

# The government's policy commitments on State-owned enterprises (SOEs) in the National Anti-Corruption Plan (NACP) and the Shared Prosperity Vision (SPV) 2030

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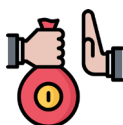
## Executive Summary



1. The two current major policy programmes, the 2019 National Anti-Corruption Plan and Shared Prosperity Vision 2030 (SPV2030), include specific commitments to reform and a redefinition of SOEs role in the economy. This paper describes specific commitments in those two major policy documents to achieve those objectives.



2. The SPV2030 envisions the SOEs to play a greater role as an investor in key growth areas and a more proactive role in ensuring equitable development outcomes for Bumiputera.



3. The NACP's objective is to address the issues on SOE governance, especially to combat corruption and improve transparency, address political interference and ensure efficient use of government resources by the SOEs.

## Background

State-Owned Enterprises (SOEs) are a significant component of Malaysia's political economy. The Organisation of Economic Cooperation and Development (OECD) defines SOEs as "any corporate entity recognised by national law as an enterprise, and in which the state exercises ownership" (OECD, 2015). Based on this definition, this paper uses the term SOE to include entities known as government-linked companies (GLCs), government-linked investment companies (GLICs) and statutory bodies. Though the term GLC is more commonly used in Malaysia, it specifically refers to entities set up as companies under the companies act in which the Malaysian government has a controlling stake (PCG website). While the term SOE is a broader term that includes GLCs, and entities incorporated through acts of parliament such as statutory bodies and some of the GLICs. SOEs continue to play a central role in several strategic sectors in Malaysia, including natural resources, telecommunications, transportation and energy (Lau & Azmi, 2020b). They serve as a tool to promote policies such as affirmative action and entrepreneurship development (EPU, 2015). Recently, SOEs have been utilised to respond to the Covid-19 pandemic (MOF, 2020). At a time where Malaysia needs to focus on post-pandemic economic recovery, an examination of SOEs continues to be even more important than ever.

Yet, SOEs are riddled with problems. Questions have been raised about their effectiveness as policy tools. SOEs have been questioned for acting merely like private sectors in maximising profits instead of achieving social goals (Liew, 2021) and becoming vehicles of corruption and political patronage (Tay, 2018; Gomez, 2019). The independence of SOEs decision-making and appointments are also questioned (M. Kassim, 2020; GLC Reform Group, 2020). Some SOEs have been at the centre of major corruption scandals which have fundamentally altered the Malaysian political scene. For example, IMDB, FELDA, SRC International and Tabung Haji (NACP, 2019).

Successive governments have recognised the importance of improving the SOEs and addressing problems affecting them. The Badawi administration started the GLC transformation programme that aims to improve the performance and competitiveness of GLCs (PCG, 2005). The Najib administration included SOE reforms in its policy flagship, the New Economic Model (NEM). In 2018, the Pakatan

Harapan (PH) coalition, which was elected on reform promises including reform of SOEs, published two major policy programmes that have specific commitments to SOEs. They are the National Anti-Corruption Plan (NACP) and the Shared Prosperity Vision 2030 (SPV2030). The Perikatan Nasional (PN) government has publicly committed to implementing both of these policy programmes. **Therefore, these last two documents are the most recent commitments that the government made regarding the SOEs.** What areas of SOE reforms that these two major policies are trying to tackle?

This paper aims to answer this question by reviewing the two policy documents which are the current policy documents used by the government and identifying specific commitments on the SOEs. By carrying out this exercise, this paper hopes to provide background information on current government commitment that can be used as a starting point should the Malaysian government plan to revise the existing programs and devise new policy initiatives.

