government of Malaysia approach where problems later developed during the implementation stages of the projects awarded to contractors and suppliers under the ESSP. Both in the World Bank approach and the Government of Malaysia approach of the ESSP, the PIU consists of the Ministry of Education who earned their salaries based on the government salaries scales. The difference was that in the World Bank approach, the PIU team were senior professional staff with experience and expertise and were appointed based on the World Bank's criteria. In comparison, in the Government of Malaysia approach junior officers who have yet to gain the necessary knowledge and experience in their field of work.

Current literature on financial management included studies on financial reporting as a tool for effective and efficient financial management. Effective financial reporting can assist users in decision-making, financial planning and forecasting, monitoring and evaluating. It is also useful as a mechanism for internal control to reduce the risks of mismanagement of fund and it can be used as a potential key performance indicator.

The need for effective financial management such as financial reporting was highlighted in the literatures by professional bodies such as CIMA and CIPFA, ALARM on Risks Management in Public Sector, as well as in the joint study by the Audit Commission of HM Treasury UK and PricewaterhouseCoopers (2005) on "World Class Financial Management for Public Sector". This also encompasses the study by Drebin, Chan & Ferguson (1981) on 'Objectives of Financial Reporting and

Accounting for Government Units” that have set the standards and criteria in meeting the requirements of an effective financial reporting. Therefore the standards and criteria proposed by Derbin, Chan & Ferguson (1981) and Audit Commission of HM Treasury UK and PricewaterhouseCoopers (2005), forms the basis for analyzing the effectiveness of Project Management Reports (PMRs) implemented in the World Bank approach and the Government of Malaysia approach in the ESSP of the Eighth Malaysian Plan. The results as in Chapter 6 is a comparison between the two approaches and it was revealed that the World Bank approach was more effective in managing or reduces risks in public financial management and aid.

As the role and importance of financial management reporting in managing risks became clearer, other approaches such as the ‘Financial Management Capacity Model’ by the Canadian Treasury acts to strengthen the role played in improving the capability of countries to improve their own financial management systems. This is further correlated with the study by Brooke on aid management, the World Bank (2005) as well as the studies by Hallak and Poission (2006) and Ochse (2004) who agreed that the standardized financial procedures, procurements procedures, financial and management accounting, monitoring and auditing served as a practical basis of mitigating risks such as corruption in financing education.

Further study in the management of public fund by the International Institute for Educational Planning (IIEP) had helped reducing the risks such as corruption in educational system. The study stressed the need for the recruitment of potential staffs who are experienced in the management of public fund. In fact, this proposal for

such recruitment was stated in the Educational Development Blueprint 2006 – 2010 of the Ministry of Education.

9.3.3. Policy and Practice Perspective

The evidences collected and examined from the various sources identified indicate the need for improvement in managing risks related to public financial management and aid in the Government of Malaysia approach as compared to the World Bank approach. The weaknesses examined were on how the project was being implemented and managed both from the financial and non-financial aspects. This includes the project implementation team, procurement procedures in awarding contracts, as well as the producing of financial reports that can be useful for various purposes, not only as a monitoring device but also as a tool for performance evaluation and key performance indicator. For instance, in the World Bank approach, its detailed Project Management Reports (PMRs) had increased the effectiveness and efficiency in decision-making for budgeting, financial planning and forecasting, as well as monitoring and evaluating the progress status and completion of projects effectively. Through this mechanism, the risks of fraud and corruption were reduced and the mismanagement of public fund can be avoided.

The setting up of the PIU within the Ministry of Education with experienced staff in managing the ESSP also includes the setting up of a management team known as Project Coordination Committee (PCC) members which consists of both internal and external members of the MoE including representatives from the Treasury, Economic Planning Unit of the Prime Minister Department and the Auditor-General Office should be a lesson learnt in the World Bank approach.

