

GLCs and Shared Prosperity

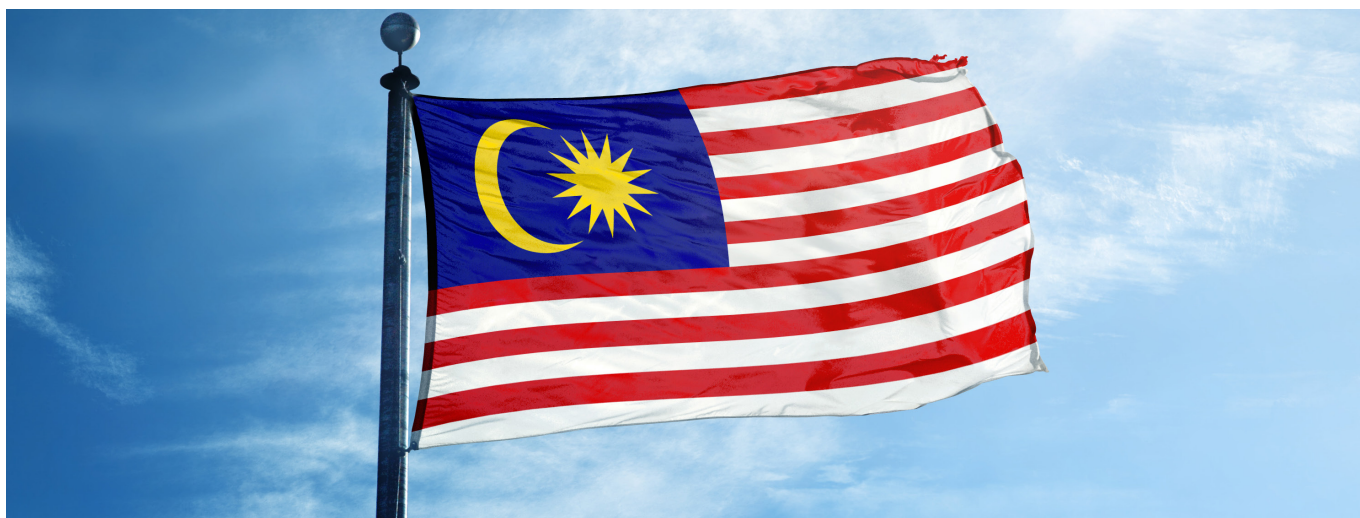
Laurence Todd





Laurence Todd is the Director of Research and Development at IDEAS. Laurence is a public policy professional with a wide range of experience in economic policy, business regulation and international trade. Prior to joining IDEAS, Laurence served in a number of different roles in the UK Government, including in Her Majesty's Treasury and the Ministry of Defence.

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In this Monitor we consider what role Government Linked Companies (GLCs) might be expected to play in delivering “shared prosperity” in Malaysia and specifically, Bumiputera economic development. This Monitor will argue that a clear assessment of previous and ongoing efforts by GLCs is needed and is sorely lacking. Moreover, the scale and reach of the current GLC policies to support Bumiputera development are by their nature limited and should be secondary to broader structural reform, in which GLCs can play a key role and offer a more substantial contribution to shared prosperity.

Introduction

The government has recently indicated its intention to revise and relaunch the Shared Prosperity Vision 2030 (SPV2030) (New Straits Times, 2020), which was unveiled by former Prime Minister Tun Dr Mahathir in September 2019. SPV2030 highlights a number of economic development challenges, including the ongoing income disparity between Bumiputera and other ethnic income groups in Malaysia (PMO, 2019). In this respect, SPV2030 represented a policy continuity with previous economic vision statements and it is likely that any relaunch of SPV2030 will continue to highlight inter-ethnic income disparity. As in previous economic development strategies, it is expected that Government-linked-companies (GLCs) will play a role in achieving the policy goals.

