

GLC Monitor 2019: State of Play Since GE14

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Promising Change

Before the general election in 2018, the Pakatan Harapan (PH) coalition promised to reform governance of government-linked companies (GLCs). These reforms included ensuring that the appointment of members of these boards of directors would be made based on merit, not on political considerations.

These were important pledges because Najib Razak, in his dual role as Prime Minister and Finance Minister, had effective control over government-linked investment companies (GLICs) which had majority equity ownership of a broad range of commercial enterprises. This concentration of political and corporate power in the hands of the Prime Minister had contributed to serious abuse of public institutions to advance the political interests of his party, UMNO, in key parliamentary constituencies while also contributing to serious corruption.

GLC reconfiguration: PMD and big business

The PH government, under Mahathir Mohamad, has made good on one key election pledge. For the first time since 1999, the Prime Minister does not concurrently serve as Minister of Finance. However, Mahathir, the Prime Minister who started the practice of simultaneously serving as Finance Minister, has commenced reconfiguring Malaysia's longstanding government-business nexus in a manner that suggests concentration of corporate power in his party, Parti Pribumi Bersatu Malaysia (Bersatu).

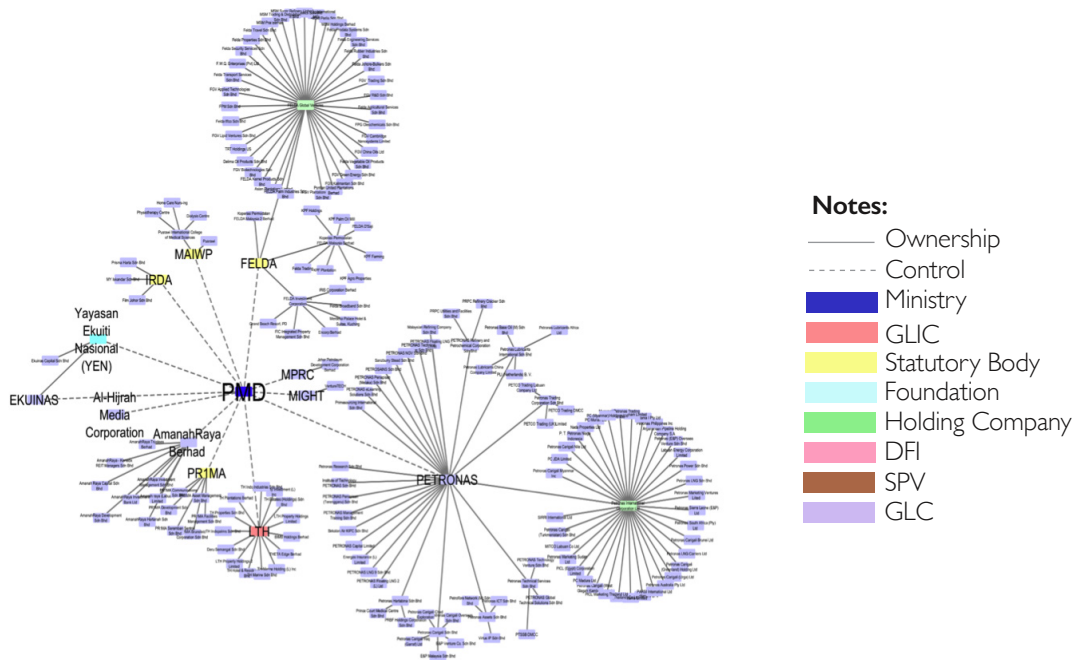
Soon after re-taking office in 2018, Mahathir changed the ministerial reporting lines for multiple GLCs in five key ministries, the Prime Minister's Department (PMD), Ministry of Finance (MoF), Ministry of Rural Development (MRD), Ministry of Entrepreneur Development (MED) and the newly-formed Ministry of Economic Affairs (MEA). Three of these ministries are led by Bersatu members, that is Mahathir (PMD), Rina Harun (MRD) and Mohd Redzuan Yusof (MED). Azmin Ali, the deputy president of PKR who leads the MEA, is reputedly a close Mahathir ally (see Table 1).

