

A Critique of the ETP: Part 4 - Enterprise - *Private enterprises are rejecting the ETP*

The very basis of the ETP is in jeopardy. A key foundation of the ETP is that the private sector is to lead the massive RM1.4 trillion of investments needed to catapult Malaysia to high-income status by 2020. But the 35% private sector share of ETP investments to date is far below target. The RM114 billion investments by government and GLCs are nearly double the RM62 billion invested by the private sector.

PEMANDU obfuscating again. PEMANDU responds that private sector investments are closer to the targeted 60% share if big-ticket public sector projects like the MRT are excluded. This is intellectually dishonest. The ETP Roadmap Report includes such projects in its desired investment mix. There is no justification to exclude them. It is akin to giving a recipe for a rich chocolate cake and then saying it is not fattening if you exclude the calories from the butter.

Is PEMANDU attempting to cover up tepid private sector response? We would expect the big-ticket, long-gestation infrastructure projects to be prioritised in the early days of the ETP. However, PEMANDU has chosen to obfuscate rather than clarify. Is it because the gap between the desired 60% private sector target and the current 30% is unlikely to be bridged?

Grade 'E' for developing private sector enterprise. PEMANDU includes big-ticket projects when it trumpets its headline numbers, and excludes them when inconvenient. If private sector investment is lagging, hiding behind different sets of data will not take us to high-income status. PEMANDU must take the bull by the horns. Explaining the issues and the remedial measures being taken is crucial if economic transformation is to be achieved.

A key foundation of the ETP is restoring the private sector as the engine of economic growth.

But private investments account for only 35% of the total so far. Government and GLCs have invested twice as much as the private sector.

PEMANDU says the private sector is close to target if big-ticket projects like the MRT are excluded.

This is dishonest. It's like saying a chocolate cake is not fattening if the calories from butter are excluded.

Has the ETP fostered private enterprise?

A key foundation of the ETP¹ is that the private sector is to lead the massive amounts of investments needed to catapult Malaysia to high-income status by 2020. The ETP Roadmap Report says:

“the projects and opportunities identified will be mainly funded from private sources. The Government’s role will be that of an active facilitator of the private sector through resource and policy support, rather than the principal driver, as it has been in the past.”²

This is consistent with the ‘government knows best era is over’ ethos of the government’s other economic plans including the 10th Malaysia Plan and the New Economic Model.

The ETP says RM1.4 trillion of investment is required to take Malaysia to high-income status by 2020. Of this, 92% is to come from the private sector with the balance 8% from the public sector (the government).

Note that the ETP considers government-linked companies (GLCs) as ‘private sector’ and includes them in the 92% private sector total. We take issue with PEMANDU on that definition, which we delve into in Appendix 1. We consider GLCs as a separate class, and the desired split is 60:32:8 - 60% from the ‘true’ private sector, 32% from GLCs and 8% from the government.

Attracting private sector, non-GLC investments is crucial to the transformation objective of making the private sector the main driver of economic growth. The very basis of the ETP is in jeopardy if private sector investment is not forthcoming.

In this paper we focus on Enterprise - the second ‘E’ in the DEEDs framework with which we are evaluating PEMANDU³ and the ETP. How effective has PEMANDU been in steering the ETP towards this paramount goal of restoring the private sector as the engine of growth for Malaysia?

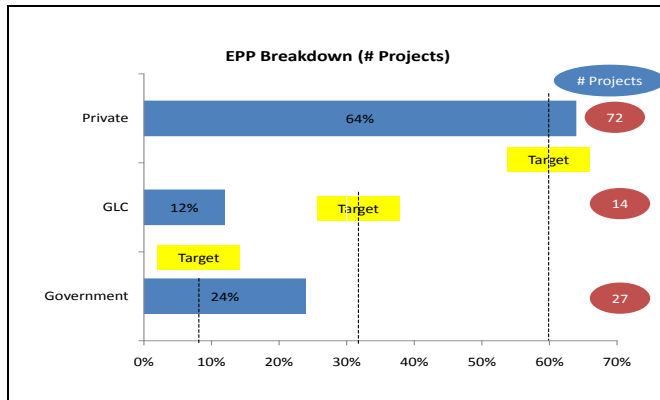
¹ The ETP calls for 131 entry point projects (EPPs) within 12 National Key Economic Areas (NKEAs), which will pour RM1.4 trillion worth of investment into the economy and create 3.3 million new jobs by 2020.

² ETP Roadmap Report, Chapter 1, pg.67

³ The acronym that the Performance Management and Delivery Unit within the prime minister’s department is better known by. PEMANDU is the government agency that created and is now steering the ETP.

