

NEAC moots reforms for GLC ownership
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At the Economic Transformation Programme launch, captains of industry had spoken harshly about government involvement in business, bluntly saying its hurting the private sector.

To prove that this strong message did not fall on deaf ears, the second part of the New Economic Model (NEM) unveiled today had much to say about divestment of government-linked companies (GLCs).

NONE"Investors feel that GLCs have ventured beyond their mandates and are now competing directly with private businesses, hence crowding out private investments," the report prepared by the National Economic Advisory Council (NEAC) read.

Additionally it noted that GLC are also perceived to be receiving preferential treatment for government procurement, thereby dampening private investor interest in Bursa Malaysia.

"To date, daily trades on the Bursa are dominated by GLCs like the Employee Provident Fund (EPF) and Permodalan Nasional Berhad (PNB), with little scope for private participation in blue-chip listings due to heavy government equity holding in Malaysia's biggest companies," it added.

As such, the NEM called for a divestment of GLCs, with the proceeds going into a sovereign fund, to be used to assist high risk private ventures.

NONEIt also said that GLCs exist to promote innovation in the development stages of industry, and all should have exit plans with divestment when the private sector is able to actively engage in the industry without government involvement.

"A divestment strategy is underway," said Prime Minister Najib Razak when launching the report today.

"It will be implemented on a gradual basis, taking into account the price-sensitive nature of such an exercise."

Oversight authority for GLCs, accountable to PM

To begin, however, the NEAC called for a proper audit of all GLCs to know the exact number of holdings.

"An NEAC data search resulted in a list of 445 companies. As not all respondents submitted their list of holdings it is plausible that the actual number of GLCs is significantly higher," the report said, adding that there were over 1000 entities in 1987.

NONETo enhance transparency and accountability, all GLCs will also need to provide financial data and be held accountable by an oversight board, the GLC Oversight Authority, under which should also exist a committee dedicated to improving the performance of the companies.

"Ideally, (the Authority) should report to the Prime Minister's Department and observe principles of transparency to build private sector confidence," it noted of the authority which would also be compelled to publish an annual report.

The Authority's role must largely to ensure that the GLCs do not stray from their original mandate of providing service and facilitate business.

Part of divestment for bumi entrepreneurs

Interestingly, the NEM calls for a carving out of part of the divestment whereby assets are sold only to bumiputera entrepreneurs from a broad range of backgrounds, through open tender.

Divestment is proposed to be done through public listing (for high performing non-listed companies), offering employees share incentives (for unlisted low performance with turnaround potential).

Low performing companies with low potential of a turnaround should be sold selling lock stock and barrel or through liquidation of assets to private buyers who may be able to incorporate these assets into their structure.

For strategic GLCs (involved in utilities, finance, transportation and telecommunication sectors), the NEM moots a cap of government ownership of only 30 percent.

It also proposes the implementation of a service model, whereby the GLC owns only the physical assets while private companies pay a rental fee for utilisation of services.

To ensure that GLCs do not crowd out the private sector, the NEM also suggests that they fall under the Competition Act 2010.

"The government should amend the existing legal and regulatory framework to level the playing field between GLCs and private businesses and alleviate private businesses and private investor uncertainty.

"The government should refrain from providing automatic guarantees for GLC liabilities. Barriers, both formal and informal, in government procurement processes which accord GLCs preferential access should be removed," it said.

However, preferential treatment should be given to small and medium enterprises, particularly for those owned by bumiputera, in existing vendor development programmes.

"Based on the success of a similar programme in Germany, GLCs also should develop an apprenticeship and internship system for bumiputera and low-earning households to build a bigger pool of entrepreneurs and technical experts," the report said.