Dissecting the ETP Annual Report: Part 3
- It was only RM12.9 billion of ACTUAL investments

It's a long way from 'committed' to 'actual'. PEMANDU trumpets in its Annual Report that the ETP has brought in RM179 billion of investments. What is downplayed is that the RM179 billion is for *committed* investments. *Actual* investments under the ETP were just RM12.9 billion - a mere 7% of the RM179 billion *committed.*

The *committed* investments figure is also doubtful. We found at least five projects worth RM17 billion where the ultimate investments may be less than promised. For example, PEMANDU took "110%" credit for villa pre-bookings at the RM9.6 billion Karambunai Integrated Resort. But the project developer is being sued for defaulting on RM18 million of rental payments. Does it have the financial capability to deliver the new villas?

PEMANDU is stealing credit again. It said that the RM94 billion worth of private investments in Malaysia last year was "some 113% above our target". That seriously overstates PEMANDU's performance given that PEMANDU brought in only RM12.9 billion, and that RM12.9 billion includes both private and government investments.

Private enterprises are rejecting the ETP. The private sector is targeted to account for 60% of ETP investments, but so far is contributing only 37% of the total. PEMANDU should explain the issues and the remedial measures being taken instead of trotting out misleading statistics and comparisons that pretend that all is well.

- *Actual* ETP investments totaled just RM12.9 billion - a mere 7% of the RM179 billion *committed* investments that PEMANDU prefers to highlight.
- Even the *committed* figure can be questioned. Some EPP project owners are being sued for paltry amounts, leading to doubts about their financial capability.
- Private investments account for just 37% of ETP investments so far, well below the 60% targeted by the ETP.
- PEMANDU should explain the issues and remedial measures taken instead of pretending that all is well.

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For those who have come in late …

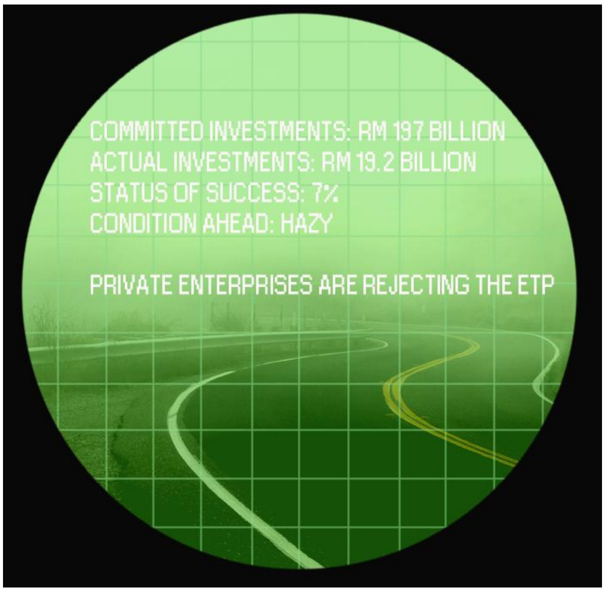
The story so far in our dissection of the 2011 Annual Report[1] of the Economic Transformation Program (ETP[2]):

1. In Part 1 (The "**D"**ata in our DEEDS framework) we gave PEMANDU[3] an A+ for obfuscation. Its talents include the very adroit masking of the fact that *real* national income growth last year was below par;

2. Part 2 (The "**E**"xecution in DEEDS) unearthed the shocking case of PEMANDU taking '100%' credit in its Annual Report for a RM1.9 billion wafer fab plant that was never actually built.

Enterprise - the ETP has failed to attract private investments

Part 3 (The "**E**"nterprise in DEEDS) today highlights:



1. That *actual* investments under the ETP totalled just RM12.9 billion last year, a mere 7% of the RM179 billion *committed* investments that PEMANDU prefers to emphasise;

2. Yet another example of PEMANDU stealing credit and obfuscating data. This time, the result is to overstate PEMANDU's contribution in increasing private investments in Malaysia; and

3. Doubts about the *committed* investments figure. At least two big ticket private sector EPPs - Karambunai Integrated Resort and Tanjong Agas Oil & Gas Hub - may not deliver as much economic transformation or investments as PEMANDU would like us to believe.