Table 1. Leadership Composition of Key Economic-Based Ministries

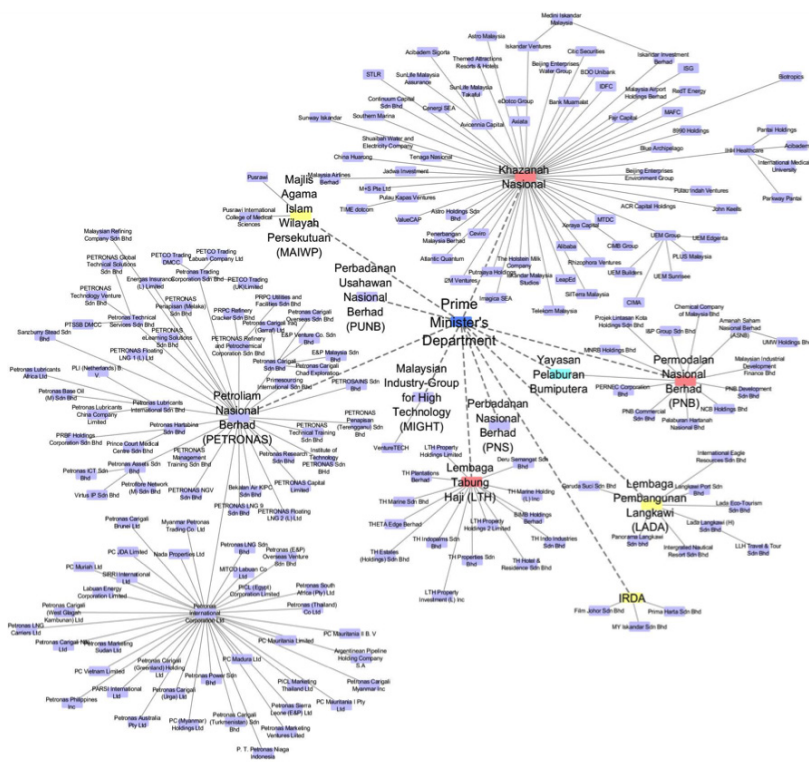
Ministry	Minister	Political Party
Prime Minister's Department (PMD)	Mahathir Mohamad	Bersatu
Ministry of Finance (MoF)	Lim Guan Eng	DAP
Ministry of Economic Affairs (MEA)	Azmin Ali	PKR
Ministry of Rural Development (MRD)	Rina Harun	Bersatu
Ministry of Entrepreneur Development (MED)	Mohd Redzuan Yusof	Bersatu

Although Lim Guan Eng of the DAP was appointed Minister of Finance, effective control of key government enterprises under its jurisdiction, including the sovereign wealth fund, Khazanah Nasional, and the leading Bumiputera-based investment fund, Permodalan Nasional Bhd (PNB), were transferred to Mahathir's PMD. These two GLICs have enormous investments in Malaysia's leading publicly-listed companies, thus giving the Prime Minister significant influence over these enterprises (see Figure 1).