There are a wide variety of GLCs, with some primarily playing a commercial role, whilst others have an explicit development mandate. Statutory bodies (such as MARA and FELDA) have an explicit mandate to promote Bumiputera and rural development. Such bodies are not the subject of this Monitor. Nor will the Monitor focus on Development Financial Institutions (DFIs), which also have a circumscribed role in supporting development. Instead, this Monitor will focus on companies with primarily commercial activities in which the government has a direct controlling stake¹ (Gomez, 2018). Whilst these companies are primarily focussed on their commercial activities (and may also be publicly listed) there is also an expectation that they should contribute to nation building and are often called on to support Bumiputera development (New Straits Times, 2019).

In this Monitor we will consider what levers these GLCs have to support Bumiputera economic development, and to what extent these levers can be evaluated. Ultimately, this Monitor cannot draw firm conclusions, but raises a number of questions for policy makers to consider as they plan the next phase on Malaysia’s economic development.

¹ See Gomez, 2018 for more detailed discussion of the forms of government intervention



GLCs and Bumiputera economic development

For GLCs engaged in commercial activities the extent of the mandate to support Bumiputera economic development is not always clear or explicit. The New Economic Model (NEM) stated the objective that GLCs should “operate on a strict commercial basis free of government interference” (NEAC, 2010). However, there is also the expectation that GLCs will support “nation building”. The GLC Transformation Programme (2004-2014) sought to clarify this role, with its first Policy Thrust being to “clarify the GLC mandate in the context of national development” (PCG, 2005). Acknowledging the expectation that some role will continue to be played by GLCs in this regard. The Transformation Programme specifically includes the expectation that GLCs will support Bumiputera economic development in Guideline 1.4: Promotion of the Bumiputera community:

“...a fundamental principle of the Government’s economic policy in pursuing the objectives of Vision 2020 is to strive for growth with equity. A cornerstone of this policy is the continued promotion and development of the Bumiputera community. In this regard, the GLC Transformation Program will continue to be a significant policy instrument to execute Government’s policies with regard to the development of the Bumiputera community.” (PCG, 2005)

The Guideline goes on to mention specifically both the development of Bumiputera human capital by the GLCs directly and GLC support to Bumiputera SMEs as vendors and suppliers, with the aim that doing so can also be beneficial to GLCs themselves as the ecosystem as a whole is strengthened (PCG, 2005).

After the GLC Transformation Programme was underway, the government launched the Bumiputera Economic Empowerment Agenda. In response, the Putrajaya Council on GLC High Performance (PCG, the governing body of the GLC Transformation Programme) committed to strengthen and professionalise GLC (specifically the GLICs and the G-20, the twenty largest GLCs) support of the agenda with new initiatives benefitting Bumiputera entrepreneurs, employees, students, and the larger community (PCG, 2013). The expectations for and tools for GLCs in relation Bumiputera economic development are captured in the Silver Book (which provides guidelines of GLC’s social responsibility), the Red Book (which provides guidelines on procurement and vendor development programmes) and specific Key Performance Indicators (KPIs).

GLCs and Bumiputera human capital

GLCs can promote Bumiputera human capital in a number of ways. Perhaps the most significant way that GLCs promote Bumiputera human capital is through the creation of professional employment opportunities in the GLCs themselves. There is no explicit mandate on policy for GLCs to exercise preferences for Bumiputera candidates and there is no policy or principle defined in the Silver Book, Red Book or GLC Transformation KPIs. However, there is a de facto preference for Bumiputera, especially in senior positions (Lee, 2017).