This paper is not intended to be a comprehensive analysis of issues affecting the SOEs nor a comprehensive evaluation of whether these initiatives are adequate to achieve their intended objectives and outcome.<sup>1</sup> **Rather this paper is an overview to provide a reference to SOE-related commitments in the NACP and SPV2030.**

## The National Anti-Corruption Plan (NACP) and the Shared Prosperity Vision (SPV2030): A brief overview

The NACP was introduced on 29 January 2019 by the Pakatan Harapan government due to growing public concerns against corruption, especially in the last five years of Barisan Nasional's time in office. The NACP aims to tackle corruption in six priority areas deemed to be most vulnerable to corruption: political parties, public sector administration, public procurement, corporation, law enforcement and judiciary. The government outlines a total of 115 initiatives that will be delivered within five years. The two areas with the most number of initiatives are political governance and public sector administration. On political governance, there are 35 initiatives with the most initiatives on enhancing parliamentary authority and governance administration (12). There are 31 initiatives on public sector administration, with nearly half specifically on enhancing public officers' education and professional development on human governance.

The Shared Prosperity Vision (SPV2030) is a national development document meant to continue the 2020 Vision, an ideal that Mahathir put forward in 1991 for Malaysia to be a developed nation by 2020 (PMO, n.d). The SPV2030 sets the direction for government policies from 2021 to 2030. The SPV2030, which was published on 5 October 2019, targets to provide a decent standard of living to all Malaysians by 2030. The SPV2030 sets ten holistic key targets not solely based on GDP. Among them are real GDP expands at an average of 4.7% per annum, SME and micro businesses contribution to GDP at 50%, Bumiputera enterprise contribution to GDP at 20%, a higher average income for B40 households and a more equitable ratio of earnings between ethnic groups (SPV2030 p.8-01).<sup>2</sup> The

<sup>1</sup> For a list of IDEAS publications on SOEs, see Appendix 3.

<sup>2</sup> The document outlined a situational analysis of what brought Malaysia to its current state, citing premature deindustrialisation which caused manufacturing not reaching its full potential, the rise of Industrial Revolution 4.0 which will cause a lot of traditional manufacturing to be obsolete. It also identified income disparity among states, among urban-rural and among ethnic groups, highlighting Bumiputera households and SMEs as the most affected by economic disparity and existence of economic sabotage derailing efforts to assist marginalised groups (SPV2030, page 9-01).

principles of the SPV2030 encompass the themes of growth, inclusivity, democracy and sustainability. The SPV2030 identifies several strategic thrusts to achieve the objective, including restructuring the business and industry ecosystem and enhancing Key Economic Growth Activities (KEGA). The document also mentions social wellbeing, transforming human capital and increasing the share of compensation of employees to GDP.

**Table 1: The NACP and SPV**

	NACP	SPV2030
What it is	An 84 pages policy put forward by the Pakatan Harapan government to integrate all efforts on governance, integrity and anti-corruption under one integrated plan.	A 190 page-document that sets the objectives to provide a decent standard of living to all Malaysian by 2030.
Length of implementation	Five years (2019-2023)	Ten years (2020-2030)
Continuation of	the National Integrity Plan (PIN) (introduced in 2004)	Vision 2020 (introduced in 1991) <sup>3</sup>
Developed by	National Centre for Governance, Integrity and Anti-Corruption (GIACC)	Institut Masa Depan Malaysia (MASA) & Ministry of Economic Affairs (MEA)

## The NACP commitment to SOE reforms

SOEs are mentioned in 15 initiatives of the NACP (See Appendix 1 for the full list). Five of these initiatives are identified as priority initiatives.<sup>4</sup> The 15 initiatives are across four strategies of the NACP, which are strengthening political integrity and accountability (2), strengthening the effectiveness of public service delivery (2), increasing the efficiency and transparency of public procurement (1) and inculcating good governance in corporate entities (10). Three entities are mentioned when referring to corporate entities; *Statutory Bodies*, *State-Owned Enterprises (SOEs)*, and *Government Established Company Limited By Guarantee (CLBG)*.

The 15 initiatives on SOES in the NACP attempt to improve the integrity system in the SOEs, address political interference, conflict of interest and lack of transparency. Additionally, the NACP aims to ensure the efficient use of government resources by the SOEs.

### Improving the integrity system of the SOEs

The NACP has a number of initiatives to improve the integrity management system in the SOEs. The NACP targets the SOEs to have the following anti-corruption measures: Organisational Anti-Corruption Plan (OACP), Anti-Bribery Management System (ABMS) certification, Certified Integrity Officers (CeIO) and anti-corruption programme and engagement in the organisation.

