Dissecting the ETP Annual Report: Part 4
- 45% of GNI and 20% of jobs disappeared in 'recalibration'

'Massive revision' better describes the loss of GNI (Gross National Income) and jobs. In the ETP Annual Report, PEMANDU glossed over the changes when it 'recalibrated' the investments, GNI contributions and job creation numbers of the various entry point projects (EPPs). But the changes are enormous. RM107.7 billion of GNI and 75,000 jobs equivalent to 45% and 20% of the respective original forecasts were written off.

Did some EPPS fraudulently exaggerate their potential impact? Changes of 5-10% can be accepted as 'recalibration' in the normal course of changing business conditions. But a whopping 45% reduction in GNI contribution means that the original forecast was nearly double the level that is now considered realistic. It appears that some EPPs had presented forecasts that extremely exaggerated their potential.

The much-vaunted ETP labs failed. PEMANDU makes much of the 'labs' that chose these EPPs that will supposedly take us to high-income status. But it is now clear that PEMANDU's highly-qualified professionals and expensive consultants failed to detect mammoth discrepancies and exercise sufficient due diligence. Were these EPPs with exaggerated forecasts chosen instead of other projects which were more realistic and honest?

What remedial action is PEMANDU taking? The lack of explanations and disclosure by PEMANDU on such massive changes is shocking. What type of jobs disappeared? Which projects severely overstated their contributions? And most importantly, what remedial action is PEMANDU taking to make up for these chasms?

- PEMANDU shrugged off the disappearance of RM107.7 billion of GNI (Gross National Income) and 75,000 jobs as 'recalibration'.
- The 45% downward 'recalibration' in GNI contribution means the original GNI forecast was nearly *double* the level that is now considered realistic.
- Were projects with wildly exaggerated forecasts chosen as EPPs instead of others with more realistic and honest assessments?
- PEMANDU should explain the issues and remedial measures taken instead of glossing over these massive changes.

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For those who have come in late …

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

1. Part 1 (The '**D**'ata in our DEEDS framework) highlighted how PEMANDU[3] very adroitly masked the fact that *real* national income growth last year was below its target;
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; and
3. Part 3 (The '**E**'nterprise in DEEDS) uncovered the startling gap between *committed* and *actual* investments. The RM12.9 billion of *actual* investments is a mere 7% of the RM179 billion committed investments that PEMANDU prefers to emphasise.

Diversity - where was RM107.7 billion of GNI lost?

Part 4 today was supposed to have focused on Diversity of the ETP (the second '**D**' in DEEDS). How spread out are the various entry point projects (EPPs) and new jobs across the 12 NKEAs? However, this analysis is now impossible as PEMANDU has dramatically revised down key figures in the 'recalibration' disclosed in the ETP Annual Report without offering adequate explanations:

1. The GNI (Gross National Income) contribution of the EPPs was slashed by RM107.7 billion, a massive 45% plunge from the RM237.2 billion level reported in November 2011;

2. In the very same 'recalibration' exercise, 75,000 jobs equivalent to nearly 20% of total jobs disappeared.

These massive changes raise troubling questions over the due diligence exercised by the highly-qualified staff and expensive consultants at PEMANDU. Changes of say, 5-10%, can be accepted as 'recalibration' in the normal course of changing business conditions. But a whopping 45% change suggests a serious failure when selecting the supposedly transformative Entry Point Projects (EPPs) that would take us to high-income status by 2020.

Were projects with more conservative, but realistic GNI and jobs forecasts overlooked in favour of those that inflated their numbers? How do these 'recalibrations' affect the overall ETP goals? We delve further into these issues in this Focus Paper.

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

[2] The ETP in its Roadmap called 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. These targets have not been changed, the recent massive 'recalibrations' notwithstanding.