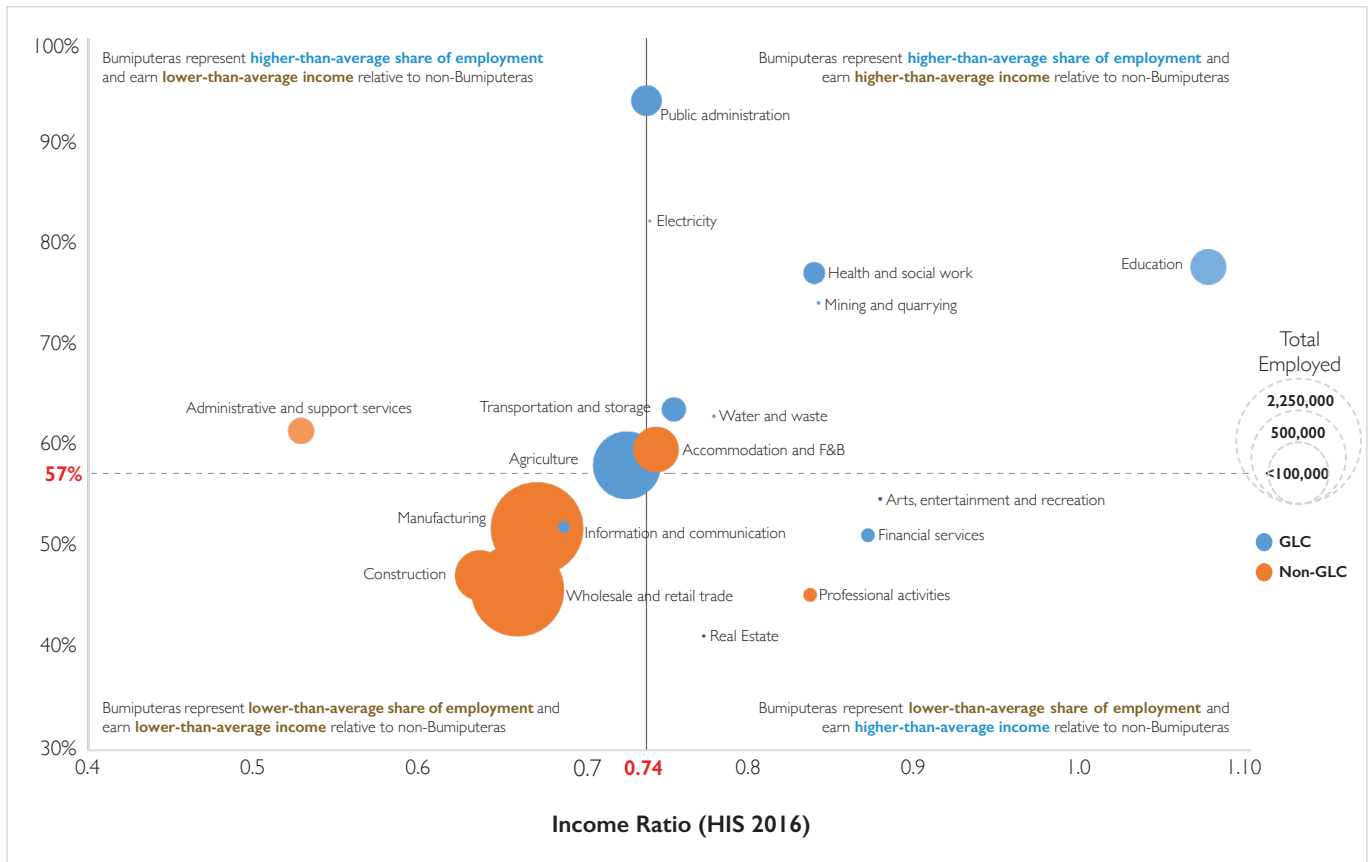
The preference for Bumiputera employees is reflected in the statistics reported by the GLC Transformation programme. According to the Graduation Report (2014), collectively, the G-20 employed 225,050 Malaysians in 2014, of these 178,191 were Bumiputera (PCG, 2014). Therefore, Bumiputera represented 79% of Malaysians working in the G-20 in 2014. According to the Labour Force Survey, Bumiputera made up 66% of the total Malaysian labour force in 2014, and therefore this suggests that Bumiputeras are over-represented in the workforce of the largest publicly-listed GLCs relative to the workforce as a whole. This is consistent with the expectation that GLCs exercise de facto preference for Bumiputera employees.