Figure I: Prime Minister's Department (PMD)
Year 2016/2017

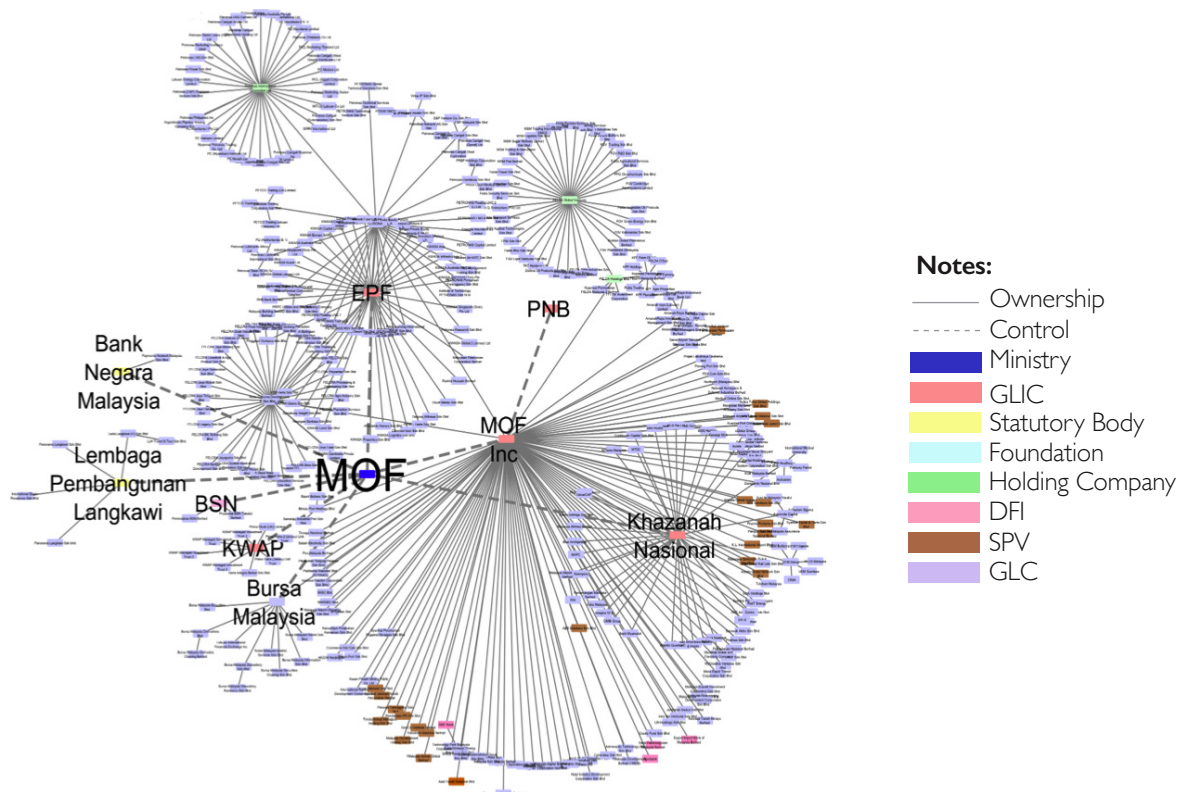


Year 2018/2019

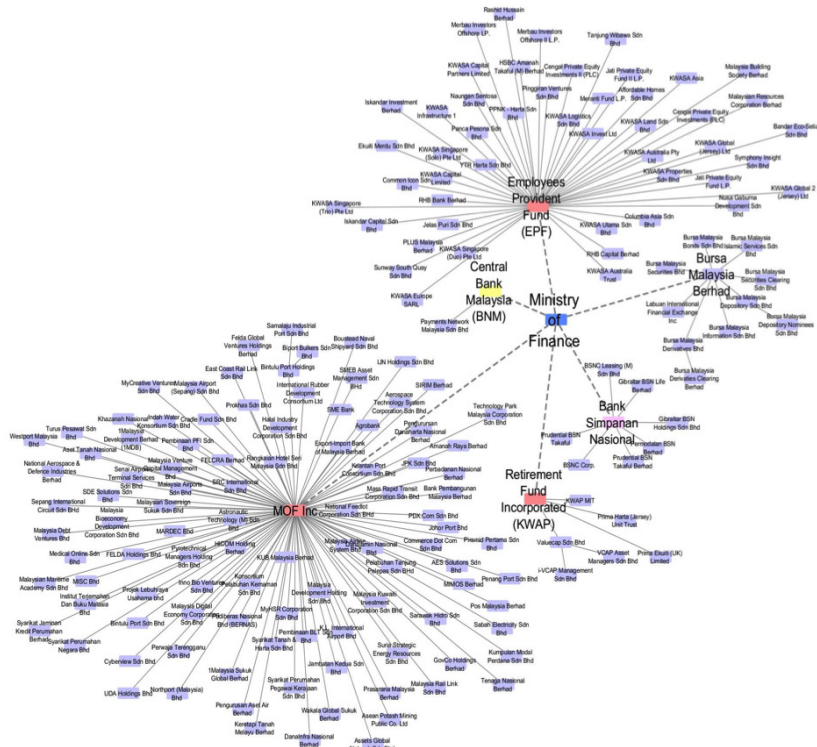


Meanwhile, the once powerful MoF, in terms of its equity control over the corporate sector, is now more akin to a regulator where public spending made across all ministries is monitored and assessed based on the annual budget allocation. MoF also remains saddled with some rather poor performing GLCs, held through its holding company, Minister of Finance Incorporated (MoF Inc.) (see Figure 2). Finance Minister Lim has spoken of the need to reform and eventually divest these GLCs.

Figure 2: Ministry of Finance (MoF)
Year 2016/2017



Year 2018/2019



The MRD transferred effective control of two key institutions to Azmin’s MEA, FELCRA and RISDA. FELDA, previously under the control of PMD, was also transferred to MEA. FELDA, FELCRA and RISDA are key primary sector development bodies created to nurture Bumiputeras in these industries. Meanwhile, MRD’s role appears to be focused primarily on rural socio-economic development, especially on addressing regional disparities. MRD also retains control of the extremely influential education and enterprise development-based statutory body, MARA. Table 2 describes the institutions under MRD’s purview whose original mandate was to reduce regional economic imbalances.

