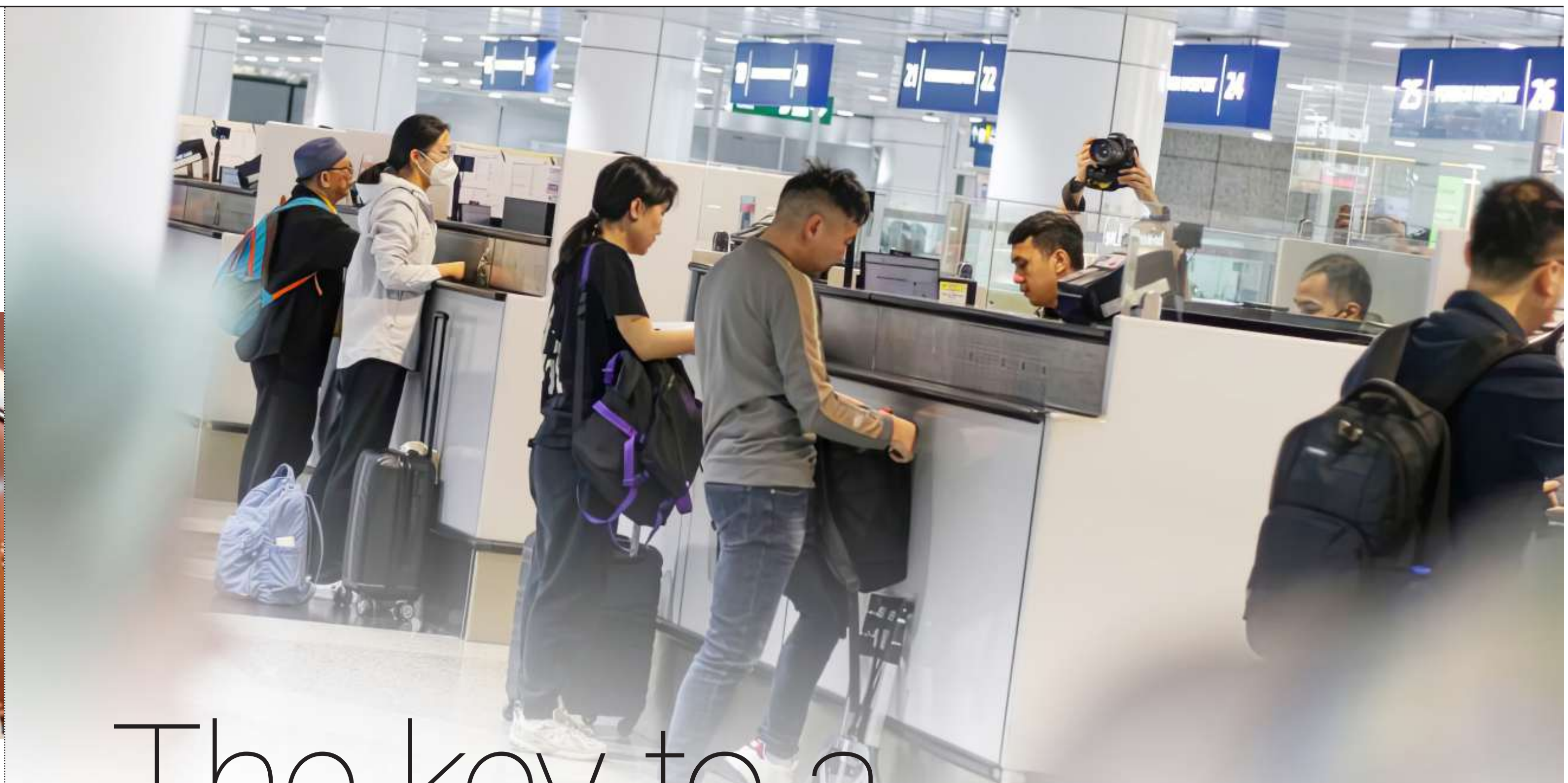

The key to a future-ready civil service

Policy & Profit

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IN September 2024, Prime Minister Datuk Seri Anwar Ibrahim announced plans to rationalise statutory bodies, aiming to reduce their numbers and boost efficiency.

Shortly after, the new Chief Secretary Datuk Seri Shamsul Azri Abu Bakar followed up by establishing the Federal Statutory Body Rationalisation and Streamlining Office, under the Ministry of Finance (MoF).

Its task is to streamline federal statutory bodies, government-linked companies (GLCs) and companies limited by guarantee (CLBGs).

The announcement followed a controversial decision to raise civil service pay that had prompted questions about its justification, given concerns over perceived low civil service productivity.