<sup>3</sup> The SPV document claims that it is a continuation of Vision 2020 (SPV2030, 2019). In between the National Development Policy (NDP) 1991-2000 which introduced Vision 2020, the National Vision Policy (NVP) 2001-2010 and the New Economic Model (NEM) 2011-2020 were introduced (SPV2030, page 3-06).

<sup>4</sup> The NACP identifies 22 initiatives in the NACP as priority based on the urgency to deal with the intensity of the outcome.

## Addressing political interference and conflict of interest

The NACP outlines six initiatives to manage political interference and conflict of interests in SOEs.

First, the NACP commits to introducing a policy of appointing politicians as Chairman or board members strictly based on merit and qualifications. Secondly, the NACP requires the government to have a clear policy on refraining political interference over the decisions to remove or appoint the Chairman, board member or CEO. Thirdly, the NACP requires the government to have a legal provision that prohibits the SOEs from making contributions to politicians and political parties. This particular initiative will be introduced by December 2023.

Another initiative is to introduce an integrity vetting requirement as one of the selection criteria for SOE's top management positions. The NACP also targets to introduce a specific Prime Minister's Directive to govern disclosure of conflict of interest by December 2020.

Another area that the NACP aims to reform is the appointment and involvement of Senior Government Officials as board members in SOEs. The document aims to better manage this aspect to ensure good governance. The document, however, does not specifically outline the measures for better management of senior government officials' appointments in the SOEs.

## Improving transparency

Transparency is one of the cornerstones of the NACP, and the document envisions the improvement in government transparency and accountability, including in the SOEs. The NACP targets to improve disclosure of two major types of information: remuneration and shareholding of the SOEs director and senior management and subsidiaries and non-consolidated companies owned by the SOEs.

## Ensuring the efficient use of government resources by the SOEs

In order to protect the government's interest in all projects and contracts involving the government, the NACP commits to introduce standard clauses in procurement involving the government, statutory bodies and SOEs. This initiative under the Ministry of Finance (MOF) as the lead agency will enable the government to terminate or file a civil suit against the parties to the contract in the event of a breach of contract. A conditional approach on the purpose and use of funds provided by the government to SOEs will also be imposed by December 2020. This ensures that government resources are used according to their purpose and minimises the risk of funds being channelled to unrelated activities.

## SOE-related commitments in SPV2030

Unlike the NACP, the SPV2030 does not list specific initiatives on the SOEs. The SPV2030 mentions SOEs in three sections. The SOEs is first mentioned under the Guiding Principle of Institutional Political Economy, where the government defines its role in institutional political economy is through the ownership of shares in SOEs, policy formulation and determination of priorities for business and trade sectors. Secondly, the SOE is mentioned under Strategic Thrust of Key Economic Growth Activities (KEGA), which envisions SOE investments to drive the sectors that will propel future economic development. The last mention is under the Chapter of Bumiputera Outcome, in which SOE and the private sector are called to play a proactive role in ensuring equitable outcomes for Bumiputera. (See Appendix 2 for detailed mentions of the SOEs in the SPV).

These sections in the SPV suggest that the document envisions the SOE's to play a major role in developing future industries and supporting Bumiputera economic development. However, the document was silent on the SOE's role to bridge the economic gap between regions.

### Develop future industries

The SPV2030 sets a vision to balance the role of government, market demand and SOEs in the economy. The role of SOEs is to invest and develop strategic industries. The SPV identifies 15 strategic industries that will drive future economic development (named as Key Economic Growth Activities (KEGA)). The SPVs envision the SOEs to lead small-medium enterprises (SMEs) and activate the Vendor Development Program (VDP) to attract regional and international investment into KEGA. By enhancing SOE participation in KEGA, the SPV2030 believes it will reduce SOEs' competition with SMEs and local businesses.