Dissecting the ETP Annual Report - Part 3

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[1] The report was released on 2 Apr 2012. It can be downloaded at http://etp.pemandu.gov.my/annualreport/

[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 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.

It's a long way from 'committed' to 'actual'

PEMANDU makes much of the investments brought in by the ETP. The figure stands at RM179 billion as at end 2011, according to PEMANDU[4]. What is downplayed is that the RM179 billion figure represents 'committed', not actual investments.

The gap between actual and committed investments is huge. A Maybank report in April 2012 states that only RM12.9 billion of investments had been realised in 2011[5]. RM12.9 billion is just 7% of the headline RM179 billion 'committed' investments.

Which means PEMANDU is stealing credit again

PEMANDU in the ETP Annual Report says "private investment in 2011 amounted to RM94 billion, some 113 percent above our target"[6]. There are two major issues here:

1. Firstly, *actual* investments under the ETP were only RM12.9 billion in 2011, and that amount encompasses private *and* government-linked investments. So PEMANDU deserves very little credit for the RM94 billion private investments actually achieved across the whole country;

2. Secondly, PEMANDU's claimed RM83 billion target in private investments is very low and easily achieved, very much like its claimed GNI 'target' that we demolished in Part 1 of this series.

   The Ministry of Finance as far back as Oct 2010[7], had already projected private investment of RM86 billion in 2011. Why is PEMANDU, which is supposed to be adding value and transforming the economy, targeting a level lower than that anticipated by the Ministry of Finance? In fact, PEMANDU's professed RM83 billion target is equivalent to a paltry 2.7% growth in *real* private investment.

[4] Page 9 of the ETP Annual Report.
[5] ETP and GTP - Report card time. Maybank IB Research, 3 Apr 2012 (page 2). The report also says this is 'slightly below the target of RM16 billion, leaving RM166.3 billion to be actualised from 2012 onwards'. Available at http://etp.pemandu.gov.my/upload/Maybank%20%20Econs_Market_GTPETP_20120402_MIB.pdf PEMANDU itself fails to highlight anywhere in its annual report the actual realised investments.
[6] Page 3 of the annual report. We believe 113 per cent was an error and PEMANDU meant 13.3% higher than its RM 83 billion target.
[7] In the Economic Report 2010/2011. This was subsequently raised to RM94 billion in the Economic Report 2011/12. Note also that PEMANDU's claim of RM83 billion private investment target is equivalent to just a RM4.3 billion or 5.5% increase from RM78.7 billion in 2010. Taking out inflation at 2.8% as PEMANDU assumes, it means PEMANDU was targeting *real* private investment growth of just 2.7%!

PEMANDU is also conveniently confusing *real* and *nominal* numbers

By this time, we should not be surprised that PEMANDU misuses figures and targets in order to embellish the 'achievements' of the ETP. But what did capture our attention was the creative use of real versus nominal figures to boost the appearance of 'overachievement'.

On page 7 of the ETP Annual Report, PEMANDU states that:

> *"… the 19.4 per cent private sector investment growth was well above the 6.7 per cent average growth between 2000 and 2010 and ahead of the 12.8 per cent average growth targeted under the 10th Malaysia Plan. This development validated our push to make the private sector the engine of economic growth."*

What PEMANDU conveniently left out is the fact that the 19.4% private investment growth last year is a *NOMINAL* figure while the 12.8% target under the 10th Malaysia Plan is a *REAL* target. Nominal figures include inflation, while real figures strip out inflation to see how much growth there *really* is. For example, if your salary goes up by 5%, but inflation has increased by 10%, you are *really* worse off even though your *nominal* salary has gone up. Your *real* salary has in fact gone down by 5% (5% salary increase minus 10% inflation).