With every ringgit the government spends on operating expenditure (opex) in 2024, 31 sen goes toward civil service salaries. This figure is now expected to increase in 2025.

Concerns have been raised about the sustainability of government spending, particularly after all the justification given from another earlier announcement on pension reforms – higher salaries inevitably lead to larger pension payouts in the future.

Credit where it's due: The recent announcements on pension reforms, civil service pay hikes and subsidy cuts point to a calculated and strategic move by the Madani government.

Malaysia is taking bold moves to improve its public sector efficiency while balancing sticks and carrots, all the while maintaining fiscal discipline.

It is clear, the government is committed to driving these much-needed reforms.

The rationalisation programme will impact 544 entities, as announced in Budget 2025.

This likely includes the 132 federal statutory bodies (Auditor-General's Report 2022), GLCs and CLBGs tied to these statutory bodies or various ministries; and even the seven government-linked investment companies – MoF Inc, Lembaga Tabung Haji, Retirement Fund (Inc), Employees' Provident Fund, Permodalan Nasional Bhd, Khazanah Nasional Bhd and Armed Forces Fund Board – and their subsidiaries.

- With every ringgit the government spends on opex in 2024, 31 sen goes toward civil service salaries

- The rationalisation programme is a fine balance of sticks and carrots, all the while maintaining fiscal discipline

- Done right, these reforms will safeguard Malaysia's fiscal health and pave the way for a more sustainable and prosperous future

Why the many statutory bodies and GLCs?

The landscape of Malaysia's statutory bodies and GLCs has its roots in the 1980s when the government sought to privatise public assets to increase the efficiency, returns and performance of these assets, while not being encumbered by government bureaucracies.

At that time, Malaysia's private sector was nascent, and government intervention in key industries was seen as essential for driving economic growth.

This led to the private sector scene we know today – developed and nurtured through various approaches including the set up of GLCs, statutory bodies and outright sale to private individuals.

Subsequently, based on my experience working with civil services in Malaysia, Pakistan and Tanzania, I believe the evolution of GLC pay structures and global competition for talent led the Malaysian government to establish new agencies, often using the CLBG structure.

These new agencies offer better pay to attract skilled talent for critical roles within the purview of the ministries.

As a result of these new agencies mushrooming over time, the public sector has expanded, yet many many agencies ended up with duplicating functions and not enough funds to carry them out.

Neccesating rationalisation

Malaysia, like many nations, is grappling with scarce resources.

To secure the future for upcoming generations, the government must rethink how it allocates public funds.

Beyond financial efficiency, reducing overlapping statutory bodies and GLCs will eliminate redundancies and allow for better governance.

At the local level, there is also the argument that GLCs have crowded out local private businesses, preventing entrepreneurship and competition from flourishing.

At a global level, corporatocracies are gaining strength, and Malaysia needs its own strong corporate champions.

Rationalising GLCs can help ensure that these entities are well-positioned to compete on the global stage, while fostering a system where the wealth generated by them benefits the rakyat.

Recommendations to the government

One major obstacle is the complexity of the organisations involved.

Statutory bodies vary widely in terms of function and operational classification – some are financially self-sufficient, while others depend heavily on government support.

Reforming them will require legislative changes.

GLCs, on the other hand, often carry dual mandates: generating revenue while fulfilling social responsibilities. The emphasis on the differing priorities would have been shaped by past leadership, influencing their current financial sustainability today.

Similarly, CLBGs, often agencies associated with ministries, tend to have front-facing roles that make it hard for them to be dissolved or merged without clear transitions.

Secondly, this initiative hinges on political will.

These efforts will likely take years to implement, requiring sustained focus and commitment from the government.

Malaysians will need to witness concrete progress and the benefits from these reforms to avoid the perception that the government is making empty promises.

Managing the transition of merged or dissolved entities will be vital, particularly in addressing the impact on displaced workers and ensuring no key function is forgotten.

How this process is managed will either strengthen the political will needed to carry out these reforms, or undermine it before the reforms can produce results.

For this rationalisation to be successful, the process must be broken down into phases.

A prioritisation matrix can be developed to determine which batch of entities to review first, focusing on quick wins that deliver immediate savings.

The assessment must include a clear review of the entity's purpose, its role in the value chain and a detailed transition plan.

All the while, the government must provide regular updates to the public on its progress to ensure transparency and build trust.

As Malaysia embarks on this vital rationalisation effort, one thing is certain: The stakes are high, but the potential rewards are even greater.

Streamlining statutory bodies and GLCs goes beyond cost-cutting – it's about building a more efficient, innovative and future-ready public sector.

Done right, these reforms will safeguard Malaysia's fiscal health and pave the way for a more sustainable and prosperous future.