The Graduation Report does not provide disaggregated data on senior positions held by Bumiputera among the GLCs, but an earlier Interim Report notes that 85% of Board of Directors, 81% of professional executives and 76% of senior managers at GLCs are Bumiputera (PCG, 2007), supporting the expectation that Bumiputera preferences apply in particular for senior positions in GLCs.

However, it is difficult to move beyond these selective, company specific measures to a more comprehensive assessment of the impact GLCs have on the Bumiputera workforce. Comparing median incomes of Bumiputera against those of ethnic Chinese (as the largest non-Bumiputera group in the workforce) can help to identify whether Bumiputera perform better in terms of income in industries where GLC are more present. There are a number of caveats to this kind of analysis. First, GLC presence in an industry is not measured by the Department of Statistics, so this has to be inferred from other assessments². Second, any pattern in income by industry cannot be solely attributed to GLCs, given that they represent a minority of the workforce across the whole economy, and that we do not know the precise share of GLC employment in any given sector. That being said, there are some patterns which can be observed.

²The assessment here is illustrative and based on Gomez (2018) and Lau and Azmi (2020)

Figure I. Bumiputera Income and Employment Relative to ethnic Chinese by Industry³



Source: author's calculations based on Labour Force Survey (2014) and Household income Survey (2016)⁴

Figure I suggests that Bumiputera do earn higher incomes (relative to ethnic Chinese) in many industries which are associated with GLC presence, including utilities, mining (including petroleum), transportation and finance, suggesting that Bumiputera occupy more senior positions in these industries relative to Bumiputera in other industries. The exceptions to the pattern might also be informative. Although information and communication includes large GLCs (such as Telekom Malaysia) there are also many other smaller firms, so the GLCs are less dominant relative to the sector as a whole and therefore the effect of GLC presence on these national level indicators may be less. This is only a preliminary analysis, subject to the caveats above, but does seem to reinforce the conclusion that GLCs have supported the development of Bumiputera human capital, through creating employment opportunities for higher paid professionals.

In this respect, it can be argued that GLCs have played a similar role to the wider public sector in creating opportunities for Bumiputera professionals. In his assessment of the employment outcomes of affirmative action in education, Lee (2012) notes that Bumiputera representation among both managerial and professional occupations grew rapidly up to the mid-90s but has been relatively static since then (Lee, 2012). Lee also notes the “the public sector has played an instrumental role in fostering Malay upward mobility and raising a Malay middle class during and beyond the NEP” (Lee, 2012). The analysis above suggests that GLCs may also have contributed to Bumiputera development in a similar way, alongside the wider public sector, in creating opportunities for Bumiputera professionals.

³ Size denotes number of employed persons

⁴ These years were chosen as the closest available data to the end of the GLC Transformation Programme

However, preferences for Bumiputera employees is not actually an explicit requirement for GLCs. In relation to human capital development, the Graduation Report only mentions one specific KPI: "To improve marketability of unemployed Bumiputera graduates via GEMS/SLIM" (PCG, 2014). The target set was for 1,780 beneficiaries to be trained, with 90 absorbed and offered employment. The achievement recorded in the Graduation Report was 1,943 and 66 absorbed into employment (PCG, 2014). These numbers are relatively modest in comparison to the total number of unemployed graduates in Malaysia⁵. This highlights an important point of the scale of support which GLCs can provide for the Bumiputera workforce.