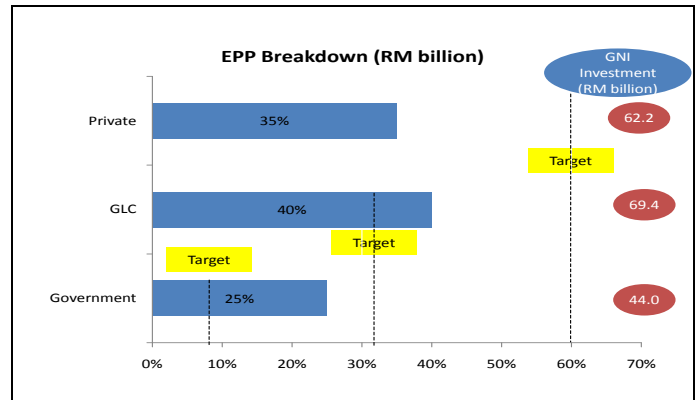
Sadly, private sector investments are still lagging

Figure 1: Private sector investments are keeping pace, based on number of projects



Source: ETP website and Ong Kian Ming's analysis

Figure 2: But by value, the private sector is lagging very far behind



Source: ETP website and Ong Kian Ming's analysis

Based on number of projects, the ratio of private:GLC:public projects of the 113 EPPs announced so far is 64:12:24:

- The 64% private sector participation is close to the 60% target;
- GLCs at 12% are far behind the 32% target;
- Government at 24% is far ahead of the 8% public sector target⁴.

However, the private sector projects are of relatively small value, averaging just RM864 million per project⁵. This would be even smaller at RM704 million per project if we exclude the two doubtful multi-billion projects we covered last week in *Part 3 (iii): Doubtful EPPs; doubtful projects and due diligence* - the Karambunai Integrated Resort and the Tanjong Agas petrochemical park.

The government projects are far larger, averaging out at RM1,630 million per project. The GLC ones are massive, averaging RM4,957 million each - nearly RM5 billion per project. In fact, GLC and government investments total RM114 billion - nearly double the RM62 billion from the private sector.

⁴ Although it can be argued that between 6 to 8 Government EPPs can be categorised as either enablers or SRIs e.g. TalentCorp and TERAS.

⁵ RM62.2 billion divided by 72 projects. In fact, excluding the 2 potential dud projects worth a total RM12.9 billion which we covered in Part 3 (iii) leaves an average of just RM704 million per project.

Based on investment values of the EPPs, the private:GLC:public projects split is 35:40:25⁶.

- Private sector investments at 35% of the total value are far below the 60% desired;
- GLC investments at 40% are above the 32% target;
- The government investment share at 25% is more than triple the desired 8%. In fact, it will be even higher if the increased cost of the MRT is used. This 25% share is based on the original RM37 billion budget for the MRT. The estimated cost since then has ballooned.

PEMANDU is trying to have its cake and eat it

Opposition leader Datuk Seri Anwar Ibrahim observed that, “a high proportion of the EPPs (upon which the success of the ETP hinges on) are nothing more than large-scale infrastructure projects that will consume a large amount of public money either directly from the public coffers or through funding arrangements with GLCs / GLICs”⁷.

PEMANDU’s response:

- It acknowledged that about RM67 billion or 39% of the total investment up to Nov 2011 was contributed by GLCs. However, it pointed out that the percentage falls to 6% if the RM60 billion RAPID project by Petronas is excluded.
- Similarly, it said the private sector:public sector ratio (including GLC investment) stands at 75:25. But it also suggested that if GLC investments are excluded, the private to public investment ratio is 60:40⁸.

This is not an isolated example. In response to other similar criticisms, PEMANDU has also trotted out numbers that exclude the MRT and RAPID projects which then takes the private / public investment ratio much closer to the desired 92:8 ratio⁹.

⁶ The discrepancies between the figures shown here and PEMANDU’s own figures is probably due to differences in how EPPs were classified – government, GLC or private. These discrepancies are not large and do not change the overall focus of our argument.

⁷ By his calculation, 77% of the supposedly private investments amounting to RM173 billion announced as of August 2011 will be funded by GLCs or firms with large GLIC (government-linked investment companies) shareholding. Debunking ETP: Widening Income Gap. Anwar Ibrahim, 16 Dec 2011. Available at <http://anwaribrahimblog.com/2011/12/16/debunking-etp-widening-i-income-gap/>. Retrieved 3 Feb 2012.

⁸ It also said total committed investment as of Nov 2011 was RM177 billion, slightly higher than Anwar’s RM173 billion number. Debunked! Myths created about the ETP. 23 Dec 2011 by ETP Malaysia. Available at <http://etpblog.pemandu.gov.my/posts/2011/12/23/debunked-myths-created-about-the-etp/>. Retrieved 2 Dec 2011.

