



Corruption is inhibiting a healthy SME environment

A survey in 2018 revealed that 80% of Malaysian small and medium enterprises (SMEs) reported that bribery and corruption was a key concern in the running of their businesses. Bribery and corruption are affecting the quality of products and services SMEs produce, prevent SMEs from gaining operating licenses, excludes SMEs from accessing local and international value chains, and increases the difficulty of getting finance.

The enactment of Section 17A of the Malaysian Anti-Corruption Commission (MACC) (Amendment) Act 2018, in June 2020, has done nothing to stem the corruption epidemic that is damaging fair trade in the SME sector. The MACC is way under-resourced to police corruption involving the private sector.

According to the Malaysian Department of Statistics, before the beginning of the Covid-19 pandemic, SMEs made up 98.5% of total registered businesses in Malaysia. SMEs contributed 38.9% to national GDP, and employed 48.4% of the workforce.

The Malaysian SME Corporation describes small and medium enterprises as follows: A medium enterprise has a sales turnover between RM15-50 million, or has between 75-200 full-time employees. A small enterprise has a sales turnover of between RM300,000-15 million, or between 5-75 employees, and a micro-enterprise a sales turnover under RM 300,000, and less than five employees. SME Corp statistics indicate that 76% of SMEs are micro-enterprises, 21% are small, and 3% are medium enterprises, where 89% operate within the services sector.

Corruption and bribery are destroying SME competitiveness, particularly SME dealings with the public sector. The manner in the way business is done with the government sector is destroying equal entrepreneurial opportunity for SMEs.

Barriers to transacting business with the public sector

SMEs are forced to undertake business on the basis of who they know with the authority to purchase, rather than through product, innovation, and superior service. Business on this basis creates insurmountable barriers of entry for other SMEs which want to open up a business with the public sector segment. Business based on relationships prevents sustainable SME longevity, as the business will usually only survive, as long as the buyer is in the position of power and authority to make purchase decisions. Many SMEs have grown on the back of relationships with public sector officers, only to collapse when their contacts leave their positions.

Many Bumiputera SMEs are dependent upon government contracts for income and survival. About 10% of government procurement is reserved for Class F (or G1) contractors in parcels up

to a maximum of RM200,000 per contract. The objective of this class of contractor was to assist Bumiputera SMEs develop and grow. However, this framework is abused in a number of ways.

Those with authority to award work to contractors may bundle a number of small contracts into a parcel, worth millions of ringgit. This work can then be awarded to a much larger concession company, which sub-contracts the respective smaller parcels to Class F contractors. One reported example was a concession company that received a road repair contract, that paid RM32 per metre. These jobs were sub-contracted to Class F contractors for RM19 per metre. Through distorting the system, a concessionary playing the role as a middle-man was able to profit RM13 per metre, just for giving work out to Class F contractors, the parcels were intended for in the first place.

Sometimes tenders are manipulated where multiple bidders for the contract are ultimately owned, or controlled by the same person or group. Tender criteria are often ad hoc, so one bidder can be favoured. In one tender, pricing criteria will dominate deliberation, while in another tender, service record and reliability may dominate deliberations, to get the outcome people manipulating the process want. The appointed head of tender boards has great influence over other tender board members, who often follow the way the head is prodding. Due to the light scrutiny that tender award processes are examined by the auditor-general, manipulation of the tender process is rife in Malaysia.

State chief ministers have great discretion over some contracts. There are many stories circulating across the country of commissions paid, use of proxy companies ultimately controlled by political figures, and favoured companies receiving business over others. These are major issues that Class F contractors complain about, where the MACC is often powerless to make any prosecutions as there are no paper or money trails that can be found. Due to poor whistleblowing protection, and political intimidation very few witnesses are willing to take the risk and come forward.

There are many cases where companies are set up by distant family members or friends of civil servants to supply products and services to ministries, departments, agencies, universities, local government and schools. Very few of these are ever discovered, or action ever taken, should they be discovered. Such malpractices close off a substantial amount of business opportunities for SMEs to supply government agencies, universities, and even schools.

One variation of the above, are rent-seeking arrangements that benefit elite members of society over the poor. One example is where the rural development ministry developed a food-stall centre overlooking a scenic dam in Northern Malaysia. The intention of the infrastructure building project was to assist poor in a very low-income area to be able to operate food stalls in this potential local tourist area to generate an income. However, when the physical buildings were handed over to the local municipal authority to administer, members of a political party were given the stalls at a nominal rental, who re-rented these stalls out to those

the project was intended to benefit, at rentals that were not commercially viable. Within a few months, the project was abandoned, lying idle for a number of years.

Consulting to the government is another major area where the practice of appointing consultants can be distorted. Major consulting jobs are given very specific terms of reference (A list of areas to be examined, and relevant expertise required), whereby for the design, only a single consulting company will be able to fulfil the specifications. This occurs across all ministries, state governments and government agencies. The development of the federal government five-year plans, the biotechnology push, government transformation, and the implementation of the economic development corridors made many purpose-created consulting firms very wealthy.

The proliferation of these incestuous consulting firms has led to a decline in the standard of advice the government is receiving. Many reports presented to the government are now nothing much more than cut and paste pieces of work. These firms also often sub-contract government and agency workshops and training sessions to others, and thus are not the principal service provider, even though the contract is in their name.

A much wider corruption culture

Collusion is not exclusive to the government sector. The private sector is also rife with favouritism and channelling business through specified parties.

There have been a number of cases of bank employees arrested by the MACC for soliciting bribes for granting business and personal loans. The latest reported case involved six bank employees who accepted RM18 million in bribes from loan applicants. Between 15 and 35% of the loan value was taken from 110 applicants to approve loans that bank officers claimed applications didn't meet loan eligibility criteria. Similar scams exist when SMEs apply for SME grants from the government. Proprietors of SMEs are advised to utilize a specified consultant who will prepare the application for between 25 and 50% of the grant value.

Corruption and bribery are part of the dark side of Malaysian culture. Institutions are hesitant to investigate those involved in corrupt acts and bribery, tending to cover up and hide any misdemeanours. This institutional attitude towards corruption creates a belief on the part of culprits, they will never be held accountable for their acts, and thus will be able to escape any consequences.

A survey by University Malaysia Kebangsaan (UKM) found that 30.5% of respondents were open to accepting bribes if they had the power and opportunity. Further research from the same university found that all civil service campaigns, policies introduced, and Islamisation have not affected civil servants' involvement in performing acts of bribery and corruption.

The major issue of contention is not the civil service bias towards doing business with Bumiputera-owned companies. If this were the case, there would be fair competition for at least 70% of Malaysian SMEs. The problem is a select group of civil servants who have decided to take advantage of their positions to benefit themselves and favour others.

These corrupt practices are preventing Malaysian SMEs from pivoting away from low-cost products and services to high-value ones, as much of their profits leak away in bribes and kickbacks paid to government officers.

Although the MACC has opened an anti-corruption academy and partnered with a number of local public universities to deliver courses, these initiatives haven't shown positive results. Education must relook at fundamental religious education they are providing. Instead of focusing on rote learning, there should be a re-alignment of religious education towards understanding the ethics religion is based upon. More resources need to be allocated to the MACC to pursue its statutory responsibility in uncovering corruption within public-private sector dealings.

Corruption and bribery are financially crippling many SMEs. Greedy bureaucrats and politicians are demanding so much, firms are suffering with lack of liquidity. A new approach to stemming corruption is needed today, as both current education and enforcement have failed to extinguish the dark side of Malaysian culture.

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