Despite their large size relative to the economy⁶, GLCs only accounted for an estimated 5% of the national workforce in 2014 (PCG, 2014). If we assume that the representation of Bumiputera across all GLCs was the same as for the G-20, then we can estimate that GLCs accounted for approximately 6.9% of the Bumiputera workforce in 2014. This compares to 10.4% of Bumiputera being employed in public administration in that year⁷ (DOSM, 2014). This is reflected in Figure 1 – most Malaysians (including Bumiputera) are employed in manufacturing, construction and retail, sectors where GLCs are relatively less dominant. So, although GLCs may well have helped to create high level employment opportunities and expand the Bumiputera professional class, this is inevitably limited to a narrow segment of the overall labour market, and GLCs are not in a position to directly support the development of Bumiputera human capital across the whole economy.

GLCs and Bumiputera SMEs

The support which GLCs are expected to provide for Bumiputera SMEs is more clearly defined, particularly in terms of procurement and vendor development. The GLC Transformation Programme and the Bumiputera Economic Empowerment Agenda envisions GLCs as playing a catalytic role to develop local Bumiputera enterprises in their supply chains through preferential procurement practices and Vendor Development Programmes.

In public procurement, preferences for Bumiputera enterprises are explicitly defined in Treasury Circulars in terms of thresholds and Margin of Price preferences (Jones, 2018). However, for GLCs there are no explicit preferences, reflecting the fact that GLCs are commercial enterprises subject to competition and in many cases minority shareholder interest. Instead, the Red Book defines guidelines for developing a competitive and stable supplier bases, which includes Bumiputera firms through Bumiputera Vendor Development Programmes (BVDPs) (PCG, 2006). The guidelines are not prescriptive but define principles that should be used to ensure these programmes benefit Bumiputera enterprises, whilst also preserving and enhancing the commercial interests of GLCs.

The Graduation Report provides details on specific KPIs for the support GLCs have provided to Bumiputera enterprises through these channels:

⁵ According to DOSM, in 2018 there were 162,000 unemployed graduates in Malaysia

⁶ GLC are estimated to account for approximately 36% and 54%, respectively, of the market capitalization of Bursa Malaysia and the benchmark Kuala Lumpur Composite Index (Menon, 2017)

⁷ Numbers are not directly comparable but are provided for illustrative purposes

Table I. Summary of selected KPI assessments in GLC Transformation Programme Graduation

Focus Area	Description	Target	Achievement
Vendor development programme (VDP)	To implement and enhance respective GLC VDPs	1,085 New and existing vendors benefited	1,065 VDP participants have participated in vendor development programmes in 2014
Anchor company	To create anchor companies to build scale and address issues relating to supply chain	10 Consortiums established	10 New anchor companies were established in 2014
Carve-out	To expand carve-out policy and allocations for Bumiputera participation in large projects	RM4.9 billion Value of carve-out allocated	RM8.2 billion Value of carve-out allocated by GLICs and G20 for Bumiputera in 2014
Procurement	To include Bumiputera in procurement activities	RM14.1 billion Value of procurement spend	RM13.3 billion Value of procurement spent on Bumiputera vendors by G20 in 2014

Source: GLC Transformation Graduation Report (PCG, 2014)

These KPIs demonstrate that GLCs were broadly successful in meeting their targets under the GLC Transformation Programme. However, what is lacking is an assessment of the outcomes of these interventions in terms of the longer-term development of Bumiputera enterprises which benefited from these initiatives. As noted by Lee (2017), “disbursement of contracts, licenses, credit and financial assistance can be effective instruments for cultivating enterprise, capability and resourcefulness, or can gravitate towards rent-seeking and dependency”. Therefore, the need to apply rigorous evaluation of outcomes of these measures is essential if they are to deliver long term benefit.

To address this issue of evaluation and longer-term impact, the Red Book also defines principles of evaluation and graduation for BVDPs:

- **Evaluation** should include measuring BVDP vendors performance including price performance, service quality and revenue diversification (PCG, 2006);
- **Graduation** should occur when vendors have met specified KPIs and can become preferred suppliers which are given priority but also need to compete with other suppliers. In contrast, vendors which consistently fail to meet KPIs should be removed from the programme (PCG, 2006).