In addition, the effectiveness of the World Bank approach can lead to the following gaps and weaknesses that were related to the country financial management system such as:

- a) Reducing the gap of non-submissions and delays in submission of annual financial report to be audited by most government bodies;
- b) Reducing the gap of projects failures due to the mismanagement of funds that has been highlighted in the Parliament;
- c) Facilitating the role of internal auditors;
- d) Encouraging the officers involved in various projects or programs to closely monitor the progress of their respective projects or programs in both financial and qualitative aspects;
- e) Assisting the top management of MoE to monitor the progress of the respective projects or program funded;
- f) Increasing the confidence of both implementers and the public in public fund management.

In conclusion, the study proved that the World Bank approach in reducing risks related to public financial management and aid is a valuable lesson learnt by all parties involved.

9.4 Limitations

9.4.1. Limitations in Funding the Research

Even though the researcher got the support from the top management of the Ministry of Education in carrying out this research, there were some limitations faced. Site visits of school projects which were categorised as unsafe, abandoned and delayed were restricted to only two schools because of financial constraints

9.4.2. Limitations in getting full participation from potential respondents

In addition, the researcher was also unable to get all the respondents to give their cooperation in the interviews and questionnaires administered as planned earlier. This was because some of the officers-in-charge for a particular ESSP in the Eighth Malaysian Plan had been promoted and had moved to other places. Furthermore, even though, appointments had been made earlier to meet with them but until the end of the data collection period, the researcher found that it was difficult to meet them as they were engaged with other official matters and were frequently unavailable and out of the office.

The limitations faced also included the problems in getting the appropriate cooperation of the Project Management Consultants (PMCs). Most of the PMCs

were reluctant to participate even though a directive issued by the officer-in-charge of the Development and Procurement Division (DPSD). In fact, only one out of twenty-one of the PMCs responded to the queries sent by the researcher on matters relating to the progress reports on the projects they are managing. Hence, the report delays had contributed to the failure of good cash flow management in the DPSD itself. However, the researcher had managed to get reports such as the ‘Liquidated Ascertained Damages’ (LAD) from the officer-in-charge of the DPSD of MoE.

9.5. Implications for further research

It is suggested that future research should also take into account the different states within Malaysia and different ethnic groups, which may influence the outcomes for risk management in public expenditure and service delivery in Malaysia. Furthermore, future research should investigate the role of training and capacity building that is required in order to implement national programmes. This is because the findings of the study suggest that World Bank programmes are more successful than government run programmes because the latter do not have the required skilled staff.

In addition, similar comparative studies of donor and country financial management system could be carried out in other countries, particularly to test the PMR effectiveness with the aim of managing risks in public expenditure in a better way and to enhance the service delivery.

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APPENDIX A RESEARCH QUESTIONNAIRES / INTERVIEW GUIDE

Unstructured Questions as a guideline for Interview:

There were certain projects which were completed on schedule (time) and also some projects that were not completed on time.

1. What contributed to the success of the project that was completed on time?
2. Why was there failure to meet the dateline for certain similar project?

There were certain potential projects which were not able to proceed as planned.

3. Why did the project not able to proceed as planned (meant priority)?

There were issues related to the postponement of certain projects, delaying in completion as well as abandonment which were supposed to be under your control.

4. Were the problems related to the financial management of the Ministry of Education (MOE) or by the contractors or suppliers?
5. If by the MOE, why it happens?

In financial management of infrastructural projects –

6. How was the project being management in terms of supervision, physical monitoring and financial data?
7. Were there any specific guidelines or procedures?
8. Were there any problems in getting the information on progress status for physical and financial from the subordinates?
9. What action will be taken in order to get the above information ad hoc?
10. were the current project/financial management reporting format helpful in identifying in details when required especially in getting financial information regarding a particular project such as Contract Cost, Current/Actual Cost, VO, penalties and others?
11. Were there any problems in financial planning and budgeting with the current practice?

There were projects financed by World Bank and ADB but their projects were completed on time.

12. Why similar projects under government domestic financing had problems?
13. Were the failures due to any other factors?