Table 2. Government institutions under MRD

Institution Name	Description
Lembaga Kemajuan Terengganu Tengah (KETENGAH)	Promoting socio-economic development in Terengganu.
Lembaga Kemajuan Kelantan Selatan (KESEDAR)	Established to balance the composition of the residents in Southern Kelantan with the northern part of the state. KESEDAR now spearheads the development of the region’s physical infrastructure.
Lembaga Kemajuan Wilayah Kedah (KEDA)	Improving rural community life in Kedah so that the urban-rural gap in the state can be reduced.
Lembaga Kemajuan Johor Tenggara (KEJORA)	Reducing economic imbalance in Southeast Johor through job creation and economic growth.
Lembaga Kemajuan Wilayah Pulau Pinang (PERDA)	Promoting socio-economic development in targeted groups in Penang.
Majlis Amanah Rakyat (MARA)	Fostering Bumiputera economic and social development, particularly in the rural areas.

A notable trend in MRD under PH has been the appointment of mostly Bersatu members on the board of directors of statutory bodies. Many of these politicians had encountered electoral defeats in the general election in 2018. Table 3 lists these politicians. These appointments are in clear violation of the promise made by PH to bar any appointment of board members in government entities based on political consideration.

Specifically, the board appointments in KETENGAH and KESEDAR can be interpreted as a form of “compensation” to election candidates, given their relatively low chance of winning in opposition strongholds in Terengganu and Kelantan. Furthermore, through these GLC appointments, these politicians can potentially use MRD’s policy apparatus to reach out to the electorate for political support. This presents a serious risk because, under UMNO, this ministry was persistently embroiled in allegations of corruption, with MARA being the prime example.

Table 3. Political appointments under MRD³

Institution Name	Board Member Appointments and Political Affiliation	Remark
KETENGAH	Zulkifli Mohamad (Bersatu)	Zulkifli was defeated by a PAS candidate in the Ladang state assembly seat, Terengganu, in GE14.
	Marzuki Wan Sembok (Bersatu)	Marzuki was defeated by an UMNO candidate in the Kijal state assembly seat, Terengganu, in GE14
	Zulkifli Ali (AMANAH)	Zulkifli Ali was defeated by a PAS candidate in the Sura state assembly state, Terengganu, in GE14
KESEDAR	Sazmi Miah (Bersatu)	Sazmi was defeated by an UMNO candidate in the Machang parliamentary seat, Kelantan, in GE14.
	Aminuddin Yaacob (Bersatu)	Aminuddin was defeated by an UMNO candidate in the Air Lanas state assembly seat, Kelantan, in GE14.
	Mohd Roslan Puteh (PKR)	Mohd Roslan was defeated by a PAS candidate in the Guchil state assembly seat, Kelantan, in GE14.
KEJORA	Zakaria Mohd Salleh (Bersatu)	Zakaria is the elected state assemblyman for the Permas seat, Johor, in GE14
KEDA	Dr. Ismail Salleh (AMANAH)	Dr. Ismail is the elected state assemblyman for the Pengkalan Kundor seat, Kedah, in GE14.

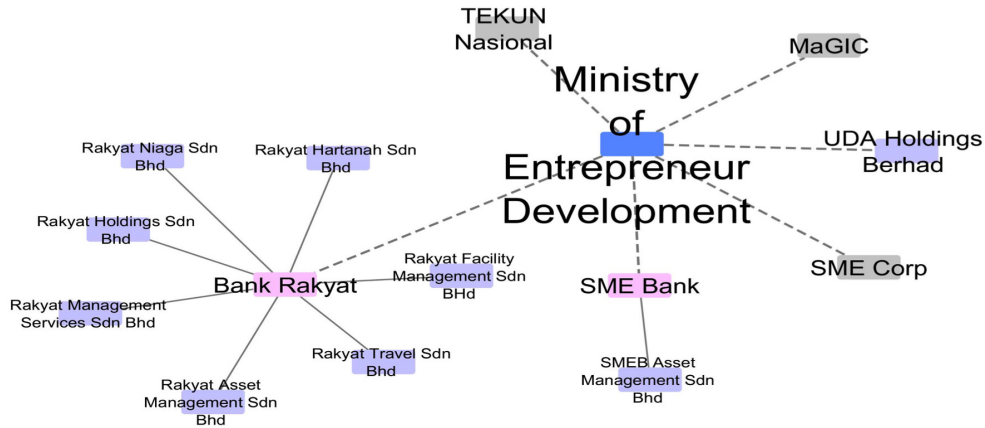
MED: Significant influence over SMEs

SMEs, including start-ups, constitute around 98% of local business establishments. Moreover, SMEs are integral to different stages of industry-related supply chains and often serve as important suppliers of products to large multinational corporations and GLCs. As indicated in Figure 5, effective control of major SME-focused institutions such as SME Bank, Bank Rakyat and MaGIC were transferred from MoF to MED.

