Dissecting the ETP Annual Report: Part 1
- Grade A+ for Obfuscation!

Top marks for befuddling even highly-qualified Malaysians. PEMANDU released its annual report last month to an expected chorus of praise. An economist at a leading financial institution gushed that the ETP deserves an 'A' for transformation. Our analysis however, finds that pretentious words and slick presentations, protestations of diligence and toil and selective representation of data obscure the true picture.

***Real* GNI grew only 4.7% last year.** This is well below the 6% per year growth rate called upon for the duration of the ETP. *Nominal* GNI growth, which includes inflation, was 12.3%. But inflation does nothing for our *real* quality of life, and it is only because inflation was higher than expected that the *nominal* GNI growth rate hit double-digits.

PEMANDU's GNI 'target' is questionable. PEMANDU claims it has outperformed as GNI last year exceeded its RM797 billion target. Strangely enough, this 'target' was declared only *after* the actual data was already out. Furthermore, the target was exceptionally low. As far back as Oct 2010, the Ministry of Finance was already projecting RM811 billion GNI. It is easy to exceed targets when they are low, and only declared after the fact. No real value is added, though.

Scoring is easy when you can shift the goalposts. The subterfuge by PEMANDU includes attempting to steal credit for 2010 economic growth, conflating GDP with GNI and using exchange rate movements to amplify performance. And these are just on the subject of headline economic performance. We shall uncover more ruses as we delve into the execution details. Stay tuned!

- PEMANDU's RM797 billion *nominal* GNI 'target' for 2011 was very low, and only declared in 2012, after the actual data was out!
- *Real* GNI growth was just 4.7%. *Nominal* growth was higher because inflation was much higher than expected.
- The ETP focuses on GNI, but CEO Dato' Sri Idris misdirected Malaysians by citing the stronger GDP numbers.
- Let's be honest. Celebrate successes. But also admit mistakes and share the learning experience so we can all transform.

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Data integrity has reached abysmal depths

PEMANDU[1] claimed an achievement of astounding performance in the inaugural Annual Report of the Economic Transformation Program (ETP[2]) released last month[3]. Each National Key Economic Area (NKEA) achieved marks ranging from 65% to a flabbergasting 170%, depending on which of 3 self-defined criteria is applied[4].

The Annual Report claims the ETP met or exceeded nearly all of the targets outlined in the ETP Roadmap Report released in October 2010. These achievements include:

1. Surpassing its income and private investment targets for 2011:
   a. RM830 billion GNI (Gross National Income) vs RM797 billion target;
   b. RM94 billion private investment vs RM83 billion target;
2. 72 out of the 131 EPPs (Entry Point Projects) taking off;
3. EPP investments totalling RM179 billion, creating RM130 billion of GNI and nearly 314,000 new jobs.

The 'achievements' were impressive enough for analysts at the likes of financial institutions such as CIMB Group to give it an 'A for transformation'[5]. These analysts took PEMANDU at face value.

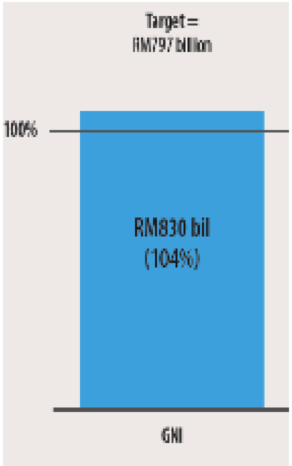
Our analysis concludes that PEMANDU does deserve an A+ indeed, but for obfuscation. Data integrity and transparency have reached abysmal depths as far as the ETP is concerned. As we have seen all too often with PEMANDU and the ETP, the true picture is obscured behind pretentious words and slick presentations, protestations of diligence and toil and selective representation of data, sometimes bordering on misrepresentation.

Read on for the foundations underpinning our strong words.

[1] 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.
[2] 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.
[3] The report was released on 2 Apr 2012. It can be downloaded at http://etp.pemandu.gov.my/annualreport/
[4] See Appendix 1 for details.
[5] ETP 2011 Annual Report – A for Transformation by Lee Heng Guie. A copy can be downloaded at http://etp.pemandu.gov.my/Download_Centre-@-Download_Centre.aspx

PEMANDU exceeded its GNI 'target' but delivered nothing

Figure 1: 2011 GNI - actual vs PEMANDU's 'target'



Source: ETP Annual Report (Exhibit 3, page 8)

The ETP continues to be plagued by data integrity problems which cast doubt on the self-proclaimed excellent performance. The first and most major issue is PEMANDU claiming credit for exceeding performance benchmarks which are declared only after the event:

- Prior to this Annual Report, PEMANDU had never explicitly stated that the ETP had a 2011 nominal GNI target;
- However, *after* the Ministry of Finance released the national income statistics showing RM830 billion of GNI, PEMANDU claimed that the RM797 billion GNI targeted by the ETP had been exceeded;
- Where did this RM797 billion target come from? It was not stated in the ETP Roadmap that launched it all in Oct 2010. Nor did PEMANDU mention it in its numerous communiqués and updates last year.