Figure 1: The 10th Malaysia Plan clearly differentiates between *nominal* and *real* growth targets but PEMANDU can't tell the difference

Item	RM million (in current with 2000 prices in italics)							Average Annual Growth Rate (%)	
	Actual				Estimate	Target		Estimate 9th MP	Target 10th MP
	2006	2007	2008	2009	2010	2012	2015	2006-2010	2011-2015
Private Expenditure	320,419	369,617	414,513	404,049	440,080	545,449	768,594	8.9	11.8
	286,486	*318,076*	*340,411*	*331,364*	*351,906*	*411,605*	*531,571*	5.7	8.6
Consumption	258,280	293,040	334,712	338,894	367,629	448,964	615,330	9.4	10.9
	230,948	*255,263*	*276,998*	*278,872*	*295,716*	*341,072*	*429,039*	6.5	7.7
Investment	62,139	76,577	79,801	65,155	72,452	96,484	153,264	6.2	16.2
	55,538	*62,813*	*63,413*	*52,492*	*56,190*	*70,532*	*102,532*	2.0	12.8

Source: p 362, Table 4, 10th Malaysia Plan. The upper row shows investment in nominal terms, the lower row shows investment in real terms, i.e. in constant 2000 prices.

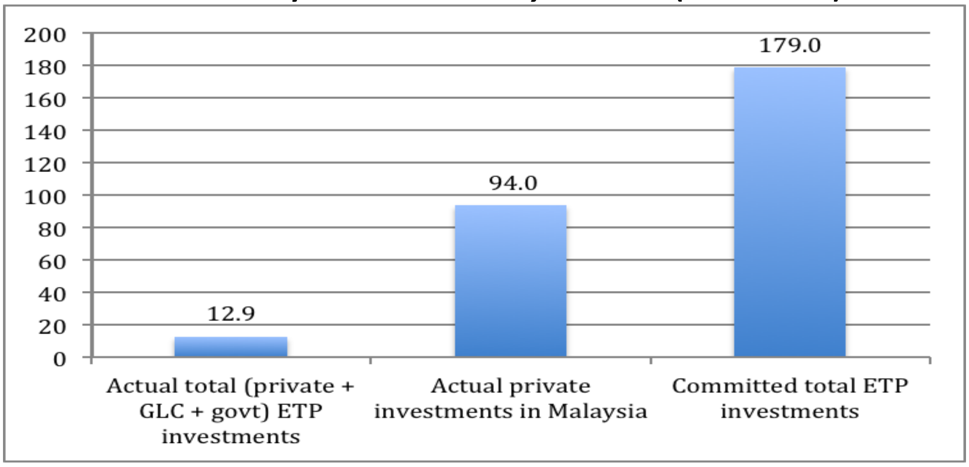
Dissecting the ETP Annual Report - Part 3

As seen in Figure 1, the 10th Malaysia Plan clearly shows that 12.8% is the *real* investment target. By choosing to contrast the *REAL* target of 12.8% against the *NOMINAL* achievement of 19.4%, PEMANDU is once again obfuscating the facts to create the illusion of massive outperformance.

Defenders of PEMANDU might point out that the 19.4% *nominal* private investment growth achieved in 2011 is still higher than the *nominal* 10th Malaysia Plan target of 16.2%. That might well be the case. But do remember - 19.4% was *actual* investment growth across the whole economy, and amounted to RM94 billion in total private investments.

As we mentioned earlier, PEMANDU and the ETP actually *delivered* only RM12.9 billion of investments of the RM179 billion *committed*. This RM12.9 billion would come from both government and private sectors. So PEMANDU can take very little credit for the *actual* private investments achieved in Malaysia last year.

Figure 2: Investments in Malaysia 2011. The ETP received large *commitments* but very little was *actually* invested (RM billions)



Sources as attributed in this Focus Paper. Note that PEMANDU itself has not formally announced the actual total of ETP investments, let alone the breakdown between private, GLC and government investments.

Moving on, even PEMANDU's claim of RM179 billion of *committed* investments is questionable. Last week, we revealed that PEMANDU took 100% credit for the construction of a wafer fab plant even though the RM1.9 billion plant was never actually built. This week, we highlight doubts over two mega-projects - Karambunai Integrated Resort City and Tanjong Agas Oil & Gas Hub.