**Table 2: 15 Key Economic Growth Activities identified in the SPV 2030**

1.	Islamic Finance Hub 2.0 - (Second-wave / Fintech)
2.	Digital Economy (Cashless, Disruptors, platform and fintech)
3.	Fourth Industrial Revolution (Manufacturing, Supply and Services)
4.	Content Industries (Animation, Programming, Entertainment, Culture and Digitalisation)
5.	ASEAN Hub
6.	Halal and Food Hubs
7.	Malaysia Commodities 2.0
8.	Transportation, Logistics and Sustainable Mobility (TLSM)
9.	Coastal and Maritime Economies (International Waters)
10.	Centres of Excellence
11.	Renewable Energy (RE)
12.	Green Economy
13.	Smart and HighValue Farming
14.	Advanced & Modern Services
15.	Tourism: Malaysia Truly Asia

## Support Bumiputera economic development

The second role that the SPV2030 sets for the SOEs is to ensure equitable economic development for Bumiputera. The document calls for SOEs and the private sector to play a proactive role to ensure an increase in Bumiputera participation in the government procurement process as well as putting an end to discriminatory practices towards Bumiputera in the private sector procurement. It also recommends improvements in entrepreneurship programmes to assist Bumiputera companies to be more competitive.

Government procurement has not achieved its targeted Bumiputera economic development agenda “on account of kleptocracy, nepotism, cronyism and corrupt practices as well as distortion in the supply chain” (SPV2030). SPV2030 identifies public procurement as one of the key areas to instil integrity and good governance.

The SPV2030 targets to increase Bumiputera contribution to the economy and reduce the economic gap between ethnicities. Its key targets are 20% contribution of Bumiputera enterprises to GDP, monthly median wage among Bumiputera, Chinese and Indian ethnic groups at 1:1:1 ratio, monthly median household income ratio of Bumiputera, Chinese and Indian ethnic groups at 0.9:1:1, and the ratio of financial assets per capita of Bumiputera to Chinese is 0.6:1 while Indian to Chinese is 0.8:1 (SPV2030).

## Conclusion

Both the NACP and SPV2030 have policy commitments on the SOEs. However, they focus on different areas. The SPV2030 attempts to define the role of SOEs in Malaysia’s economy. It sees the role of SOEs as investors, instead of one of the players, in key economic growth sectors. The document maintains the current expectation for the SOEs to play a role in ensuring equitable development for the Bumiputera community. The NACP, on the other hand, attempts to address governance gaps and corruption risks in the SOEs.

The SPV2030 that was rolled out was thin on policy detail, and there was an expectation that there would be another policy document fleshing out the details, which has not yet been revealed. We hope to see this being unveiled, in which specific plans on SOEs will be laid out.

The SOE ecosystem is a crucial area for Malaysia to address, and its pertinence will become abundantly clear as Malaysia strategizes its post-pandemic recovery from one of the most serious economic crisis it’s ever faced since the Asian Financial Crisis of 1997-98.

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## Appendix I: National Anti-Corruption Plan (2019-2023) Initiatives that mentions SOEs

### STRATEGY 1 - Strengthening Political Integrity and Accountability

#### Strategic Objective 1.3: Managing Politicians' Interference in Public Service and Local Authorities Administration

No.	Initiative	Lead agency	Milestone
1.3.3*	To introduce a policy on appointing politicians as Chairperson or members to the Board of Directors of Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG) based strictly on academic and/or professional qualifications	i) Prime Minister's Department (PMD) ii) Ministry of Finance (MOF)	Within one year (Jan 2019-Dec 2019)
1.3.5	To introduce a clear policy on refraining political interference in making decisions over the removal and appointment of Chairman / Board of Director / CEO of all Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG)	Prime Minister's Department (PMD)	Within one year (Jan 2019-Dec 2019)

### STRATEGY 2 - Strengthening the Effectiveness of Public Service Delivery

#### Strategic Objective 2.1: Redesigning of Public Services towards Good Governance

No.	Initiative	Lead agency	Milestone
2.1.2*	To manage the involvement and appointment of Senior Government Officials as members of Board of Director and CEO in all State-Owned Enterprises (SOEs) as well as Statutory Bodies	i) Public Service Department (PSD) ii) Relevant Ministry / Department / Agency / Local Authority	Within one year (Jan 2019-Dec 2019)
Strategic Objective 2.4: Enhancing Effectiveness of Education & Continuing Professional Development of Public Officers through Human Governance-based Programmes			
2.4.14	To strengthen the elements of human governance, integrity and anti-corruption in self-development programmes to Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG) and private sector	i) Relevant regulatory and professional bodies ii) Malaysian Institute of Integrity iii) Companies Commission of Malaysia (CCM) iv) Securities Commission (SC) v) Malaysian Anti-Corruption Commission (MACC)	Within five years (Jan 2019-Dec 2023)