Questions for contractors, suppliers and independents consultants that related abandoned and project delayed.

1. When did the project started?
2. At what level does the project comes to an end (failed)?
3. Why do you think that the project failed?
4. What was the consequence of the failure due to financial?

Questions to Focus Group (Local Communities)

1. What is the expectation when you heard about the project that will be carried out in your area?
2. How much do you think it has cost when there is a delayed, abandonment or postponement of the project?

QUESTIONNAIRE ON RISK MANAGEMENT STUDY ON PUBLIC FUND MANAGEMENT AND ITS RELATION TO EDUCATION DEVELOPMENT PROJECT

Name (Optional).....

Designation and Grade:.....

Current Unit assigned.....

Occupation Status: Permanently employed / Temporarily employed
(Cross out which is **NOT** relevant)

Number of Years and Months of Service on this Division:.....

Number of Years and Months of Service with the Government:.....

THE FOLLOWING ARE QUESTIONS RELATED TO KNOWLEDGE AND EXPERIENCE ON RISKS INVOLVE IN MANAGING PUBLIC FUND

INSTRUCTIONS: Choose and circle or tick (/) your answers to the questions below.

1. What is the level of your knowledge on the risks in public fund management when you were offered the current post in your Division or Unit?

- A. High B. Average C. Low D. Very low or almost non existent

2. What is the level of your knowledge on the risks in public fund management as soon as you hold your current post in your Division or Unit?

- A. High B. Average C. Low D. Very low or almost non existent

3. What is the level of your knowledge on risks in public fund management as a public officer?

- A. High B. Average C. Low D. Very low or almost non existent

4. How were you introduced to matters relating to risks management? Please tick your choices. You can tick more than one choice.

No.	Methods	Tick (/)
1	Briefing upon reporting for duty	
2	In weekly or monthly meeting by superior	
3	Memos or letters to staffs	
4	Notes circulated to staffs	
5	Not informed at all	

5. If YES, do you think that the information on risk management should be conveyed to which of the following officers? Please tick your choices. You can tick more than one choice.

No.	Groups	Tick (/)
1	Only to those officers of DG48 Grade and above	
2	Only to those officers of DG41 Grade and above	
3	Only to Executive Officers and Chief Clerks	
4	All staffs	

6. If no briefing or exposure were given, do you think that information on risk management should be given to the following officers? Please tick your choices. You can tick more than one choice.

No.	Groups	Tick (/)
1	Only to those officers of DG48 Grade and above	
2	Only to those officers of DG41 Grade and above	
3	Only to Executive Officers and Chief Clerks	
4	All staffs	

7. In your opinion, what is the best method (or methods) that is (or are) most appropriate to inform staffs on risk management? Please rank your choices according to the following scale:

- 1 Most effective
- 2 Effective
- 3 Mildly effective
- 4 Not effective at all

No.	Methods	Choice
1	Once upon reporting for duty	
2	In monthly or weekly meetings held by management	
3	Memos or letters to staffs	
4	Notes circulated to staffs (with staffs signing a record book as proof that they have read the notes)	

8. In your opinion, what do you think are the risks associated with your current occupation?

- i. _____
- ii. _____
- iii. _____
- iv. _____

9. In your opinion, what are the level of risks are associated with the project delays or completed without meeting quality specifications?

Please rate your choice based on the following scale:

- 1 High
- 2 Medium
- 3 Low
- 4 No risk at all

Parties Involved	Source of risks	Level
Contractors	Less than 2 years experience in handling infrastructure projects	
	Not having enough skilled workers	
	Managing too many projects within the same stipulated timeframe	
	Not having adequate financial resources for revolving working capital	