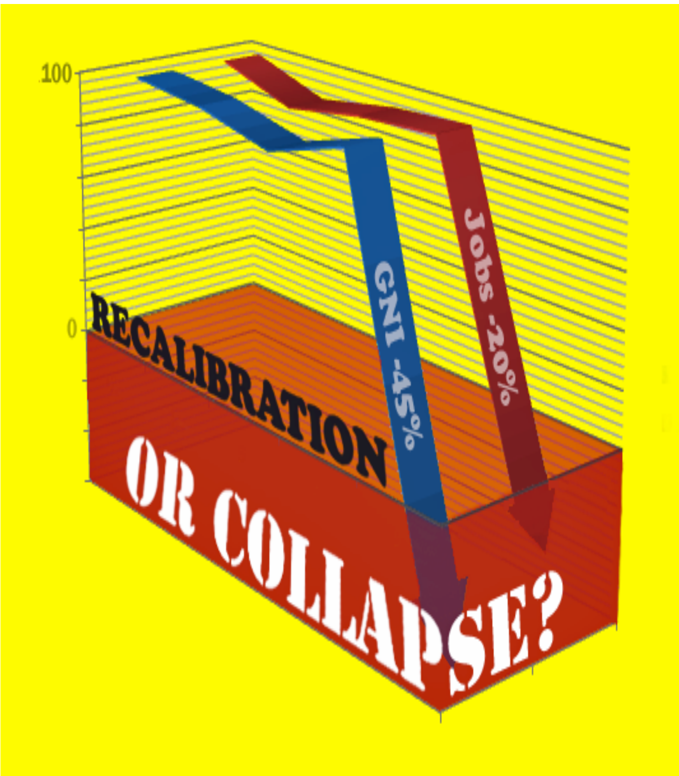
[3] The acronym that the Performance Management and Delivery Unit within the prime minister's department is better known by. PEMANDU is the government agency that created and is now steering the ETP.

‘Recalibrated’, but what were the original numbers?

> *“For the 2011 Annual Report, we engaged PricewaterhouseCoopers (PwC), an independent audit firm, to conduct a series of Agreed-Upon-Procedures (AUPs) to ensure the accuracy of our reporting. During the course of the AUP, we recalibrated the committed investments, projected GNI contribution in 2020 and projected jobs created.”* - pg 8, ETP Annual Report

On the surface, the above sounds quite sensible and innocuous. One might even say PEMANDU deserves praise for engaging an independent audit firm; and for fine-tuning its investments, Gross National Income (GNI) and job creation numbers following input from the audit firm. PEMANDU went on to say:

> *“The recalibration has resulted in a revised committed investment of* ***RM179.2 billion,*** *GNI of* ***RM129.5 billion*** *and* ***313,741 new jobs.*** *This rigorous exercise is extremely useful to help us establish clear accounting and best practices that will ensure greater accuracy as we move forward.”* (emphasis is as per the ETP annual report)



However, as we have discovered all too often with PEMANDU and the ETP, things are quite murky under the slick façade. Given the importance of this recalibration exercise, it is only reasonable to expect PEMANDU to show the details of the changes in figures and explain where and why these changes occurred. However, PEMANDU tells us only what the recalibrated investment, GNI and jobs created figures are. Nowhere in the Annual Report does it state what the original figures were, and it offers a mere one paragraph explanation for the ‘recalibration’.

It would not matter so much if the ‘recalibration’ had involved minor changes. However, as the numbers show, the ‘recalibration’ could better be described as a ‘massive revision’. Based on our analysis, the ‘recalibrated’ GNI contribution is 45% less than before, and the number of jobs is down by 20%.

'Massive revision' is a better term than 'recalibration': GNI down by 45%; number of jobs down by nearly 20%

Table 1 below shows the extent to which the investment, GNI and jobs created figures were 'recalibrated'. Note that the downward 'recalibrations' for GNI contribution and jobs created were massive:

- GNI contribution was almost halved from RM237.2 billion to RM129.5 billion, a decrease of RM107.7 billion or 45%;
- Jobs created were revised down by nearly 20% or 75,522 jobs.

Table 1: 'Recalibration' resulted in loss of RM107.7 billion of GNI and over 75,000 jobs

	Figures in Nov 2011	Recalibrated Figures in ETP Annual Report	Difference	Change in %
Investment	RM177b	RM179b	+RM2b	+1.1%
GNI contribution	RM237.2b	RM129.5b	-RM107.7b	-45.4%
Jobs created	389,263	313,741	-75,522	-19.4%

Source: 2011 figures as reported in *ETP new projects bring total committed investments to RM177.1bil*. Yvonne Tan, the Star 11 Nov 2011 [4].

PEMANDU explained away these massive revisions in one paragraph:

> *"The revision of the investment and job creation numbers is primarily due to changes in business plans over the next five years, in tandem with changing business dynamics. In addition, there is a significant revision in the GNI forecast. Being a relatively new concept, most corporations struggled with it."* - pg 9, ETP Annual Report

The lack of disclosure is appalling. Given the magnitude of these 'recalibrations', it is perfectly reasonable to ask which Entry Point Projects (EPPs) and National Key Economic Areas (NKEAs) were most affected. In plain language:

1. Where did the 75,522 jobs disappear from? What type of jobs were these? High, low or middle-income, and in which EPPs?
2. How was RM107.7 billion of GNI lost? Which EPPs and NKEAs were most affected?
3. And most important of all, what remedial action is PEMANDU taking to make up for these chasms?