Furthermore, the RM797 billion GNI 'target' that PEMANDU claimed it exceeded for 2011 is exceptionally low:

- The Ministry of Finance (MoF) as far back as October 2010 had already projected RM811 billion GNI for 2011[6];
- The MoF's projection was equivalent to 9.6% nominal growth. PEMANDU's 'target' was equivalent to just 7.8% nominal growth from 2010[7]. This is lower than PEMANDU's average 8.8% annual growth rate target stated in the ETP Roadmap Report [8].

PEMANDU might have exceeded its 'target'. But what *value* did it deliver? The MoF was already projecting GNI higher than PEMANDU's claim of RM797 billion 'target', even without the benefit of the ETP!

And as we have highlighted, PEMANDU's so-called 'target' is underwhelming. Taken at face value, PEMANDU is dragging down the Malaysian economy instead of transforming it. How else would you explain PEMANDU's target for national income (GNI) being smaller than the forecast made by the MoF?

[6] The MoF forecast for 2011 GNI is contained in the Economic Report 2010/2011, which was published in Oct 2010 before the launch of the ETP Roadmap Report later that month.

[7] 2010 GNI was RM739.45 billion. Table 2.1, Economic Report 2011/2012, Ministry of Finance, Oct 2011.

[8] 6% real GNI growth rate and 2.8% inflation per year are the projections stated in Exhibit 1 (page 8) of the ETP Roadmap Report published by PEMANDU on 26 Oct 2010.

In response to an article recently published by Ong Kian Ming[9], PEMANDU senior analyst Marc Fong wrote the following on the methodology employed to calculate the GNI target:

> *"The ETP's true north has and will continue to be US$15,000 GNI per capita in 2020. The aggregate national GNI is the numerator but denominator is total population. In order to establish a yardstick by which we measure ourselves, we adopted a linear approach to calculating the GNI target that would indicate we were on the right path[10]."*

In that paper, Kian Ming questioned the basis for PEMANDU's RM797 billion GNI 'target' for 2011 and highlighted that it called for just 7.8% growth, whereas the ETP Roadmap Report targets 8.8% growth per year. Marc Fong's reply fails to shed any light. Using a 'linear approach', GNI has to increase by RM78 billion every year under the ETP to reach the 'true north' target. On this basis, the GNI target for 2011 should have been RM817 billion, and not RM797 billion. PEMANDU's figures just do not compute[11].

In our view, this is yet another demonstration of PEMANDU's preference for obfuscation over clarification. A simple answer with numbers would have sufficed. Instead verbose language and tortuous arguments are employed to cloak its methodologies and data.

[9] Published in the Edge Financial Daily and the Malaysia Insider on 24 May. Available at hwww.themalaysianinsider.com/sideviews/article/verify-verify-verify-ong-kian-ming/

[10] Focus, focus, focus: A reply to Ong Kian Ming, Marc Fong, 25 May 2012. Available at www.themalaysianinsider.com/sideviews/article/focus-focus-focus-a-reply-to-ong-kian-ming-marc-fong/

[11] We interprete the 'linear approach' means assuming a constant RM increase in nominal GNI every year from 2009 to 2020 under the ETP. Nominal GNI was RM661 billion in 2009 according to PEMANDU's figures in Exhibit 2-3 of the ETP Annual Report. The 'True North' Nominal GNI in 2020 is RM1,516 billion, using the R48,000 per capita and 31.6 million population figures given in Exhibit 1 of the ETP Roadmap Report. A linear approach means that GNI has to increase by RM78 billion a year (1,516-661 divided by 11 years) to reach the RM1,516 billion 'True North' target. Using this 'linear approach' the GNI target in 2011 should be RM817b (RM661b + RM78b + RM78b).

It is easy to score when you can shift the goalposts

Scoring is easy when the goalposts can be moved to your advantage. And PEMANDU does move the goalposts to make itself look good. Sometimes the shift is obvious. At other times, it is insidious.