Consultants (PMC)	Managing too many projects	
	Frequently late in processing approved payments to be forwarded to the Development and Procurement Division, Ministry of Education	
	Did not closely monitor the projects undertaken	
	Not submitting monthly reports according to stipulated datelines	
Local Authorities	Late in giving approvals	
	Inclusion of extra conditions at mid-way of the projects	
	Late in approving the Certification of Occupancy	
State and District Education Offices	Were not requested to be involved in monitoring of projects	
	Did not submit progress reports or late in submitting the progress reports of the projects to the Ministry of Education	
	No staff with technical expertise were involved with infrastructure projects	
	Proposed a hazardous or inappropriate site for school projects	
Ministry of Education	Lack staff with technical expertise for project management	
	Frequent change of staff at the officer level during tenure of project	
	Lack of support staff	
	Lack of exposure to work procedure	
	Lack of training for staff involve in the project	
	Late payment to supplier or contractor due to checks-and-balance procedures within Divisions.	
Other factors	Intervention of certain interested parties for building contracts	
	Intervention of certain interested parties in obstructing the termination process of contractors at the early phase of the project due to the contractors' disability to proceed	
	Intervention of certain interested parties in exempting fines due from contractors	
	Selection of contractors not based on open tender but on Direct Negotiation.	

10. In your opinion, what are the levels of problems that caused the contractors to delay receipt of payments from the Ministry of Education?

Please rate your choice based on the following scale:

- 5 High
- 6 Medium
- 7 Low
- 8 No problem at all

No.	Cause of problems	Level of problem
1	Involvement of many Units in the Development and Procurement Division in processing payments	
2	Lack of funds due to inefficient budgeting	
3	Lack of coordination in reporting the financial and physical status of projects between different Units in the Development and Procurement Division with its Payment Unit within the same Division	
4	Lack of monitoring on the part of the Manager of the projects in the Ministry of Education	
5	Lack of role played by accountants in planning budgets and financial planning	
6	Financial and physical progress reports were not constantly updated	

Your kind cooperation is greatly appreciated.

All information are classified and meant to serve the purpose of this study only and never intended for public consumption.

Thank you.

SULAIMAN ARIS

**Interview Session
(List of Interviewees)**

Dato' Dr. Islahuddin bin Baba. Ex-Chairman of the Project Coordination Committee (PCC), Educational Sector Support Projects (ESSP) World Bank 4451 MA, and also the Ex-Deputy Secretary General (Finance and Development), Ministry of Education, Malaysia, 7th August, 2007.

Dato' Fatimah binti Md. Deni. Deputy Secretary General (Finance and Development), Ministry of Education, Malaysia, 7th June, 2007 & 10th August, 2007.

Dato' Badarudin bin Abdul Rahaman. Principal Secretary, Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 10th August, 2007.

Mdm. Hjh. Zainun binti Mohd Taib. Ex-Head of Auditor (Educational Division), General Auditor Office, Malaysia, 8th August, 2007.

Mdm. Hjh. Samini binti Omar. Head of Technical Unit, Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 11th July, 2007.

Ms. Sahara binti Ahmad. Assistant Director, Educational Planning and Research Division, Ministry of Education, Malaysia (formally Secretariat of the Project Coordination Committee (PCC), Educational Sector Support Projects (ESSP) World Bank 4451 MA), 4th July, 2007.

Dr. Mohd Nasir bin Abu Hassan. Director, Technical Education Division, Ministry of Education, Malaysia, 3th August, 2007.

Mr. Zaharuddin bin Saaya. Senior Assistant Director, Technical Education Department, Ministry of Education, Malaysia (formally Project Architect ESSP World Bank), 3th August, 2007.

Mr. Megat Nabil. Senior Assistant Director, Technical Education Department, Ministry of Education, Malaysia (formally Project Manager ESSP World Bank), 25th July, 2007.

Mr. Marzuki. Senior Accountant, (Payment Unit), Development and Procurement Division, Ministry of Education, Malaysia, 29th June, 2007.

Mr. Ahmad Jawab. Accountant, Payment Unit, Development and Procurement Division, Ministry of Education, Malaysia, 11th July, 2007.

Mr. Zahar Harun. Principal Under Secretary (Ex-Primary Unit & Supporting Unit), Development and Procurement Division, Ministry of Education, Malaysia, 7th August, 2007.