However, details on the evaluation of vendors is not readily available either from PCG or individual GLCs. Instead, the Graduation Report only reports that that between 2004 and 2014, 82 Bumiputera vendors graduated from the BVDP (PCG, 2014). This number seems relatively modest in comparison to the number of firms enrolled in the programme and even more so in relation to the hundreds of thousands of Bumiputera enterprises across the economy. It may well be that these enterprises have gone on to catalyse wider growth in the economy, but to determine that a more thorough evaluation is needed.

An evaluation of these programmes is particularly important, given the critical importance of Bumiputera enterprise development in relation to the wider goals of Bumiputera economic development.

Bumiputera enterprise development

Returning to the overall assessment of Bumiputera in the workforce, we can observe that the development of Bumiputera enterprises remains a major obstacle. Alongside the relatively positive progress in increasing representation of Bumiputera managers and professionals since the 70s, Lee (2012) recognises: “the development of Bumiputera-owned and -operated small- and medium-scale enterprises remains an area of pronounced shortcoming”. This sentiment continues to be expressed in the government’s own economic development policies, most recently the SPV2030 which noted the relatively low contribution of Bumiputera SMEs to overall GDP (PMO, 2019).

This is reflected in the Labour Force Survey. As of 2019, the proportion of Bumiputera employed persons among professionals, technicians and associate professionals is broadly on par with that of other ethnicities. Indeed, the percentage of Bumiputera employed as professionals is higher than that of the ethnic Chinese. The same does not apply however to managerial occupations, where the percentage of Bumiputera employed as managers is lower than for the other ethnicities and significantly lower than the percentage of ethnic Chinese employed as managers.

Table 2. Employed persons by occupation and ethnic group, Malaysia, 2019

	Bumiputera	Chinese	Indian	Other
Total (%)	100.0	100.0	100.0	100.0
Managers	3.2	10.0	5.7	4.1
Professionals	14.3	14.2	15.3	7.7
Technicians and associate professionals	11.5	12.9	11.6	6.3
Clerical support workers	9.0	11.9	9.5	6.4
Service and sales workers	23.0	24.1	16.2	23.9
Skilled agricultural, forestry, livestock and fishery workers	8.5	3.5	1.1	7.3
Craft and related trades workers	9.5	13.3	7.4	10.2
Plant and machine operators and assemblers	11.9	6.1	23.5	12.1
Elementary occupations	9.0	3.9	9.5	22.1

Source: Labour Force Survey, 2019

This disparity in managerial employment is mirrored by differences in the status of employment. The proportion of Bumiputera working as employers (2.7%) is lower than that for ethnic Indians (3.4%) and significantly lower than for ethnic Chinese (7.9%).

Table 3. Employed persons by status in employment and ethnic group, Malaysia, 2019

	Bumiputera	Chinese	Indian	Other
Total (%)	100.0	100.0	100.0	100.0
Employer	2.7	7.9	3.4	2.6
Employee	73.0	68.9	84.3	75.2
Own account worker	20.0	18.9	11.3	16.8
Unpaid family worker	4.3	4.3	1.1	5.3

Source: Labour Force Survey (2019)

This employee / employer disparity is particularly important in Malaysia since, as highlighted by the SPV2030, the income disparity between employees and capital owners is substantial in Malaysia, with compensation to employees only accounting for 35.7% of GDP in 2018, much lower than for other countries (PMO, 2019).

Increasing the level of Bumiputera entrepreneurship is therefore vital to promoting Bumiputera economic development. Indeed, research by Cuberes and Teignier (2019) suggests that closing the “entrepreneurship gap” would significantly increase Bumiputera incomes and those of the population as a whole: “on average during the 2000-2017 time period, removing these entrepreneurship barriers would increase income per capita by about 10.4% in the short run and 11.5% in the long run.”