A particularly sly example can be found in the very first 'Transformation Blues' column[12] by PEMANDU CEO Senator Dato' Sri Idris Jala. He wrote, "… our GDP grew by 7.2% in 2010 and 5.1% in 2011 and that's an average of 6.2%; we are meeting our Economic Transformation Program (ETP) target." That statement contains two counts of serious intellectual dishonesty:

1. Firstly, the ETP was launched only in late October 2010, which means that PEMANDU cannot possibly take credit for the 7.2% economic growth in 2010, which was actually relatively high because it bounced off the low base of a recession year in 2009[13]. So the focus really should have been just on 2011, where real GDP grew by just 5.1%;

2. Secondly, why did the good Dato' Sri talk about GDP (Gross Domestic Product) when the ETP focuses on GNI growth, not GDP. This misdirection is particularly devious given that PEMANDU just two weeks earlier in response to a REFSA critique said that 'comparing GDP to GNI is incorrect'[14] since 'this is comparing apples and oranges, and this begs the question as to why REFSA is choosing to compare two different measures'[15].

This willful obfuscation between GDP (Gross Domestic Product) instead of GNI (Gross National Income) hides the fact that real GNI growth in 2010 and 2011 were just 3.9% and 4.7%[16] respectively - which are far below the 6% real GNI growth rate targeted by the ETP.

12 'Why Malaysia won't go bankrupt', first appeared in the Star on 29 Mar 2012. It is also available at http://etpblog.pemandu.gov.my/posts/2012/03/29/why-malaysia-wont-go-bankrupt/ Retrieved 10 May 2012

13 GDP shrank by 1.6% in 2009.

14 Reply to 'A Critique of the ETP' - Part 6, PEMANDU, 13 Mar 2012. Available at http://etpblog.pemandu.gov.my/posts/2012/03/13/reply-to-a-critique-of-the-etp-part-six/ Retrieved 10 May 2012

15 In our Critique of the ETP: Part 6 - Socioeconomic Impact - the ETP will make the rich even richer, published on 7 Mar 2012, we had compared the 2009 distribution of GDP against the targeted 2020 distribution of GNI projected by PEMANDU. The 2009 distribution of GNI was not available to us, but we considered 2009 GDP a reasonable proxy as the difference between GDP and GNI had been just 5.6% from 2006 to 2010. This was explained in the Focus Paper which is available at http://refsa.org/focus-papers/a-critique-of-the-etp-part-6-socio-economic-impact-the-etp-will-make-the-rich-even-richer/

16 According to the Bank Negara's Monthly Statistical Bulletin, March 2012 available at http://www.bnm.gov.my/index.php?ch=109&pg=294&ac=246&yr=2012&mth=3&eId=box1 (Retrieved 18 May 2012) Table 3.3.1, Real GNI was RM497b, RM517b and RM541b in 2009, 2010 and 2011 respectively.

And why are the goalposts in American dollars?

Idris Jala, in his Transformation Blues column on 7 May said, “In 2010, our GNI per capita was US$8,126 and this rose to US$9,508, a 17% increase in 2011. We are well on track to reach our high-income target by 2020”[17].

Ordinary Malaysians live and work and spend their money mostly in Malaysia and in our domestic currency, the Ringgit. A jump in our GNI per capita because the US$ weakens against the Ringgit would not have a direct impact on the quality of life of most Malaysians. For example, let us say GNI per capita today is RM24,000, or US$8,100 based on an exchange rate of RM3.00:US$1. If the US$ were to depreciate to, say, RM2.80:US$1, our GNI per capita would increase to US$8,571 even though it remains unchanged in Ringgit.

The weaker US$ may help those who go abroad for their holidays, and may result in cheaper imported goods but those are big ‘ifs’. The value of the US$ hinges on many factors, most of which are beyond the control of PEMANDU. For example, a US-specific economic issue might result in the US$ weakening against most major currencies. If that were to happen, we might be richer in US$ terms, but not when compared to other currencies such as the Euro, Yen and Australian Dollar because they all also appreciated in tandem.

Which makes us wonder why Dato’ Sri Idris chose to express the changes in our GNI per capita in US dollars instead of in Ringgit terms. It is surely just coincidence that, measured in Ringgit Malaysia, the performance is a lot less impressive. In Ringgit Malaysia, GNI per capita increased by just 11.2% in 2011[18].