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## STRATEGY 3 - Increasing the Efficiency and Transparency in Public Procurement

### *Strategic Objective 3.2: Greater Procurement Transparency, Enabling Better Identification and Mitigation of Corruption Risks, Market Distortion and Anti-Competitive Behaviour*

No.	Initiative	Lead agency	Milestone
3.2.2*	To introduce standard clauses in project procurements' undertakings in order to protect Government' interest in all projects/contracts involving Government, Statutory Bodies, and State-Owned Enterprises (SOEs). In the event of a breach of contract(s), the Government can, at any given time, terminate or/and file a civil suit against the party(ies) to the contract	Ministry of Finance (MOF)	Within one year (Jan 2019-Dec 2019)

## STRATEGY 6- Inculcating Good Governance in Corporate Entity

### *Strategic objective 6.1: Greater Transparency over Who Owns and Controls Corporate Entities*

No.	Initiative	Lead agency	Milestone
6.1.1*	To introduce integrity vetting requirement as a selection criteria for top management position in Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG)	i) Ministry of Finance (MOF) ii) Ministry of Economic Affairs (MEA) iii) Securities Commission (SC) iv) Malaysian Anti-Corruption Commission (MACC) v) Malaysian Institute of Integrity vi) Relevant Federal and State Agency	Within 1 year (Jan 2019-Dec 2019)
6.1.2*	To impose conditional approach on the purpose and utilisation of funds provided by the Government to all Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG)	i) Ministry of Finance (MOF) ii) Ministry of Economic Affairs (MEA) iii) Prime Minister's Department (PMD) iv) Securities Commission (SC) v) Relevant Federal and State Agency	Within 2 years (Jan 2019-Dec 2020)
6.1.3	To impose a full disclosure of the Statutory Bodies, State Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG) on: i) Direct and indirect share holdings of senior management; ii) Individual director's and key management personnel's directorship positions in other public companies (listed or otherwise); iii) Remuneration of individual directors on a detailed basis; iv) Remuneration of senior management on a bands basis number of individuals earning remuneration within that band)	i) Ministry of Finance (MOF) ii) Ministry of Economic Affairs (MEA) iii) Prime Minister's Department (PMD) iv) Relevant Federal and State Agency	Within 2 years (Jan 2019-Dec 2020)

