

A Critique of the ETP (Part 1) - *Let's evaluate PEMANDU on its DEEDS*

The Economic Transformation Programme is **ambitious indeed**. The ETP promises to double gross national income (GNI) per capita to RM48,000 by 2020 from RM23,700 in 2009. An average 6% per year real income growth over 10 years and 12.8% per year private investment growth over 5 years is required to achieve this. Ultimately, RM1.4 trillion of investments in 131 Entry Point Projects (EPPs) within 12 National Key Economic Areas (NKEAs) will create 3.3 million new jobs.

Predictably, there are critics. Any plan as bold as this is bound to attract critics. But the attacks so far have mainly been against specific projects, such as the MRT and 1 Malaysia email; carping about the slick façade and expensive costs at PEMANDU - the Performance Management and Delivery Unit, prime minister's department - the government agency that created and is now steering the ETP; or questioning the viability of its lofty targets.

We will evaluate PEMANDU on its DEEDS. In this series, we shall evaluate PEMANDU and the ETP on its own terms by looking at the goals and plans outlined in the ETP Roadmap document. So, for example, rather than questioning its ambitious targets, we shall analyse how well it is measuring up to those aspirations. Doing so facilitates constructive debate as it uses the same framework which PEMANDU has chosen to work within.

DEEDS - Data transparency and integrity; Execution - progress or lack thereof on announced EPPs; Enterprise - the success in stimulating private investment; Distribution - the spread of the 12 NKEAs; and Socio-economic impact - who benefits the most will be our concern. Mark the date - Wed, 25 Jan - when we declare "It does not compute!"

☛ The ETP is an ambitious plan to double national income by 2020.

☛ Some criticisms of the ETP and its guiding agency PEMANDU have been off the mark.

☛ We shall engage PEMANDU on its terms and measure it by its DEEDS.

☛ The first D is for data. We find that "It does not compute!" Details next Wed, Jan 25. Mark the date!

The Roadmap to High-Income Nation Status

The Economic Transformation Programme (ETP) was launched with much fanfare on Sept 21, 2010. 500 experts from the public and private sectors had spent 8 weeks brainstorming to produce this very ambitious roadmap to take Malaysia to high-income nation status by 2020, with a gross national income (GNI) per capita of RM48,000.

The ETP was conceived as a comprehensive programme to lift the country out of the middle-income trap to become a developed, high-income nation. It would be action-oriented, and aims to achieve 'big and fast results', a direct contrast to the nicely laid-out but poorly implemented government blueprints in existence.

Real GNI growth must average 6% for the next 10 years and private investment growth 12.8% over the next 5 years in order to achieve its goals, says PEMANDU - the Performance Management and Delivery Unit within the prime minister's department - the government agency charged with steering the ETP.

Over the next 10 years, the ETP aims to pour RM1.4 trillion worth of investment into the economy to create 3.3 million new jobs:

- 92% of this investment will come from the private sector (with GLCs investing 32% and the non-GLC private sector investing 60%) and 8% will come from the public sector;
- Domestic direct investments will account for 73% of total private investment with the remaining 27% coming from foreign direct investments (FDI). This will require, on average, 60% more private investment than the historical average.

The ETP focuses on 12 National Key Economic Areas (NKEAS) for which it has identified 60 business opportunities and 131 Entry Point Projects (EPPs). They include:

1. Expanding the production of swiftlet nests and unlocking value from Malaysia's biodiversity through herbal products under the **Agriculture NKEA**
2. Growing aviation maintenance, repair and overhaul (MRO) services and building globally-competitive outsources under the **Business Services NKEA**
3. Scaling up early childcare and education centres and building an Islamic finance and business education discipline cluster under the **Education NKEA**
4. Expanding the semiconductor and solar power industries under the **Electronics and Electrical NKEA**
5. Becoming the indisputable global hub for Islamic finance under the **Financial Services NKEA**
6. Pursuing generic export opportunities and developing a Health Metropolis under the **Healthcare NKEA**
7. Attracting 100 of the world's most dynamic firms within priority sectors to set up shop in Kuala Lumpur/the Klang Valley and revitalising the Klang river under the **Greater KL / KV NKEA**
8. Building a regional oil storage and trading hub and attracting MNCs to bring their global oil-field services and equipment operations to Malaysia under the **Oil, Gas and Energy NKEA**
9. Developing oleo derivatives and increasing the oil extraction rate under the **Palm Oil NKEA**
10. Ensuring broadband for all under the **Communication, Content and Infrastructure (CCI) NKEA**
11. Improving rates, mix and quality of hotels under the **Tourism NKEA**
12. Modernising small retailers under the **Wholesale and Retail NKEA**.

Let's move beyond criticism of PEMANDU

A programme as massive and ambitious as the ETP is bound to have detractors. Critics have focused on 4 main issues:

1. The enormous budget allocated to PEMANDU and the exorbitant fees running into tens of millions of ringgit paid to consultants:
 - RM66 million was spent to set up PEMANDU, the bulk of this going to foreign consultants including RM36 million to McKinsey and Co¹;
 - RM16 million was paid to seven consulting firms to run the 12 NKEA labs²;
 - The operating cost of the now 60-strong ETP unit is estimated at RM53 million per year in 2011 and 2012. Its eight directors pocket about RM39,000 a month each, while the associate directors each receive an average RM23,300 per month³.
2. Accusations that the ETP lacks substance and is given weight only by the excellent presentation skills of Datuk Seri Idris Jala, the charismatic PEMANDU CEO who has skillfully hyped up the “many EPPs” during each of the eight ETP updates so far⁴;
3. Carping that many projects were private sector projects that would have proceeded regardless but were shoehorned into the ETP to boost its scale. Some examples include the St. Regis Hotel at KL Sentral, which was already under construction when the ETP was launched⁵, as well as the Educity initiative in the Iskandar Development Region; and
4. Claiming that the ETP has unrealistic assumptions with regard to expected investments, job creation, incremental GNI and real wage and GNI growth rates.

¹ McKinsey paid RM36mil to set up PEMANDU. Regina Lee, Malaysiakini, 3 Dec 2010. Retrieved on 26 Dec 2011.

² RM16m paid to seven NKEA lab consultants. Malaysiakini, 23 Nov 2010. Retrieved on 26 December 2011.

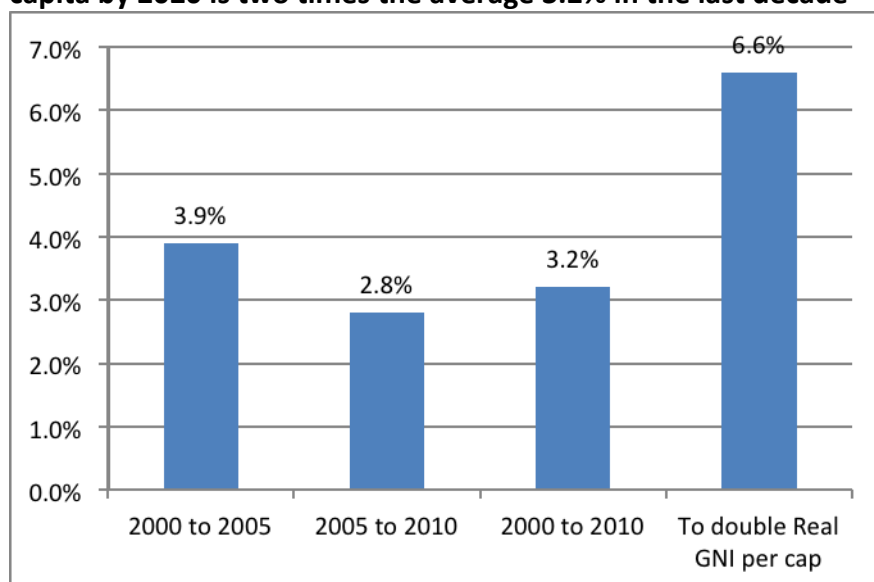
³ McKinsey paid RM36 mil to set up PEMANDU. Regina Lee, Malaysiakini, 3 Dec 2010. Retrieved on 26 Dec 2011.