³ Based on publicly available information retrieved from official websites.

Figure 5: Ministry of Entrepreneur Development (MED)

Year 2018/2019



MED was established to create an ecosystem capable of producing globally competitive entrepreneurs. Among the key factors required to achieve that goal include access to financing, training and upskilling, as well as creativity and innovation development. The relevant institutions under MRD and their key responsibilities are listed in Table 4.

Table 4. MED institutions and key responsibilities

Institution Name	Key Responsibilities
SME Corp	Policy implementation for SME
SME Bank	Access to SME financing
Bank Rakyat	Access to SME financing
Malaysian Global Innovation & Creativity Centre (MaGIC)	Spearheading the development of an entrepreneurial ecosystem
Professional Training and Education for Growing Entrepreneurs (PROTÉGÉ)	Youth-based entrepreneurial training
Institut Koperasi Malaysia (IKM)	Providing entrepreneurial training
Institut Keusahawanan Negara (INSKEN)	Providing business coaching and training targeting entrepreneurs
Tekun Nasional	Access to SME micro-financing
Suruhanjaya Koperasi Malaysia (SKM)	Promoting the development of co-operatives
UDA Holdings Berhad	Urban property development

A core role of the MED, particularly in the industrial and services sectors, is to focus on the creation of supply and production chains. Related to this is the issue of low value-add in the domestic economy among Bumiputera-owned firms, an issue contributing to their low high-technology utilisation. Furthermore, these industries need to be cultivated in the politically-influential Malay-dominant rural heartlands.

In the recently announced Budget 2020, it was disclosed that the SME Bank would be merged with two other development financial institutions, Bank Pembangunan and EXIM Bank, as well as Danajamin. This will make SME Bank a huge financial institution, one that can actively facilitate the financing of these enterprises.