Mr. Khairul Kassim. Principal Under Secretary (Budget & Planning Unit), Development and Procurement Division, Ministry of Education, Malaysia, 21st June, 2007.

Mrs. Siti Fatimah. Assistant Under Secretary (Budget & Planning Unit), Development and Procurement Division, Ministry of Education, Malaysia, 1st July, 2007.

Mrs. Azarah. Accountant (Budget Unit), Development and Procurement Division, Ministry of Education, Malaysia, 21st June, 2007.

Mr. Joseph Ngalambai. Executive Officer (Supporting Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 11th and 22nd June 2007.

Miss Fadilah. Executive Officer (Supporting Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 11th and 22nd June 2007.

Mr. Bukri. Assistant Under Secretary (Supporting Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 22nd June 2007.

Mrs. Haslinda. Executive Officer (Primary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 28th May 2007.

Mr. Ramzi. Senior Assistant Under Secretary (Primary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 28th May 2007.

Miss Yohista. Assistant Under Secretary (Primary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 28th May 2007.

Mr. Mukhris. Assistant Under Secretary (Primary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 28th May 2007.

Mr. Sariman. Assistant Under Secretary (Secondary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 28th May 2007.

Mrs. Raimah. Executive Officer (Budget and Planning Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 21st June 2007.

Mr. Amar. Assistant Administrator (Payment Unit), Development and Procurement Division (DPSD), 18th and 29th June 2007.

Mrs. Badariah. Executive Officer (Payment Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 18th June 2007.

Miss Rosita. Assistant Accountant (Payment Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 29th June 2007.

Mr. Fadil. National Accountant Office, formally Assistant Administrator (Payment Unit), Development and Procurement Division (DPSD), 29th June 2007.

Miss. Farizatul Akmar. Architect (Technical Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 29th June 2007.

Mr. Hasri. Executive Officer (Secondary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 21st June 2007.

Mrs. Noraidah Sulaiman. Senior Clerk (Payment Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 26th July 2007.

Mr. Mohd Yasin Muda. Development Officer (Johor State Education Department), Ministry of Education, Malaysia. 26th July 2007.

Mr. Badrulhisham Wahab. Development Officer (Pahang State Education Department), Ministry of Education, Malaysia. 24th July 2007.

Mr. Ahmad Borhanuddin Mohd Shariff. Development Officer (Pahang State Education Department), Ministry of Education, Malaysia. 24th July 2007.

Mr. Husin. Development Officer (Kuala Lumpur State Education Department), Ministry of Education, Malaysia. 24th July 2007.

Mr. Rozaini. Development Officer (Kedah State Education Department), Ministry of Education, Malaysia. 24th July 2007.

Mr. Ahmad Basarudin. Development Officer (Lipis, Pahang District Education Department), Ministry of Education, Malaysia. 24th July 2007.

Mr. Rahmat. Development Officer (Johor Bahru District Education Department), Ministry of Education, Malaysia. 17th, 18th and 23rd July 2007.

Mrs. Salmah. Quantity Surveyor (Technical Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 29th June 2007.

Mr. Marwan. Contractor Marwan, 10th July 2007.

Mr. Osman Ali. Contractor, Mutiara Rini, Johor Bahru, 20th July 2007.

Miss Norazian Kamil. Senior Assistant Director, Curriculum Development Center, Ministry of Education, Malaysia, 4th July 2007.

Mr. Azizan Hitam. Senior Assistant Director, Technical Educational Division, Ministry of Education, Malaysia, 26th July 2007.

Mr. Noor Azman Mohd Johan. Senior Assistant Director, Teachers' Educational Division, Ministry of Education, Malaysia, 9th August 2007.

Mr. Rosman (Dino). Clerk (Primary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 2nd July 2007.

Ms. Mahfutha. Parent, Danau Murni off Taman Danau Desa, Kuala Lumpur, 3rd August 2007.

Mr. Kaya. Student, Danau Murni off Taman Danau Desa, Kuala Lumpur, 3rd August 2007.