⁴ The eight updates took place on: 25 Oct 2010, 30 Nov 2010, 11 Jan 2011, 8 Mar 2011, 19 Apr 2011, 13 June 2011, 8 Sept 2011 and 10 Nov 2011.

⁵ Jumpstarting Malaysia's growth: An interview with Idris Jala. 2 Nov 2011. Available at <http://etpblog.pemandu.gov.my/posts/2011/11/02/jump-starting-malaysia%E2%80%99s-growth-an-interview-with-idris-jala/> Retrieved on 26 Dec 2011. Idris Jala argued that PEMANDU was instrumental in clearing away red tape to expedite the St Regis project.

For example, if the objective of the ETP is to really double our incomes, it would require a per capita real GNI growth of 6.6% per year from 2009 to 2020. This is two times the 3.2% average real per capita GNI growth rate achieved over the ten years ended 2010 - a tall order indeed.

Chart 1: 6.6% per year growth rate needed to double income per capita by 2020 is two times the average 3.2% in the last decade



Sources: Monthly Statistical Bulletin, Bank Negara

Supporters of PEMANDU, in response, may say:

1. The fees and costs associated with developing and overseeing the ETP should be considered sunk costs and would be paid back many times over if the ETP is indeed successful in significantly increasing economic activity in the country;
2. Assuming the "hollowness" of the EPPs without going through the due diligence of examining their individual economic potential is unfair;
3. PEMANDU as coordinator between the private and public sectors clears red tape to help expedite private sector projects. In addition, naming hitherto private sector projects as EPPs focuses the energies and budgetary commitments of the stakeholders - the government, government-linked companies (GLCs) and the private sector - to drive these projects to completion in a timely fashion; and

4. PEMANDU should be expected to set ambitious targets in terms of real GDP growth, attracting investments, creating jobs, increasing wages and incomes. PEMANDU as an organisation is adding value only if it delivers performance exceeding the ordinary expectations of economic forecasters and analysts. It is unfair to criticise these targets as unrealistic. Rather, PEMANDU should be evaluated annually to see if it meets its targets and justifies the high fees of its directors.

We think these issues can be further debated, but these questions ultimately boil down to PEMANDU's *raison d'être*. PEMANDU is already a *fait accompli*. Debating its existence serves no useful purpose at this point.

Evaluating PEMANDU on its DEEDS

In this series of Focus Papers, we shall evaluate PEMANDU and the ETP on its own terms by looking at the goals and plans outlined in the ETP Roadmap document. Doing so facilitates constructive debate as it uses the same framework which PEMANDU has chosen to work within.

In that vein, and in keeping with the spirit of the alphabet soup of NKEAs, NKRAAs, SRIs, EPPs, GNI surrounding the entire GTP⁶, we evaluate PEMANDU and the ETP on its DEEDS:

1. Data transparency - the ease with which an independent analyst can evaluate the figures relevant to the ETP and its targets;
2. Execution - the progress, or lack thereof, of announced EPPs (Entry Point Projects);
3. Enterprise - whether the target of stimulating private investment is being achieved. The ETP aims for a 92:8 split between private and public investments;
4. Distribution - the distribution of EPPs across the NKEAs (National Key Economic Areas), which shows whether a healthy balance of projects is being maintained; and
5. Socio-economic impact - an evaluation of the main beneficiaries of the economic activities generated by the EPPs.

⁶ National Key Economic Areas, National Key Result Areas, Strategic Reform Initiatives, Entry Point Projects, Gross National Income and Government Transformation Programme.