GLCs and structural reform

Given the importance of Bumiputera enterprise development to the overall Bumiputera economic empowerment agenda, a rigorous assessment of GLC efforts in this regard is sorely needed⁸. At the same time, we should recognise that the issue of Bumiputera enterprise development is an economy wide question, which GLCs have relatively limited levers to address directly, based on the scale of BVDPs. However, GLCs can play a crucial role in supporting structural reform, which can have an economy-wide effect in creating an environment conducive for entrepreneurship.

GLCs continue to occupy commanding positions in all infrastructure sectors in Malaysia. The government controls the largest firms in electricity, natural gas, telecommunications, water and rail. There is scope in these sectors to increase competition in a way that can support the entry of new firms and the development of a broader ecosystem that supports entrepreneurship. For example, introducing further competition in the fixed broadband sector can help business to access faster and cheaper broadband (World Bank, 2018) and Telekom

⁸ Alongside an assessment of the role provided by other institutions including DFIs, statutory bodies and the public procurement regime.

Malaysia can play a crucial role in facilitating this reform, which is likely to deliver more benefit to the economy overall than any one company's vendor development programme. In the electricity sector, reforms⁹ to transition to a wholesale market, facilitated by Tenaga Nasional Berhad, can help to catalyse the development of dynamic new markets in the provision of renewable energy, creating opportunities for new Malaysian firms. Of course, the introduction of competition in the provision of these essential services must prioritise consumer and citizen welfare, but this can be achieved through effective regulation.

GLCs also continue to be present in many sectors in which private sector led competition is viable and vibrant, including manufacturing activities, construction, real estate, health, finance and business services (Gomez, 2018 and Lau and Azmi 2020). It is not always clear the extent to which these firms are subject to political influence, but their presence does raise concerns over competition which can have a wider negative effect on business sentiment. For example, Menon and Ng (2013) find that private investment is lower in sectors where GLC presence is higher. Indeed, the NEM also recognised that "In some industries, heavy government and government linked company (GLC) presence has discouraged private investment." (NEAC, 2010). To the extent that this is happening, GLCs may be having precisely the reverse effect in terms of promoting entrepreneurship, and the government should consider how to gradually reduce the distortions which may be arising from its high level of ownership as part of a strategy to promote Bumiputera entrepreneurship.

It is important to note that any reduction in the role of GLCs needs to be carefully calibrated. As demonstrated during the recent Covid-19 pandemic when GLCs were mobilised as part of the government "ecosystem" to support vulnerable groups during the Movement Control Order, GLCs have also supplemented the government's efforts to provide welfare and social protection. However, over time, this vital social security role should be played directly by the government and effective welfare providing institutions, deploying fiscal resources derived from a broad-based, progressive tax system. Thus, GLCs can focus on supporting structural reform in those sectors where they play a key role, and then gradually exit from those sectors where that presence is not clearly justified. This should be the definition of GLC "graduation" for the next phase of Malaysia's economic development.

⁹ *Reform plans in the Malaysia Electricity Industry (MESI) 2.0 Initiative*

Conclusions



A rigorous evaluation of the role GLCs play in supporting Bumiputera economic development is needed as part of the next phase of Malaysia's development planning, including the re-launch of the Shared Prosperity Vision 2030 and the 12th Malaysia Plan;



Whilst there is evidence to suggest that GLCs have played a role alongside the public sector in creating employment opportunities for Bumiputera professionals, this is limited in scope given the small size of the GLC workforce relative to the Bumiputera population as whole;



Moreover, the priority for Bumiputera economic development should focus on enterprise development, which continues to be an issue of concern;



An evaluation of GLC Vendor Development programmes is needed, beyond selective statistics on the size of the programmes, to assess the long-term outcomes for Bumiputera enterprises;



At the same time, the government should recognise the limitations of these tools and focus on how GLCs can support economy wide structural reform, which can help to create an environment more conducive to entrepreneurship, including for Bumiputera entrepreneurs;



This should be done carefully and the regulatory and social protection function of GLCs should be transferred to more suitable institutions.

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