**Strategic objective 6.2: Greater Corporate Entities Resilience against the Threat of Corruption**

No.	Initiative	Lead agency	Milestone
6.2.1	To oblige the Statutory Bodies, State-Owned Enterprises (SOEs), Company Limited By Guarantee (CLBG) and private sector regulated by regulatory bodies to develop Organisational Anti-Corruption Plan (OACP) with the assistance of three agencies namely the Malaysian Anti Corruption Commission, National Centre for Governance, Integrity and Anti- Corruption and Malaysian Institute of Integrity	i) Ministry of Economic Affairs (MEA) ii) Prime Minister's Department (PMD) iii) Malaysian Anti-Corruption Commission (MACC) iv) Malaysian Institute of Integrity v) Statutory Bodies vi) State-Owned Enterprises (SOEs) vii) Company Limited by Guarantee (CLBG) viii) Private Sector regulated by regulatory bodies	Within 2 years (Jan 2019-Dec 2020)
6.2.2	To strengthen anti-corruption awareness programme and engagement with Statutory Bodies, State-Owned Enterprises (SOEs), Company Limited By Guarantee (CLBG) and private sector	i) Ministry of Economic Affairs (MEA) ii) Malaysian Anti-Corruption Commission (MACC)	Within 2 years (Jan 2019-Dec 2020)
6.2.3	To expand the participation of Certified Integrity Officers (CeIO) to all Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG)	i) Ministry of Finance (MOF) ii) Ministry of Economic Affairs (MEA) iii) Securities Commission (SC) iv) Prime Minister's Department (PMD) v) Malaysian Anti-Corruption Commission (MACC) vi) Relevant Federal and State Agency	Within 2 years (Jan 2019-Dec 2020)
6.2.4	To propose Anti-Bribery Management System (ABMS) MS ISO 37001 certification as a requirement for State-Owned Enterprises (SOEs), Company Limited By Guarantee (CLBG) and private sector in order to bid for Government contracts	i) Ministry of Economic Affairs (MEA) ii) Ministry of Finance (MOF) iii) Malaysian Anti-Corruption Commission (MACC)	Within 2 years (Jan 2019-Dec 2020)
6.2.5	To issue a Prime Minister's Directive to govern disclosure of conflict of interest, as well as efficiency and transparency in Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG)	i) Ministry of Economic Affairs (MEA) ii) Prime Minister's Department (PMD) iii) Ministry of Finance (MOF) iv) Securities Commission (SC) v) Relevant Federal and State Agency	Within 2 years (Jan 2019-Dec 2020)
6.2.6	To establish a full disclosure mechanism on information regarding subsidiaries and non-consolidated companies of Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG) needs to be established	i) Ministry of Finance (MOF) ii) Ministry of Economic Affairs (MEA) iii) Prime Minister's Department (PMD) iv) Securities Commission (SC) v) Companies Commission of Malaysia (CCM) vi) Relevant Federal and State Agency	Within 2 years (Jan 2019-Dec 2020)

No.	Initiative	Lead agency	Milestone
6.2.7	To introduce a legal provision that prohibits Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG) from making contributions to politicians or political parties	i) Ministry of Finance (MOF) ii) Ministry of Economic Affairs (MEA) iii) Prime Minister's Department (PMD) iv) Securities Commission (SC) v) Companies Commission of Malaysia (CCM) vi) Relevant Federal and State Agency	Within 5 years (Jan 2019-Dec 2023)

*\*identified as among the 22 priority initiatives out of the total 115 based on the urgency to deal with the intensity of the causes*

## Appendix 2: Shared Prosperity Vision 2030

### Sections that mentions SOEs

SPV2030	Excerpt
Guiding Principle 9: Institutional Political Economy (p. 5-09)	To introduce a policy on appointing politicians as Chairperson or members to the Board of Directors of Statutory Bodies, State-Owned Enterprises (SOEs), and Government Established Company Limited By Guarantee (CLBG) based strictly on academic and/or professional qualifications.  Outcome 9.2 diversifying investments and business models in strategic industries by SOEs.
Strategic Thrust 2: Key Economic Growth Activities (KEGA) (p. 6-08)	The role of Government in institutional political-economy approach among others, is through the ownership of shares in SOEs, policy formulation as well as determination of priorities for business and trade sectors. The absence of policies that balance the role of the Government and market demand, as well as SOEs in the economy will cause imbalance, monopoly and widening economic disparities.  Strategy: 1. The role of SOE investments will be enhanced to drive KEGA initiatives, thereby reducing the role of SOEs that compete with SMEs and other local businesses. SOEs will lead SMEs and activate the Vendor Development Programme (VDP) to attract regional and international investment.
Chapter 9 Bumiputera Outcomes (p. 9-02)	The private sectors and SOEs need to play a proactive role in ensuring equitable outcome for Bumiputera in tandem with policies, strategies and initiatives outlined in Shared Prosperity Vision. The measures include improvement in policies and workers' recruitment processes as well as private sector procurement particularly putting an end to discriminatory practices towards Bumiputera.

## Appendix 3: IDEAS Publications on SOEs

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Policy Paper No 70 – Post COVID-19 Recovery: Building SME Resilience by Lau Zheng Zhou, Sabrina Tang and Yohendran Nadar Arulthevan (January 2021)

Policy Paper No 69 – Social Protection for the Poor and Vulnerable Malaysians during COVID-19 by Ya Shin Wan and Gamaliel Kan (December 2020)

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