[4] Available at http://biz.thestar.com.my/news/story.asp?file=/2011/11/11/business/9882040&sec=business (Retrieved 31 May 2012)

To recap: the ETP involves 131 Entry Point Projects (EPPs) across 12 National Key Economic Areas (NKEAs) that will propel us to high-income status by 2020.

These EPPs were selected in a 'lab' process that PEMANDU is very proud of. As PEMANDU narrates it, 30-50 experts in each lab had eight weeks to:

- Fact-find and research best practices, success stories and innovations;
- Distill those through "intense collaborative sessions of brainstorming"; and
- Syndicate them in more than 640 meetings with major stakeholders such as ministers and key government agencies.

We had been highly critical of this hothouse process. We believe that in this short period of just eight weeks, the lab participants would be incentivised to select EPPs for which research was ready, rather than pursue genuine 'blue-ocean' alternatives. Also, we highlighted the risk of the labs selecting heavily-promoted but potentially 'dud' projects instead of more viable but lower-profile ventures.

Did some EPPs fraudulently exaggerate their forecasts?

There is an even more important issue which affects the very foundations of the ETP. Did some EPPs intentionally overstate their GNI and jobs contribution impact? We conjecture that some must have. Changes of say, 5-10%, can be accepted as 'recalibration' in the normal course of changing business conditions. But a whopping 45% change suggests that at least some EPPs fraudulently overstated their impact on GNI.

Were these EPPs then selected instead of other projects which were more honest and realistic in their projections? This again brings to the fore serious questions on the much-vaunted lab process at PEMANDU and how transformative the EPPs really are[5].

Or did PEMANDU fail badly in its due diligence?

PEMANDU says the downward reduction in GNI is because some corporations "struggled" with this "relatively new concept". We have already had dialogues with PEMANDU over its preference for quoting GNI instead of the more commonly used GDP (Gross Domestic Product), and its obfuscation between GNI and GDP when presenting its economic impact. Now, the GNI contribution forecast has been revised down by nearly half. Or put another way, the GNI forecasts made by the EPPs were nearly double what they should have been.

Granted, some corporations "struggled" with this new concept, but surely PEMANDU's team of highly-qualified professionals should have some sense of the magnitude of the projections made. Surely they should have detected that the GNI claims made by these EPPs were double the numbers that were reasonably feasible, and helped these corporations that were struggling to present more realistic numbers rather than accept the grossly exaggerated claims.

While corporations might have some excuse in unfamiliarity with GNI, the same excuse is not valid for job projections. It is normal project management procedure to identify the manpower requirements to complete a project. Of course, we do not expect 100% accuracy. But a slashing of nearly 20% suggests some very major embellishment in the original forecasts which PEMANDU and its expensive consultants failed to detect.

5 For details, please see A Critique of the ETP: Part 3 (ii) - Execution (ii). The hothouse labs probably killed innovation. Available at www.refsa.org

To clear the air, PEMANDU should disclose in detail the changes in GNI and job creation claimed by each individual EPP. This information should be readily available. As PEMANDU said on page 250 of the ETP Annual Report:

> *"PEMANDU engaged PricewaterhouseCoopers (PwC), an independent third party, to conduct a series of agreed-upon procedures. This work includes agreeing the information and data inputs used in the determination of selected reported KPIs and the 2020 GNI, investments and 2020 jobs created statistics, to information provided by the EPP sponsors and Project Owners…*
>
> *… Over the course of this exercise, PwC's findings highlighted a number of exceptions, which have been subsequently addressed and reflected in the Annual Report. The PEMANDU team has since applied these procedures to the remainder of the projects to ensure that the appropriate rigour and discipline is used in determining the ETP's results in 2011."*

If these rigorous procedures were indeed followed for each of the 110 projects announced under the ETP Progress Updates, then surely PEMANDU should have no problems publishing the individual investment, GNI contribution and jobs created figures for each EPP and explain any changes, especially in terms of GNI contributions and jobs created.

Such information would also be very pertinent to the participants in the labs who presented projects for consideration but which were ultimately not accepted as EPPs. Did their projects get a fair chance? Were their projects jettisoned in favour of others that presented much more rosy but unrealistic forecasts which, as we now see, have had to be dramatically scaled back?

Are the ETP's original targets still intact?

The ETP, as originally detailed in the ETP Roadmap published in October 2010, 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;
- create 3.3 million new jobs; and
- contribute RM800 billion of incremental GNI by the year 2020[6].

Now, in the very first year of implementation, RM107.7 billion of GNI and 75,522 new jobs have been wiped out. PEMANDU has been silent about how it intends to close these chasms in order to meet the overall final targets by 2020.

And has the ETP become even more mega-project and oil-and-gas dominated?

