

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

The Star, Starbizweek- Saturday, 14 January 2023 (C) – Part 1

Baring the fangs against corruption

Malpractices will discourage investments and limit economic growth, say observers

ECONOMY

By GANESHWARAN KANA
ganeshwaran@thestar.com.my

ANY country with a score of below 50 in the Corruption Perception Index (CPI) has “serious corruption problems”, according to Transparency International (TI).

Malaysia, unfortunately, falls into that category. Its CPI score has consistently deteriorated in recent years, down from 53 in 2019 to 48 in 2021.

The only consolation is that two-thirds of countries ranked in the CPI have also scored below 50. Within Asean, Malaysia ranks second after Singapore, although with a score well below the city-state.

But, for a country that aspires to join the high-income nation club, Malaysia cannot afford to be continuously perceived as a toothless tiger in the war against corruption.

After all, corruption discourages investments, limits economic growth and leads to an uneven distribution of wealth.

Hence, the rise of Datuk Seri Anwar Ibrahim – hailed as a reformist by his supporters – as the 10th Prime Minister is not only seen as crucial but also timely.

One of the first orders made by Anwar after taking office was to ask all parties to stop offering him gifts.

It may seem as a small gesture, but it sends a message that the new premier is not taking chances in upholding ethical practices and avoiding conflict of interests.

Anwar also gave the commitment that corrupt ministers would be booted out immediately. In addition, he guaranteed there would be no political interference in the fight against corruption.

In his recent engagement with investors in Indonesia, the prime minister also said that the country's new political landscape would lead to better transparency and improved investment climate.

The big question is, can Anwar live up to the expectations and deliver what he promised? Will the current “unity government” structure stand between him and his anti-corruption drive?

Eliminating corruption is easier said than done, especially with corrupt practices seeping through the system over the years.

Within the past 25 years, Malaysia has lost close to RM1 trillion, according to an estimate by EMIR Research.

This represents almost 4% of the country's gross domestic product (GDP) since 1997.

In 2017 alone, former deputy prime minister Datuk Seri Dr Wan Azizah Wan Ismail said that Malaysia lost RM47bil in GDP value due to corruption.

This is a huge cost for a country like Malaysia, which has been struggling with budget deficits every year since 1998.

The fact that Malaysia ranks high in illicit fund flows and many high-profile Malaysians have their wealth stashed abroad in offshore accounts makes the situation even worse.

According to an earlier report by Washington-based Global Financial Integrity, Malaysia lost between US\$22.9bil (RM99bil) and US\$33.7bil (RM146bil) due to illicit financial flows between 2006 and 2015.

In addition to this, various exposés in the name of Panama Papers,



Muhammad Mohan: What is needed is a strong political will to turn this commitment into firm action that produces results.



Cheah: The perception is that corruption has now become endemic in this country.



Navaratnam: Corruption also results in the loss of revenue for the government, causing it to raise the taxes.

Swiss Leaks and Pandora Papers, have uncovered the wealth owned by many Malaysian politicians and tycoons in offshore entities.

It is not known how much of the wealth is linked to corruption or tax evasion, as a full-scale investigation was not undertaken on these exposés or the individuals named.

A civil service veteran blames the intermingling of business and politics for the corruption issues in Malaysia.

Tan Sri Ramon Navaratnam, former deputy secretary-general of the Finance Ministry, says the public sector was “way smaller” when he served the government.

“But with the Malaysia Incorporated policy and the government investing in more government-linked companies (GLCs), politics became more connected with the business world.

“Soon enough, money politics led to corruption,” says Navaratnam, who is chairman of the Centre for Public Policy Studies at the Asian Strategy and Leadership Institute.

Urging the government to emulate Singapore in fighting corruption, he says corruption will lead to inflation.

“When businesses have to pay bribes or commissions to the authorities to get their licences or contracts, this additional cost will be transferred to the end-consumers.

“Cost of goods and services rises and this would affect the poor.

“Corruption also results in the loss of revenue for the government, causing it to raise the taxes. Again, poor Malaysians would be the first to be affected,” he adds.

Navaratnam used to head the Malaysian Anti-Corruption Commission's (MACC) corruption consultation and prevention panel.

“I declined the offer to extend my appointment there (at MACC) because I feel it was not doing enough (to fight corruption),” he says.