Karambunai IR - selling new villas while in default

The RM9.6 billion Karambunai Integrated Resort City (Karambunai IR), Entry Point Project in Sabah under the Tourism NKEA, was the largest private sector EPP at the time the ETP Annual Report was published[8].

In the ETP Annual Report, PEMANDU scored itself 110% under Method 1[9] of its KPI measurement. It disclosed that 43.9% of the beachfront and golf course villas had been pre-booked, exceeding its 40% target.

Figure 1: KPI for EPP#5 under the Tourism NKEA was measured at 110% under Method 1

EPP #5	Percentage of pre-booking received for beachfront & golf course villas	40%	43.90%	110%	100%	1.0

Reproduced from p 107, ETP Annual Report 2011.

We shall not dwell on why the target was set at 40%, and not, say, 45% or 50%, in which case PEMANDU would have underperformed and deserved less than full marks. The 40% target had never been disclosed prior to the claim of overachievement, let alone adequately explained. It is a case very much like the dodgy GNI (Gross National Income) 'target' we exposed in Part 1 of this series and the RM83 billion private investment 'target' we covered earlier.

All might indeed be well, or, this might be another example of PEMANDU's tunnel vision where a focus on 'ticking the boxes' replaces common sense. We had earlier raised concerns about Karambunai IR, which included:

1. The ballooning taxpayer support - which had soared 6-fold from RM100 million to at least RM600 million in a few months;
2. Its viability - without a casino, it would need more visitors than all those arriving at Kota Kinabalu airport to break-even; and
3. The capability of the project developer, Karambunai Corp Berhad[10].

[8] This was recently surpassed by the RM12.5billion Sepang International City EPP by Guoccoland announced in the 28 May 2012 ETP Update (http://etp.pemandu.gov.my/28_May_2012-@-Sepang_International_City.aspx)

[9] PEMANDU graded its NKEA achievements on 3 different methodologies, which we delved into in Part 1 of this series.

[10] A Critique of the ETP: Part 3 - Execution (iii) - Doubtful EPPs; doubtful achievements and due diligence, 9 Feb 2012. Available at www.refsa.org

PEMANDU's response to our concerns alluded to processes including 'multiple safeguards and filters' but failed to include key data that would incontrovertibly rebut our worries[11].

Now, in this case, while pre-bookings are apparently on-track at Karamabunai IR, its developer, Karambunai Corp, is being sued by some 100 investors in its Nexus Residence development in Kota Kinabalu. These investors, who had bought luxury beachfront properties which were completed in 2009, claim the company is nearly one year in arrears on rental payments due to them[12].

The annual rental on the 243 luxury beachfront villas amounts to some RM18 million only. If Karambunai Corp has difficulty paying this small amount, does it have the financial capability to deliver on the new villas, pre-booking notwithstanding? Recall that as far back as Oct 2010, the Star reported:

> *Still, scepticism abounds on Karambunai's ability to execute this grand plan, not least because of its weak financial status. The company has been in the red for the past three financial years.... In addition, it has piled on huge debts with short-term borrowings of RM192.07mil and long-term borrowings of RM283.77mil*[13].

PEMANDU might well maintain that its 'safeguards and filters' are in place. We do hope that the PEMANDU positive sign-off on this project is indeed reassurance that the RM600 million taxpayer-funded infrastructure development for this project will not be in vain[14].

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[11] A nifty infographic summarising our rebuttal is availabe at http://refsa.org/focus-papers/infographic-questions-unanswered-13-karambunai-integrated-resort/

[12] Karambunai active, down on lawsuit report. Surin Murugiah, theedgemalaysia.com, 26 Apr 2012. Available at http://www.theedgemalaysia.com/business-news/212503-karambunai-active-down-on-report-it-is-facing-legal-action-.html

[13]Karambunai in the limelight after Budget. Tee Lin Say, the Star, 20 Oct 2010. Available at http://biz.thestar.com.my/news/story.asp?file=/2010/10/20/business/7249320 (Retrieved on 9 Jan 2012)

[14] This RM600m is part of a larger RM20 billion Facilitation Fund announced under the 10th Malaysia Plan managed by the Public Private Partnership Unit (PPPU) or Unit Kerjasama Awam Khas (UKAS).