And by the way, the goalposts are not real

Detractors might accuse us of carping - after all, 11.2% might be lower than 17%, but it is still a double-digit growth rate GNI per capita growth rate. Furthermore, total nominal GNI grew by 12.3%, which at first glance, is far higher than the 6% growth rate targeted by the ETP.

[17] Be assured we are transforming for the better, even if you don’t feel the palpable effects yet. Idris Jala, Transformation Blues, the Star, 7 May 2012.

[18] Data from Department of Statistics. Please see Appendix for more data and the full citation. The Ringgit appreciated from RM3.20:1US$ to RM3:1US$

This brings us to another very crucial point - the difference between *nominal* income and *real* income. *Nominal* GNI growth of 12.3% includes inflation. *Real* GNI growth was only 4.7%. This is well below the ETP's target of 6%.

As we have pointed out, it is *real* income that matters. For example, if your nominal income goes up by 10%, but inflation makes your cup of kopi-O and all the other things you buy 15% more expensive, you are actually worse off[19]!

Figure 2: Gross National Income (GNI) in 2011. Targets, Projections and Actual (RM billion)

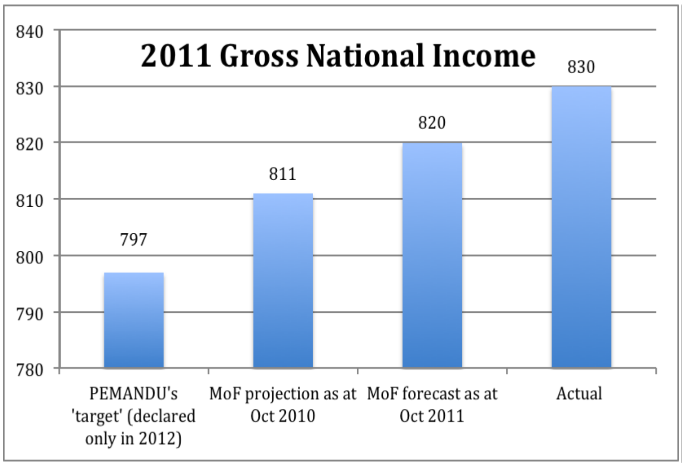


Figure 3: *Real* GNI grew 4.7% in 2011, well below PEMANDU's 6% per year long-term ETP target

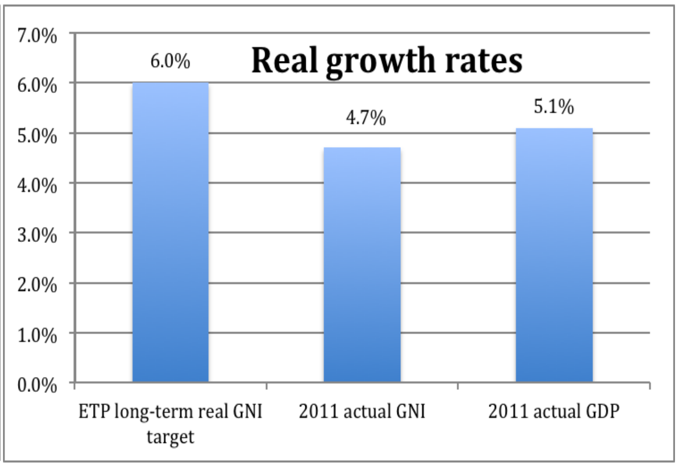
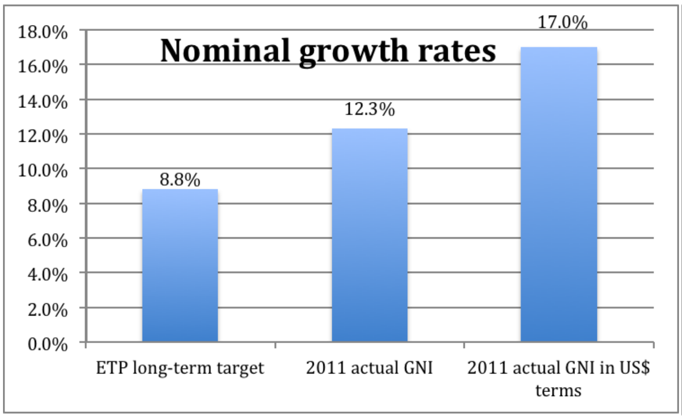
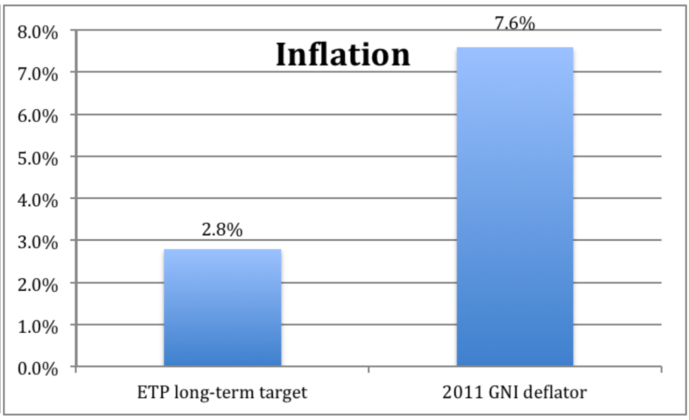