Speaking with *StarBizWeek*, TI Malaysia president Dr Muhammad Mohan only gave a score of four out of 10, when asked how he would rate Malaysia's fight against corruption.

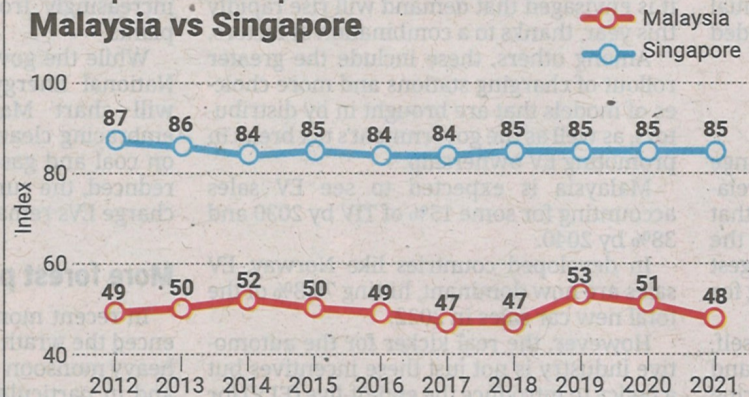
He outlined three main reasons, one of them being the lack of institutional reforms.

Muhammad Mohan says the rate of implementation has lagged behind the National Anti-Corruption Plan's (NACP) timeline.

“For example, addressing political financing was the No.1 priority when the NACP was launched.

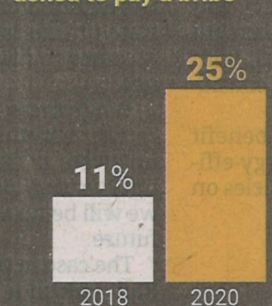
“However, the last three govern-

Corruption Perception Index score: Malaysia vs Singapore



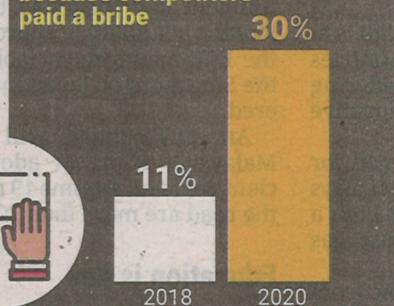
Source: Transparency International

Malaysian respondents that have been asked to pay a bribe



Source: PricewaterhouseCoopers' 2020 global economic crime and fraud survey

Malaysian respondents that have lost business opportunities because competitors paid a bribe



TheStar graphics

ments have lacked political will to table the Political Financing Bill. As a result, money politics is still rampant, both during elections and as a scheme for corruption,” he says.

The second reason for Malaysia's perceived weak handling of corruption is the fact that the Auditor General's annual report continues to have adverse findings and repeated governance failures.

“Similar findings are repeated in different agencies year after year. There seems to be no learning.

“Third, there seems to be lack of action against public officials who have abused their position. We do not seem to enforce a culture of accountability,” says Muhammad Mohan.

However, the future is not all doom and gloom.

Muhammad Mohan sees “hope” with the prime minister stating his commitment to institutional reforms, emphasising on integrity, good governance, transparency and accountability under his administration.

“What is needed is a strong political will to turn this commitment into firm action that produces results.

“TI Malaysia is cautiously optimistic that the fight against corruption will improve within the next two to three years,” he says.

Tycoon and philanthropist Tan Sri Jeffrey Cheah, in a Merdeka Day advertorial placed in *The Star* last year, said battling corruption would require not only strong laws implemented without fear or favour, but also a change in mindset and culture among all Malaysians.

“The perception is that corruption has now become endemic in this country.

“Unless we seriously root out corruption, we are in trouble.

Corruption is a two-way street involving a giver and a taker, according to him.

Despite the public's poor perception of the country's war against corruption, one cannot deny that the authorities have taken numerous measures to reduce elements of corruption.

One of the measure is the mandatory asset declaration by the members of the Cabinet.

Another measure is the establishment of the National Centre for Governance, Integrity and Anti-

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

The Star, Starbizweek- Saturday, 14 January 2023 **(C) – Part 2**

Corruption (GIACC) in June 2018, as the secretariat of the special Cabinet committee for anti-corruption, reporting directly to the prime minister.

However, Anwar recently said that a proposal to disband the GIACC is being scrutinised to reduce redundancies and high costs.