Tanjong Agas - RM3 bn --> RM30 bn --> 0?

The Tanjong Agas Oil and Gas and Logistics Industrial Park in Pekan, Pahang is part of EPP 4 under the Oil, Gas and Energy NKEA. PEMANDU in November 2010 said that RM3 billion of investments was expected in Tanjong Agas between 2011 and 2012 [15]. The ETP Annual Report in April 2012 went on to proclaim that a total investment of RM30 billion is expected in the next 10 years [16].

The validity of this assertion is questionable, given that the very same Annual Report says little about progress so far. Two other projects under this EPP with foreign partners - in Pengerang, Johor and Pulau Daat , Labuan - were cited as Achievements [17]. But nothing was said about the RM620 investment commitment into Tanjong Agas by the Dubai-based Oilfield Supply Center (OSC) announced in October 2010[18] .

REFSA had raised red flags on this project in its earlier series[19]:

1. Firstly, the concessionaire to develop the park, Tanjong Agas Supply Base and Marine Services Sdn. Bhd (TASBMS), is financially weak. As at 31 September 2010, its RM38.9 million liabilities outweighed its RM2.6 million of assets; it made a RM12.2 million loss and earned just RM92,000 of revenue in that financial year[20];

2. Secondly, it is very hard to see the economic logic of this project. The government's own Eastern Corridor Economic Region plan identifies Kerteh and Gebeng as the focus areas for oil and gas clusters, and Petronas is now developing the Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang, Johor, which is also an EPP.

[15] Tanjong Agas Oil & Gas and Logistics Industrial Park, PEMANDU, 30 Nov 2010. Available at http://etp.pemandu.gov.my/30_November_2010-@-Tanjong_Agas_Oil_-%E2%97%98-_Gas_and_Logistics_Industrial_Park.aspx (Retrieved 24 May 2012)
[16] According to Mohd Fadzal Ahmad Mahidin, Managing Director of Tanjong Agas Supply Base and Marine Services Sdn Bhd in Pg.137, ETP Annual Report 2011.
[17] Royal Vopak from the Netherlands in partnership with the Dialog group in Pengerang, Johor and Zhuhai Winbase with RG Gas and Chemical (M) Sdn Bhd in Pulau Daat , Labuan. Pg. 42, ETP Annual Report 2011.
[18] Dubai's OSC to help build supply base in ECER. Business Times, 13 Oct 2010. The signing of the joint-venture agreement in Kuantan, was witnessed by Sultan Ahmad Shad. Available at www.tgagas.com/v05/index.php/component/ content/article/1-latest-news/52-dubais-osc-to-help-build-supply-base-in-ecer- (Retrieved 24 May 2012)
[19] A Critique of the ETP: Part 3 - Execution (iii) - Doubtful EPPs; doubtful achievements and due diligence, 9 Feb 2012. Available at www.refsa.org
[20] Based on financial records obtained from a company search at Suruhanjaya Syarikat Malaysia (SSM).

It has also been reported that the infrastructure development - proper access roads, sewerage and drainage - is far from complete, almost three years after this project was first launched[21] in 2009[22].

These five EPPs comprise 25% of total *committed* private investments under the ETP

The five projects named here and in Part 2 in this series - Karambunai IR, Tanjong Agas, L Foundry, Damansara City 2 and Pangkor Island Marina Extension - make up RM17 billion or 25% of the total RM67 billion worth of private investments named thus far under the ETP.

At this point, astute readers will ask, how does this RM67 billion total relate to the RM94 billion of private investments in Malaysia last year? We apologise if all these numbers are confusing. Even we find it difficult unravelling the morass of PEMANDU's obfuscation. The short answer is:

1. We calculated the RM67 billion total from the various ETP updates which involved non-government and non-GLC stakeholders;

2. Bear in mind, the RM67 billion is for *committed private* investments under the ETP, whereas the RM94 billion represents *actual* total private investment in Malaysia, that is, including investments which are not under the ETP. *Actual* ETP *total* (private and government) investments were just RM12.9 billion;

3. PEMANDU proudly proclaims that the ETP has RM179 billion of *committed* total investments. Based on our calculations, this means that RM112 billion or 63% of the total committed ETP investments is from government-linked corporations (GLCs) and the government. If the investment figures for the 5 private sector projects we mention here are revised down, the share of government and GLCs will be even higher[23].