Figure 4: *Nominal* GNI grew 12.3% in 2011, above the 8.8% per year long-term ETP target …



Sources for figures 2 to 5: PEMANDU and government of Malaysia. Details as cited in footnotes.

Figure 5: … but that is because inflation was well ahead of PEMANDU's 2.8% per year assumption



Note that PEMANDU uses the Consumer Price Index (CPI) to measure inflation. The CPI is based on a selected basket of goods and services, including controlled price items. The GNI deflator incorporates *all* the goods produced in an economy.

[19] For a simple explanation of the difference between Nominal and Real growth please see A Critique of the ETP (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/

It's time for an honest referee to step in

PEMANDU asserts that it is exceeding the 'transformative' and 'ambitious' targets set by the ETP. The mainstream media goes along with the charade. That is not surprising. However, it is disconcerting that professional analysts and economists have also chosen to bury their heads in the sand and take PEMANDU's assertions at face value. The lack of due diligence is disappointing.

We are therefore extending our DEEDS framework to evaluate the ETP Annual Report and PEMANDU's declarations of outperformance. In this Focus Paper, we focused on Data Integrity, starting with PEMANDU's impact on national income (GNI). As we have seen:

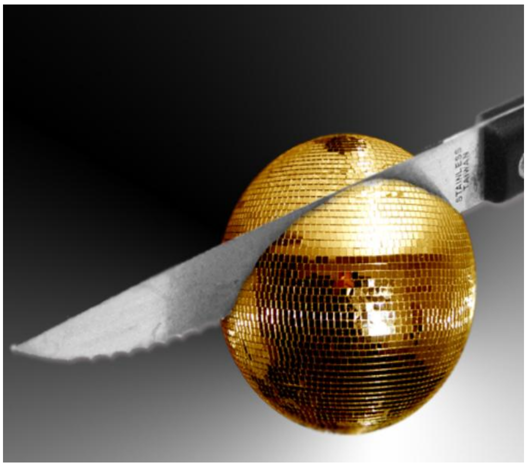
1. The ETP has FAILED when measured by *real* GNI growth. Real GNI grew by just 4.7% in 2011, compared to the 6% per year target cited in the ETP Roadmap Report;

2. PEMANDU is GUILTY of obfuscation. CEO Dato' Sri Idris spotlighted GDP numbers which obscure the fact that PEMANDU had failed to deliver on GNI. This is especially insidious as just a fortnight before, PEMANDU had censured its critics for apparently not understanding the difference between GDP and GNI;

3. PEMANDU steals credit when none is due. Dato' Sri Idris cited 2010 economic numbers as part of his achievements, but the ETP Roadmap Report was published only in Oct 2010;

4. PEMANDU is DISCONNECTED from everyday reality in Malaysia. CEO Dato' Sri Idris sometimes chooses to measure his performance in American dollars. But it is Ringgit Malaysia that is important to ordinary Malaysians;

5. PEMANDU sets LOW TARGETS that result in no value being added when they are exceeded:
   a. Its claim of RM797 billion 'target' for 2011 GNI was lower than the MoF forecast of RM811 billion. Why was PEMANDU, which is supposed to add value, forecasting a number lower than the MoF?
   b. The professed RM797 billion GNI target for 2011 is on very shaky foundations. This 'target' was only publicised *after* the GNI data was released by the MoF. Furthermore, it is very low, calling for just 7.8% growth, well below the average 8.8% targeted in the ETP Roadmap Report.



In subsequent Focus Papers in this series, we shall cover Execution, Enterprise, Diversity and Socio-Economic Impact. We shall delve deeper into the investments numbers and status of EPPs (Entry Point Projects) and show more evidence of how PEMANDU and its CEO Dato' Sri Idris Jala selectively choose figures and data to show targets being reached but fail to acknowledge that other targets have not been reached.