The introduction of the corporate liability law or the Section 17A of the MACC Act that came into effect on June 1, 2020 has also boosted Malaysia's fight against corruption.

Section 17A holds companies and their directors as personally liable if an associated person such as an employee or subcontractor is caught involved in corruption for the benefit of the commercial organisation.

The companies and directors, however, can defend themselves against prosecution if they have implemented "adequate procedures" such as internal guidelines or staff training on anti-corruption.

No endemic corruption in Corporate Malaysia

Minority Shareholders Watch Group chief executive officer Devanesan Evanson says that there is no endemic corruption among the listed companies in Malaysia.

Every now and then, a few significant corrupt practices will surface in Corporate Malaysia.

"And this is common in many countries," he says.

Commenting on the CPI, Devanesan says that while it is a perception index, foreign investors sometimes base their investment decisions on this perception.

"If we feel that the perception and rankings are unfair, we need to tell a better, and a more convincing, story," he adds.

According to Devanesan, the eradication of corruption is the responsibility of both the private sector and public sector.

"Listed companies generally try to be committed in creating measures against corruption, for example, through their anti-bribery and corruption policies and practices.

"But sometimes, they succumb to the temptation of corruption either to maintain their existing business or to obtain new business. There must be the political will to eradicate corruption," he says.

Evidence has shown that corrupt practices may have increased over the years.

Based on PricewaterhouseCoopers' 2020 Global economic crime and fraud survey, about 30% of Malaysian respondents said they have lost business opportunities because their competitors paid a bribe.

This was an increase from just 11% in 2018.

The survey also revealed that about 25% Malaysian respondents in 2020 said they have been asked to pay a bribe, as compared to 11% in 2018.

Over the years, a common complaint in the business world is the continued act of corruption among the GLCs.

Earlier this week, MACC arrested a company director, who is believed to be a proxy for a GLC director, for obtaining a project worth over RM1mil from a GLC four years ago.

TI Malaysia's Muhammad Mohan says GLCs need reforms to ensure they practise transparency and accountability.

"Appointing unqualified politicians to head GLCs is another problem.

"They cannot appreciate what is good governance, leading to poor governance practice in the boardroom.

"At worst, it can lead to abuse of power and conflict of interest," he adds.

Navaratnam says the government should actively divest its interests in GLCs, if it is serious in combatting corruption.

Echoing a similar stance, Centre for Market Education chief executive officer Carmelo Ferlito says a company belonging to the institutions, and therefore, not really belonging to anybody, is by nature more keen to fall into the trap of corruption.

"GLCs' 'public' nature makes them lack a sense of responsibility which is incentivised by private ownership.

"Where GLCs fail, it is not because of corruption, but because they do not respond to the market logic," he says.

When asked about the impact of corruption on public finances, Ferlito does not think it plays a major role in Malaysia's continued fiscal deficits.

"The real reason behind fiscal deficits is the excessive incidence of operation expenses (a too big public apparatus), pairing with a fragile fiscal system.

"While corruption is bad and harmful, people tend to overestimate its damage when compared with more serious issues like a bad policy such as price ceilings that harm the economy much more than 1Malaysia Development Bhd (scandal)," he adds.

Fighting corruption

TI Malaysia's Muhammad Mohan calls for the reform of the MACC by allowing it to report directly to the Parliament.

This will require an amendment to the MACC Act and the Federal Constitution.

"Include misconduct in public office as a provision in the MACC Act to hold public officials accountable for their decisions.

"Table the Political Financing Bill and have it passed as a law. Political corruption is the mother of all corruption.

"Reduce large off budget projects that use public funds. Mandate that they have publicly disclosed cost-benefit reports and require parliamentary approval before commencing. Amend the Whistle Blower Protection Act to give greater protection to the citizens.

"The current act is weak and does not give adequate protection to whistleblowers," he says.

Muhammad Mohan also calls for the continuation of the 2019 to 2023 NACP, moving forward.

He suggests that the chief secretary to the government be made responsible for the implementation of the NACP measures and for reporting via a public dashboard.

"This will ensure that the chain of command is executed so that the aims of the NACP can be realised," says Muhammad Mohan.

Meanwhile, Navaratnam urges the Inland Revenue Board (IRB) to play a more active role in monitoring those who live beyond their means.

"The IRB needs to identify people who have a sudden surge in wealth. We need a better system, with the help of technology, to identify these people and to find out whether they amass their wealth in the right way," he says.