Mr. Masod. Supporting Staff, Sekolah Menengah Tasek Utara, Johor Bahru, 23rd July 2007.

Electronic Mail:

Ms. Nipa Sribuddhamas. Senior Financial Specialist for ESSP 451MA, World Bank, 12 April 2007.

Mr. Joseph Ngalambai. Executive Officer (Supporting Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 27th March 2008.

Mrs. Haslinda Bustaman. Executive Officer (Primary Education Unit), Development and Procurement Division (DPSD), Ministry of Education, Malaysia, 19th April 2007.

Focus Group:

Due to confidentiality and the request of those involved in the focus group, their names were not listed. Anyhow, their names can be traced from the school visitor registration book on the date the interviewing in the focus group.

- 1) SK. Mutiara Rini – 6 parents and 2 Senior Teachers. Being conducted separately.
- 2) SK. Tanjung Puteri Resort, Pasir Gudang – 4 parents involved and 2 senior teachers conducted separately.

Direct-Observation:

The condition of the Schools after focus group sections being carried out and Sekolah Rendah Kebangsaan Dana Kota, Taman Desa, Kuala Lumpur.

APPENDIX B

ORGANISATIONAL LIST OF RESPONSIBILITIES OF SECTIONS OR UNITS UNDER THE DEVELOPMENT AND PROCUREMENT DIVISION (DPSD), MINISTRY OF EDUCATION, MALAYSIA

Primary (Rendah)	Menengah
<ol style="list-style-type: none"> 1. Pre-School (Pra-sekolah) 2. Academic Primary (Rendah Akademik) 3. Teachers' Training Colleges (Maktab Perguruan) 4. Capital Assistance (Bantuan Modal) 5. Special Education (Pendidikan Khas) 	<ol style="list-style-type: none"> 1. Academic Secondary (Menengah Akademik) 2. Sports Schools (Sekolah Sukan) 3. Integrated Residential Schools (Sekolah Berasrama Penuh Integrasi) 4. Technical & Vocational Schools (Teknik & Vokasional) 5. Curriculum Development Center (Pusat Perkembangan Kurikulum) 6. R & D Computer System Programme (Program R & D Sistem Komputer) 7. Schools Computer Systems (Sistem Komputeran Sekolah)

Supporting (Sokongan)	Budgeting & Planning (Perancangan & Perbelanjaan)
<ol style="list-style-type: none"> 1. Teachers' Quarters (Rumah Guru) 2. Students Hostels (Asrama Harian) 3. Educational Offices (Pejabat Pendidikan) 4. Technology Education Division (Bahagian Teknologi Pendidikan) 5. Dewan Bahasa & Pustaka 6. Institut Aminuddin Baki 7. Malaysian Examination Board (Lembaga Peperiksaan Malaysia) 8. Sports Development Program (Program Pembangunan Sukan) 9. Rural Area of Sabah & Sarawak Development Program (Sabah & Sarawak Program Pembangunan Luar Bandar Sabah & Sarawak) 10. Matriculation (Matrikulasi) 11. National Interpretation Institute (Institut Terjemaah Negara) 	<ol style="list-style-type: none"> 1. Renovation & Upgrading of Primary Schools (Ubahsuai Naiktaraf Rendah) 2. Renovation & Upgrading of Secondary Schools (Ubahsuai Naiktaraf Menengah) 3. Renovation & Upgrading of Teachers' Training Colleges (Ubahsuai Naiktaraf Maktab Perguruan) 4. Renovation & Upgrading of Supports Education Unit (Ubahsuai Naiktaraf Sokongan Pendidikan) 5. Renovation & Upgrading of Technical and Vocational Schools (Ubahsuai Naiktaraf Teknik & Vokasional) 6. Expansion of KPM Net (Peluasan KPM Net) 7. Involvement of Bumiputra Contractors and Suppliers (Penglibatan kontraktor dan Pembekal Bumiputra)