⁹ After stripping out the MRT and Petronas projects, Pemandu says public sector investment totals roughly 9% (RM6.35bil) while private sector financing is 91% (RM67.3bil). http://etp.pemandu.gov.my/sub_page.aspx?id=66c6c146-2292-4460-a8be-853ac8501ee1&pid=a6014584-aa98-45f1-827e-d4b261e4dae4&print=1. Retrieved 8 Feb 2012.

This is yet another case of PEMANDU obfuscation¹⁰. It is disingenuous to suggest that the private/public investment ratio would be closer to the ETP targets if certain investments are excluded. The ETP is a holistic plan which includes desired investment targets from the private sector, GLCs and the public sector.

There is no justification for excluding particular projects such as the MRT from the investment ratio calculations. The ETP Roadmap Report already includes the MRT project in its targeted 60:32:8 private:GLC:public investment mix. There is no reason why separate calculations which exclude the MRT project should be highlighted.

On the one hand, in its updates, PEMANDU trumpets the massive amounts of investments and its excellent progress towards its ambitious target. This large total rightly includes investments from all parties - the private sector, GLCs and the public sector.

On the other hand, when it is pointed out that private sector participation is lagging, PEMANDU trots out statistics which exclude certain projects. This is intellectually dishonest.

PEMANDU can't have its cake and eat it:

- If it wishes to include the mega-billion GLC and government projects towards its total RM1.4 trillion target, then it has to accept the ensuing ratios which are heavily skewed towards GLC/public sector investments.
- If it wishes to exclude GLC/public sector investments in its ratio calculations, then it must also exclude them from its headline investment numbers - which would then be far behind schedule.

Going back to the cake analogy, PEMANDU's response is akin to saying this delicious chocolate cake is not fattening if you exclude the calories from the butter and icing. The cake has to be eaten in its entirety. You can't take out the butter!

¹⁰ Very glaring examples of PEMANDU's intellectual obfuscation rather than clarification are set out in Part 2 - *We won't really be twice as rich in 2020*. Available at <http://refsa.org/focus-papers/a-critique-of-the-etp-part-2-we-would-not-really-be-twice-as-rich-in-2020/>. The most bizarre is a reference to 2020 constant prices.

Is PEMANDU attempting to cover up tepid private sector response?

There really should be no problem with public sector investment being heavier in the early stages of the ETP. The targeted 60:32:8 private:GLC:public ratio is a long-term one over the course of the ETP until 2020.

In fact, we would *expect* government to feature more prominently in the early days. The government would naturally be expected to pursue very big-ticket, long-gestation, infrastructure projects like the MRT. So, it would actually be sensible for PEMANDU to prioritise these over smaller-ticket, shorter-time frame private sector projects.

However, instead of taking this line, PEMANDU has chosen to obfuscate and cherry-pick. It includes GLC and government projects when it suits its case, and excludes them when it does not.

Is it because there is no visibility in the pipeline for private sector EPPs? Is it because it is unlikely that the gap between the desired 60% private sector investment ratio and the current 35% will be closed?

High Income Economy by 2020?



In fact, because the private sector is already lagging, the ratio of private sector investment must rise to 64% from now to 2020 in order to meet the desired target¹¹. That is a massive increase from the 35% today. Also, because private sector projects will be smaller than the massive multi-billion ringgit GLC and government investments such as the MRT and RAPID, PEMANDU will have to foster a large number of private sector EPPs.

Can PEMANDU do so? Only time will tell. We shall be monitoring.

In the meantime, PEMANDU gets an “E” for developing private sector Enterprise. While a fair number of private sector-driven EPPs have been named, the ETP is still too focused on big ticket government-linked projects in order to drive the headline investment, GNI contribution and job numbers.

¹¹ Because the 35:40:25 ratio of private/GLC/public sector investments achieved so far has seen so little private sector participation, the ratio must change to 64:31:6 from now to 2020 if the ultimate goal of 60:32:8 is to be achieved.

What can PEMANDU do?

PEMANDU must take the bull by horns and address the root causes of why the private sector does not have sufficient confidence in the long-term potential of the country to invest large amounts of capital in long-term projects in Malaysia. To do this, PEMANDU should:

1. Stick to a consistent data set that includes all EPPs in all its statistics;
2. Explain the issues and the remedial measures being taken where there are deviations from the targets; and
3. Stop obfuscating by cherry-picking and trotting out statistics that exclude certain projects. This is unproductive and intellectually dishonest.

If private sector investment is lagging, hiding behind different sets of data will not take us to high-income status. PEMANDU must demonstrate that it is able to mobilise the private sector to drive economic growth through the EPPs.

A related concern is that a small number of EPPs, mostly in the Oil, Gas and Energy NKEA, constitute the bulk of investment numbers.