Note also that the technical term for the RM94 billion in private investments is Gross Fixed Capital Formation (GFCF). Simply put, this is new machinery and buildings and other improvements to fixed assets. It also includes replacement capital expenditure, which would have been made by private entrepreneurs as part of their business-as-usual plans regardless of the ETP.

[21] Najib didesak selesaikan projek terbengkalai di Tanjung Agas. Khairil Abdul Rahim, HarakahDaily 26 Jan 2012. Available at http://bm.harakahdaily.net/index.php/berita-utama/7770-najib-didesak-selesaikan-projek-terbengkalai-di-tanjung-agas (Retrieved 24 May 2012)

[22] Tanjong Agas mega project to kick off soon. Danny Yap, the Star 23 Feb 2009. Available at http://thestar.com.my/maritime/story.asp?file=/2009/2/23/maritime/3298307&sec=maritime

[23] We have highlighted the fact PEMANDU's target ratio of a 8:32:60 split between Government:GLC:Private investments had already fallen short - http://refsa.org/wp/wp-content/uploads/2012/02/Focus-Paper-ETP-Part-4-Enterprise-20120215-FINAL-2.pdf If the investment figures for these EPPs have to be revised down, then the percentage of investments coming from the private sector would fall even further from PEMANDU's target.

The ETP has failed to attract private investment

Yet another PEMANDU misstatement is now exposed. PEMANDU claims that private investment in Malaysia in 2011 exceeded its targets and that *"This development validated our push to make the private sector the engine of economic growth."*

Sadly, the truth is the ETP actually delivered just RM12.9 billion of *total* investments in 2011, from private, government-linked and government sources. This is a small fraction of the total RM94 billion of *private* and RM171 billion of *total* investments achieved in Malaysia in 2011[24].

Furthermore, the veracity of PEMANDU's claim of RM179 billion of *total committed private and government* investments as at end 2011 is doubtful. We have so far highlighted just five entry point projects that collectively account for 25% of total private investments under the ETP whose financial sustainability may be in doubt. Excluding these would significantly affect the investments, incremental GNI and jobs created that PEMANDU claims the ETP has achieved.

Dissecting the ETP Annual Report - Part 3

[24] Pg.55, National Accounts 4th Quarter 2011. Available at www.statistics.gov.my/portal/download_Akaun/files/quartely_national/4_Qtr2011/KDNK_Q411.pdf (Retrieved 18 June 2012)

What should PEMANDU do?

A crucial thrust of the ETP is to restore the private sector as the driver of economic growth. To this end, the ETP targets 8:32:60 ratio of investments from government, GLCs and the private sector. However, as it stands, government and GLCs already account for 63-65% of the committed investments so far[25].

We reiterate our call: PEMANDU must take the bull by the horns and address the root causes of why the private sector has little confidence in the long-term potential of the country to invest capital in the so called 'shovel ready projects' under the ETP. To do this, PEMANDU should[26]:

1. Stop obfuscating by cherry-picking and trotting out misleading statistics and comparisons. This is unproductive and intellectually dishonest; and
2. Explain the issues and the remedial measures being taken where there are deviations from the targets.

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.

[25] PEMANDU 'recalibrated' the total investments figure to RM179 billion from RM177 billion in its Annual Report. Depending on whether you choose to use RM177 billion or RM179 billion as the denominator, the share of government investments is 63% or 65%. We will delve into this 'recalibration' later in this series.

[26] Please see A Critique of the ETP: Part 4 - Enterprise - Private enterprises are rejecting the ETP. 15 Feb 2012. Available at www.refsa.org

About DEEDS

Earlier this year, we published a series assessing PEMANDU and the ETP on the goals, plans and targets stated in the ETP Roadmap document. To facilitate constructive discourse and 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 Critique of the ETP Series, together with related infographics and a powerpoint presentation can be found at www.refsa.org.

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