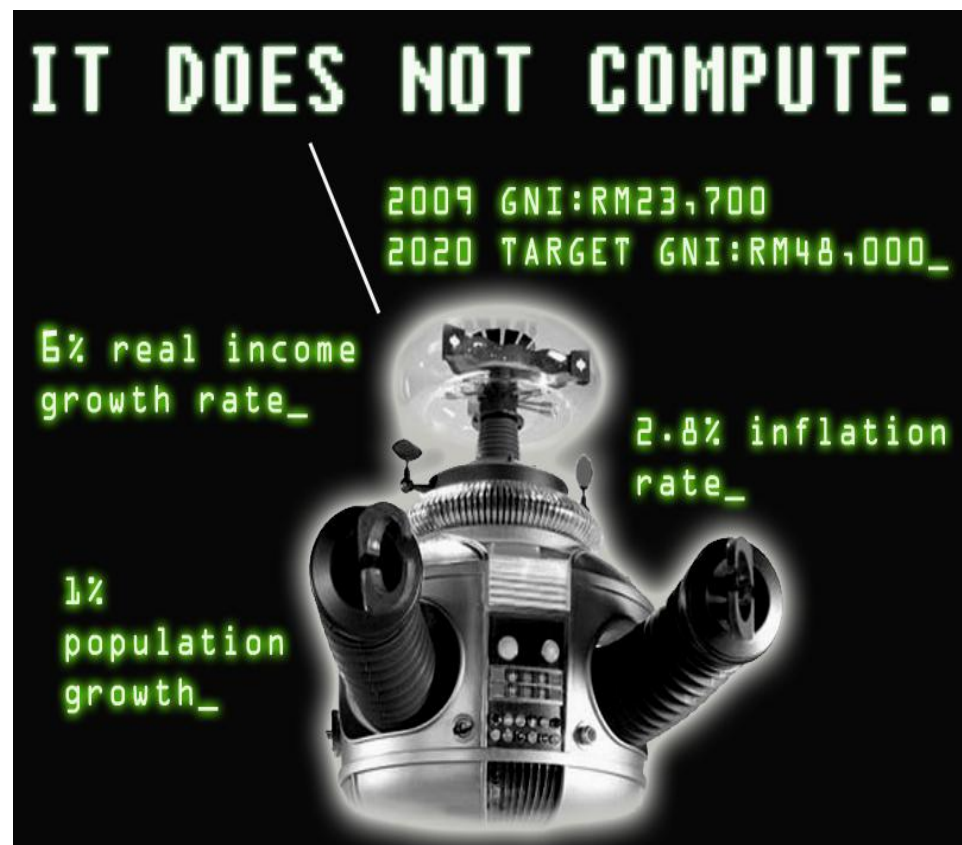
Next week - "It Does Not Compute!"

Mark the date: Wednesday, Jan 25!

In Part 2 of this series of Focus Papers, we will evaluate PEMANDU on the first D of DEEDS - Data integrity and transparency.

In the words of a robot that will be familiar to our more mature readers:

It does not compute! - *Lost in Space* tv series, 1965-68



Note on PEMANDU's response

Upon hearing that we were writing an evaluation of the ETP, the communications team at PEMANDU kindly arranged interviews with a Director from the Minister's Office who is also the Director of the Oil, Gas and Energy & Financial Services NKEAs, the Director of the Wholesale and Retail (W&R) NKEA and the Assistant Director of the Tourism NKEA. We are grateful for these interviews and will include clarification points from these interviews in our evaluation. These interviews were recorded by the ETP communications team and we hope that they would be made available on-line for public access.

About the authors

Visiting contributor Dr Ong Kian Ming holds a PhD in Political Science from Duke University and Economics degrees from the University of Cambridge and the London School of Economics. He is attached to UCSI University, which has been named as the project owner of two Entry Point Projects (EPPs). To avoid any potential conflict of interest, he will not make references to or analyse these two EPPs. He can be reached at im.ok.man@gmail.com.

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