

Public Sector Governance: Filling the Gaps

Good governance is not a panacea for strong economic performance. But good, well designed economic policies show bad results when the implementation is not done with a good governance framework. Case studies show that countries which prioritises developing governance capabilities of the public sector and the political leadership enables strong sustainable growth to happen.

At the forum on governance of Parliament to exercise oversight over the Executive in August 2016, the Malaysian Economic Association brought in MPs and parliamentary experts from the UK, Australia, India, Indonesia and our own MPs to debate on the value of parliamentary committees as an enabling mechanism for MPs to exercise oversight over the Executive and ensure accountability of government. On February 13-14 2017, MEA followed up with its second forum on economic governance with a discussion on the governance of the public sector itself. The public forum and the closed-door round-table covered the evolution of the public sector governance framework, the ethics and transparency dimension of this framework and the efficacy of the governance framework for the implementation of economic and financial policies.

It is unfortunate that the media in covering the Forum, gave greater emphasis to the issue of the large size of Malaysia's public sector, compared to many other aspects of the discussions which have a materially greater impact on the subject of governance of the public sector. The speakers did give credit to improvements in the governance of the Malaysian public sector, but also lamented the many indicators of failure to exercise good governance. Positive developments which facilitated better governance included the greater use of technology like e-government. The case study of the MRT Committee showed that good governance can result in the completion of this large project ahead of schedule and at lower than budget costs.

A quick take on whether the public sector had delivered, attracted mixed responses. Former leaders in the public service were joined by several speakers in giving credit to good governance practices which enabled development policies to be implemented. Other groups including those in the private sector concluded that public sector service delivery was, at best, only average. The positive impact of the use of technology and ongoing skills development on the efficiency of public service has been negated by other developments. These included creation of additional units in the civil service, the expansion of the Prime Minister's office and the dominant role of ministers, too many generalists as leaders, too much centralisation of decision making and control and the drain on resources to bail out GLCs which failed to meet their intended role of service delivery as off-budget agencies operating on commercial terms and delivering dividends to government. It was interesting to note that independence of the public sector from political interference was traditionally ensured by the permanent tenure of public sector officials all the way to the post of Secretary General. In more recent times, however, it appears that Ministers stay longer and

increasingly acted as the chief executives of government agencies. This has important implications for governance practices in the public sector.

How do we measure good governance? The Forum guest speaker, Professor Mahbubani applies a broad macro standard that governance improves when social indicators such as mortality rates, life expectancy and the rising proportion of the middle class rise. If the population as a whole is worse off, governance has failed, and conversely, improvement in economic and social positions in society means governance has improved. On the basis that public sector governance improves when countries are better off in terms of incomes and socio-economic indicators, income inequality is less a reflection of governance compared to measures being taken to improve the welfare of the bottom 10% or 40%. When measured in this way, top performers in good governance are China and Vietnam, while countries traditionally seen as top ranking in good governance practices are now faring badly.

Many may not share Professor Mahbubani's rather broad and macro approach. It also begs the question whether a country practising poor governance as measured by more specific indicators applied by Transparency International and the World Bank can still register increases in income growth and declining poverty levels. In this context, it is important to apply various ranking standards. The World Bank governance standard which is comprehensive in its use of indicators drilled down to significant detail seems to get less attention than rankings by Transparency International. Malaysia should look more at this World Bank governance ranking.

Regardless of how good governance is measured, policy design should not per se aim at improving Malaysia's position in global rankings. Policies must meet objectives of domestic needs. Good policies by themselves and effective implementation will naturally result in better rankings. This means that Malaysia must have in place good governance processes and procedures to ensure good implementation of these policies. After all, indicators impacting governance ranking are the outcomes of policy implementation, and not just the policy itself. For example, Malaysia has laws and regulations that are by themselves considered model laws of global best practices. Yet, Malaysia has low and declining ranking under the rule of law category. At the same time, Malaysia has been smart in using the Doing Business Indicators to push authorities to improve implementation processes and procedures. The work by PEMUDAH in improving Doing Business rankings also resulted in lowering cost of doing business.

Many proposals on reforms to improve governance of the public sector emerged during discussions. Some were of a longer-term, many others were a simple observance of good practice codes. Simple measures of quick wins to restore what is viewed as weakening governance included stopping politicising of the civil service, better supervision by senior managers and leaders, application of past practices in governance philosophy of approval

levels, avoidance of conflict of interest in financial management and separation of ministerial functions. Improvement in policy design approvals could include more stakeholder involvement and adopt global practices of sharing consultative papers with relevant parties before policy decision and implementation. Examples of improving policy design processes included a more widespread application of regulatory impact analysis procedures introduced by the Malaysian Productivity Corporation. Similarly, implementing asset declaration practices will enable Malaysia to join the Open Government Partnership and benefit from civil society contributions to help improve efficiency, accountability and responsiveness of the government.

The more long-term improvement included the more inclusive composition of the civil service, leverage on the improving expertise of public sector officials and avoiding creating parallel units whenever any unit fails to perform. Rather, reform and restructuring of existing units would accord longer-term benefits at lower costs.

Independent evaluation of public policies such as the “Cyberjaya” would create pressure on public sector institutions and their officials to always practice good governance. It follows that such evaluation must also result in sanctions of both institutions and its officials for non-observance of codes and procedures to instil the culture of greater efficiency while avoiding corrupt practices.

It seems impossible to discuss the efficiency of the public sector without touching on its size. Again in comparing size, it was important to apply the correct definition. Whichever definition used, the Malaysian public sector seems large when analysed from perspectives of shares of salaries and emoluments in the national budget. The rising share of civil service salaries and pensions in the operating budget is resulting in declining ratio of development expenditure in the total budget (31% in 2001 to only 16% in 2016). This means that the public sector budget is making less contribution to the long-term growth potential. Efficiency versus size through better processes, procedures, and implementation of regulation does matter for public sector contribution to growth.

Overall, sentiments conveyed by all speakers were that there is indeed a need to enhance all aspects of public sector governance and how best Malaysia can take on board short-term quick win measures while exploring the longer term targets of the efficiency of the public sector. Professor Mahbubani offers three basic principles to adopt, learning lessons from declining governance in the US and UK and improving governance in China and Vietnam, based on the measures of governance being improving living standards. These three principles are a) Meritocracy—quality matters; b) Pragmatism—learn from everyone else on solving issues, it is not shameful to be a copycat nation; and c) Honesty in all dimensions, beyond money, the most difficult to fulfil.

An important determinant of governance in the public sector is the people and the values they eschew. A public sector peopled by those with high integrity is the cornerstone of

efficiency and high-quality delivery of public services. Sadly, during the course of the day and the roundtable discussions which followed, many participants raised concerns about a need for a conducive environment to enable public sector officials to exercise integrity in the conduct of their duties. A better system of checks and balance, a revelation of important information and a more objective reward system for good practices could help improve integrity in the judiciary and the police as a requisite for integrity in the general public sector to prevail. The business community views that everyone must play their part in the chain of good governance. Integrity at all levels is required for a culture of good governance in the public sector. In addition to a system which promotes integrity, there must also be adequate protection against victimisation and whistleblowing regulations must be honoured by the leadership. It was also raised that the private sector's trust deficit is widening across the spectrum of officials and their leaders, due to evidence of pampering to vested interests. There were widespread views that the absence of strong anti-corruption strategies and measures is fuelling incentives for rent-seeking and promoting a vicious cycle of declining integrity.

Finally, while government appears to be streamlining Islamic principles in public sector policy making, such efforts do not seem to give priority to adopting the Islamic principles of good governance across the public sector.

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For

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