We will discuss this in detail in Part 5 next week, when we evaluate the Distribution of EPPs across the NKEAs, the second 'D' in our "DEEDS" framework.

Appendix 1: GLCs are NOT similar to private sector players

PEMANDU believes government-linked companies (GLCs) should be considered as being similar to other players in the private sector:

“The reality is that GLCs must be considered as part of the private sector as they compete on a commercial basis in their respective sectors, and are accountable for their annual profit and loss performance.”¹²

But this statement flies in the face of the reality that many GLCs can run at a loss over long periods of time because there is the underlying assumption that, at the end of the day, the government will bail them out if necessary. Malaysian Airlines, for example, is a GLC that has to compete against other airlines in the international and domestic markets but there is little chance that it will be allowed to go bust.

Also, some of these GLCs have government-granted monopolies or legacy economies of scale. For example, Telekom is dominant in the fixed line aspect of telecommunications, Tenaga has a monopoly on electricity transmission and Petronas is charged with stewarding our country’s oil wealth.

We do not deny that GLC-led EPPs can make important economic contributions to the country. But counting EPPs associated with such GLCs as private sector initiatives overstates the private sector role. It makes private sector participation appear larger than it really is.

Notable examples of EPPs helmed by monopolistic GLCs include:

- The massive RM60 billion RAPID project by Petronas;
- Other Petronas EPPs including efforts to rejuvenate existing fields through Enhanced Oil Recovery (EOR) under EPP1, develop small fields through innovative solutions under EPP2 and intensify exploration activities under EPP3¹³;
- RM4 billion investment by Tenaga to build additional and upgrade existing infrastructure under the Oil, Gas and Energy NKEA;
- RM486 million investment by Malaysian Airports to transform KLIA into a retail hub under the Wholesale and Retail NKEA;
- RM418 million investment led by Telekom Malaysia to lay the Cahaya Malaysia Cable System linking Malaysia to Japan and Hong Kong.

¹² Debunked! Myths created about the ETP. 23 Dec 2011 by ETP Malaysia. Available at <http://etpblog.pemandu.gov.my/posts/2011/12/23/debunked-myths-created-about-the-etp/>. Retrieved 2 Dec 2011.

¹³ The expected GNI investment, jobs and GNI contribution for these EPPs were not given by PEMANDU.

About this series

Critics of PEMANDU and the ETP thus far have tended to focus on the expensive costs incurred by PEMANDU and its consultants, accusations of style prevailing over substance, the execution of specific projects and its apparently lofty, unrealistic targets.

We think these issues can be further debated, but we choose to evaluate PEMANDU and the ETP on its own terms by looking at the goals, plans and targets 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 GTP, 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 selection of and progress, or lack thereof, of 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.

The story so far

Part 1, [Let's evaluate PEMANDU on its DEEDS](#), introduced our evaluation framework.

Part 2, [We won't really be twice as rich in 2020](#), found us declaring "It does not compute!" PEMANDU's target is to double nominal income per capita to RM48,000 by 2020. But using its forecasts for income and population growth, and inflation, the target should be RM54,145, not RM48,000. Can this 'roadmap to transformation' be trusted when even the basic math is wrong?

Part 3(i), [PEMANDU strengthens the 'know-who' cancer](#), focuses on the practice of taking credit for pre-existing projects and PEMANDU's role in cutting red tape. PEMANDU is institutionalising the role of middleman if it cuts red tape only for EPPs. If long-term policy changes are not made, Malaysian innovation, creativity and productivity will continue to lag. It does not matter *how* good your product or idea is, or how efficiently you can make it, it depends on *who* you know to get it through the system.

Part 3 (ii), [The hothouse labs probably killed innovation](#) posits that large companies would naturally dominate the vaunted 'labs' that chose the EPPs. Also, the tight 8-week time frame to research best practices, distil them and support them with detailed analysis would have incentivised participants to select EPPs for which research was already ready, rather than pursue genuinely transformative alternatives.

Part 3 (iii), [Doubtful EPPs; doubtful achievements and due diligence](#) concludes our assessment of PEMANDU's Execution. The selection of possible 'dud' projects - projects with very little hope of success - as EPPs raises serious doubts about the due diligence process at PEMANDU. The RM10 billion Karambunai Integrated Resort needs 2.8 million visitors per year to break-even - more than all the travellers arriving at Kota Kinabalu airport! The multi-billion ringgit plan to transform Tanjung Agas in Pekan from a fishing village to a petrochemical hub has REFSA aghast. It creates redundant infrastructure, and goes against the government's own master plan identifying the already established Kertih and Gebeng as the focus areas for oil, gas and petrochemical clusters in the Eastern Corridor Economic Region (ECER).

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 online 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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