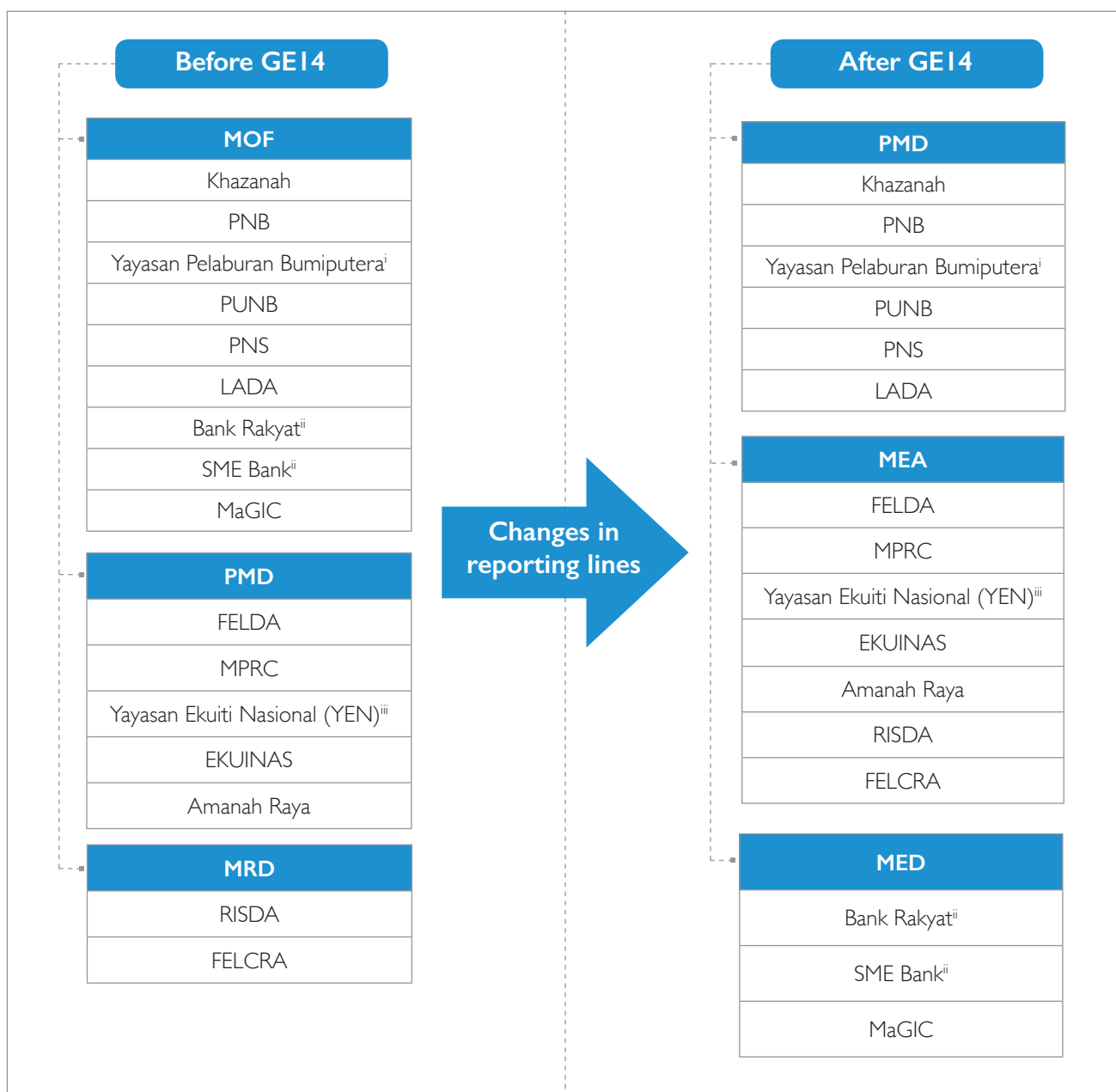


Consolidating control of Corporate Malaysia?

A complex institutional architecture involving GLICs, statutory bodies and GLCs was first created in the 1970s, though made more intriguing by Mahathir during his first administration in his endeavour to achieve a number of different goals, specifically creating Bumiputera corporate captains as well as spawning a huge SME base in the industrial sector encompassing firms owned by members of this community. This complex GLC structure was subsequently abused by UMNO to serve the vested business interests of its members, seen tangibly in the IMDB, FELDA and MARA controversies.

A major, but covert, reconfiguration of control of GLCs has occurred since PH took power, with these enterprises now under the jurisdiction of ministers primarily from one party, Mahathir's Bersatu. As Table 5 indicates, a large number of GLCs have been shifted out of MoF to ministries controlled by Bersatu ministers, as well as Azmin's MEA. GLCs within these four ministries have also been shifted between them, though it appears to serve the purpose of ensuring each minister has enormous influence over a core mode of enterprise, i.e. large publicly-listed firms, statutory bodies, Bumiputera GLCs and SMEs. These companies cover the entire spectrum of Malaysia's corporate sector.

Table 5. Summary of changes in reporting lines for major GLC and state institutions



Notes:

- i. PNB is the investment vehicle for Yayasan Pelaburan Bumiputera.
- ii. Bank Rakyat and SME Bank, among several development financial institutions (DFIs), are legally prescribed to be under the control of MoF. But, in this brief, it is changes in effective control by ministry that is considered.
- iii. The government's fund granted to EKUINAS is held in trust by YEN.

This reconfiguration of control of GLCs probably serves as a mechanism to help Mahathir achieve his now longstanding goal of creating a huge pool of Bumiputera entrepreneurs. However, the reconfiguration also suggests a revised form of structural power that could allow PH to use GLCs to serve its political interests in three ways: first, to channel government-generated concessions to key constituencies to garner electoral support. Second, to channel government assets into private (well-connected) hands leading to concentration of corporate wealth. Lastly, to allow for the appointment of politicians to the boards of GLCs to sustain the support of party members.

Current policy discourses with an emphasis on a race-based agenda, in spite of the rhetoric of a 'Shared Prosperity Vision', serves to promote the drive to attain these goals. The nature of these policy discourses, as well as the possibility of the transfer of corporate assets into private hands leading to capital concentration hardly serve to inspire investor confidence. Moreover, since Mahathir has admitted that his Bumiputera-based business policies have failed⁴, and since no new ideas have emerged indicating how this policy will be implemented in a fundamentally different way through GLCs, the possibility of serious wastage of public funds is likely.



⁴ Mahathir has mentioned on several occasions the failure of his Bumiputera-based business policies, most recently at the Malay Dignity Congress on 6th October 2019.

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