This is not a fault-finding exercise. It is crucial that PEMANDU, which is tasked with transforming the Malaysian economy, provides accurate information and works from solid foundations:

1. Firstly, if PEMANDU gets even the headline GNI numbers wrong or is obfuscating these numbers, it makes one wonder whether other statistics touted, which are much more opaque, such as the achievements of each individual EPP, can be trusted. And if we don't even know where we are, how can we plan for the future?

2. Secondly, life is not a bed of roses. Things don't always go according to plan, and yet, based on the ETP Annual Report, almost everything is hunky dory. Nothing is said about stalled or abandoned projects. Successes should be celebrated, but failures and missteps must be acknowledged and remedial action taken. Learning from our mistakes will help us grow faster.

As we will show later in this series, not everything is as rosy as the picture painted by PEMANDU and the ETP Annual Report. Stay tuned.

Appendix 1: NKEA Performance in 2011, according to PEMANDU

NKEA (National Key Economic Area)	Method 1	Method 2	Method 3
Communications, Content and Infrastructure	170%	92%	89%
Greater KL / KV	151%	94%	88%
Wholesale & Retail	141%	93%	86%
Business Services	138%	91%	86%
Education	120%	77%	65%
Agriculture	119%	88%	78%
Tourism	118%	100%	88%
Oil, Gas & Energy	109%	90%	78%
Electrical & Electronics	108%	92%	88%
Healthcare	103%	96%	79%
Financial Services	101%	96%	92%
Palm Oil and Rubber	98%	92%	75%
Average	123%	92%	83%

Source: ETP Annual Report and Ong Kian Ming.

As stated by PEMANDU: Method 1 provides a reflection of the actual KPI (Key Performance Indicator) achievement. If a KPI surpasses its targets significantly, the final results will be presented as a large percentage, surpassing the 100% limit. Method 2 accommodates KPI achievements with significant quantitative results. Any achievement above 100% is capped. Method 3 represents a simple reflection of the KPI achievement. KPI targets that were met or exceeded are graded 1, those achieving over half of their targets are graded 0.5, and those with less than half their targets are graded 0.

Appendix 2: Economic Achievements in 2011

According to the Department of Statistics[20], comparing 2011 to 2010:

- Nominal GNI grew 12.3% to RM830.7 billion from RM739.5 billion. Per capita GNI grew 11.2% to RM29,094 from RM26,175;
- Nominal GDP grew 11.3% to RM852 billion from RM766 billion;
- Real GNI increased by 4.7% while Real GDP increased by 5.1%[21]. This real GDP growth rate was at the low end of the 5-5.5% estimated by the Ministry of Finance in October 2011 in the Economic Report 2011/12;
- FDI (foreign direct investment) inflows grew 12.3% to RM33 billion from RM29 billion;
- Private investment grew by 19.4% to RM94 billion from RM79 billion.

[20] The National Accounts data can be downloaded from the Department of Statistics website www.statistics.gov.my/portal/

[21] The difference between Nominal and Real GNI and GDP growth is the Deflator, which measures the increase in prices of a much larger basket of goods and services than the CPI (Consumer Price Index). In 2011, the Deflator was 7.6% and 6.2% for GNI and GDP respectively. For a simple explanation of why the difference between Nominal and Real growth matters to ordinary Malaysians, please see A Critique of the ETP (Part 2) - We won’t really be twice as rich in 2020 for a ‘kopi’ example. Available at http://refsa.org/focus-papers/a-critique-of-the-etp-part-2-we-would-not-really-be-twice-as-rich-in-2020/

About this series and DEEDS

Let's evaluate PEMANDU on its DEEDS, published on 25 Jan 2012, introduced DEEDS and a series assessing PEMANDU and the ETP on the goals, plans and targets stated in the ETP Roadmap document. Doing so facilitates constructive discourse as it uses the framework which PEMANDU has chosen to work within. In keeping with the spirit of the alphabet soup of NKEAs, NKRAs, SRIs, EPPs, and GNI surrounding the entire GTP, we evaluated PEMANDU and the ETP on its DEEDS - Data transparency, Execution, Enterprise, Diversity and Socio-Economic Impact. The 8 Focus Papers in this series, together with related infographics and a powerpoint presentation can be found at www.refsa.org.

Note on PEMANDU's response

We wrote to PEMANDU seeking clarification on the methodology and assumptions used to calculate their claimed GNI target. The only response has been Marc Fong's article referred to herein.

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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