Note from Table 1 that the committed investments amount bucked the trend, rising by RM2 billion despite the downward 'recalibrations' in GNI and jobs. We suspect that upward revisions for the MRT project compensated for downward adjustments in the private sector EPPs[7]. If so, this would mean an even greater reliance on public (government) investments, which is the polar opposite of the private sector investments that the ETP is supposed to promote.

Coupled with the potential problems at some high profile private sector EPPs which we highlighted in Parts 2 and 3 of this series, our fears that the ETP is currently being dominated by mega-projects and the oil, gas and energy sector are heightened rather than assuaged.

We call on PEMANDU to share the original and 'recalibrated' figures for each EPP. This will allow analysts and interested parties to keep track and be assured that the diversity and mix of the NKEAs in terms of investment, GNI contribution and jobs created is still in accordance with the ETP's original targets.

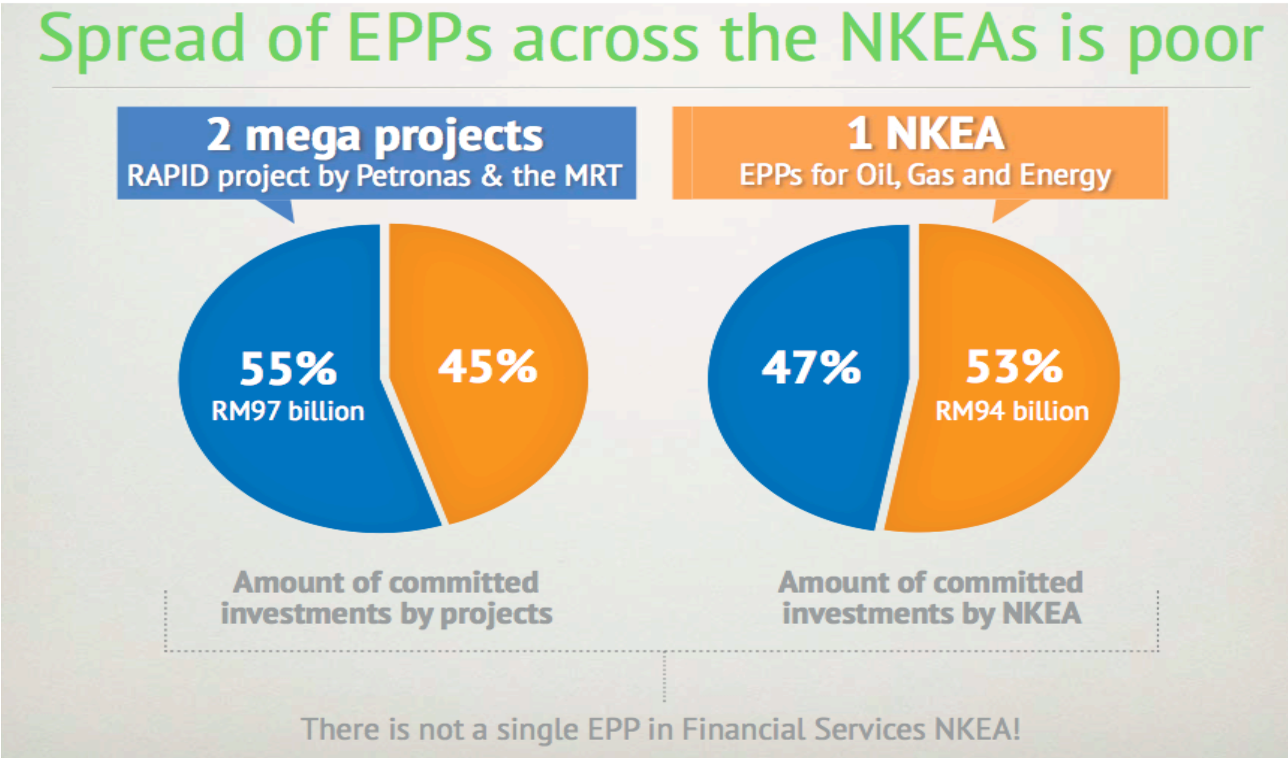
[6] Exhibits 2-3, page 79, ETP Roadmap Report.

[7] The MRT investment value was stated as RM36.6 billion during an ETP Update. PEMANDU has said it will now cost more but not given details. The new number has been speculated to be in the region of RM70 billion.

Appendix A: Lack of diversity - the ETP is really just mega-projects

PEMANDU's communiques so far focus only on projects and investment values. There is no mention of how these projects will improve the household incomes of ordinary Malaysians. We covered in detail in our earlier Critique of the ETP series how just two government-linked mega projects (the MRT and Petronas' RAPID) and one NKEA (Oil, Gas and Energy) account for the bulk of committed investments[8]. The ETP is very narrowly based so far.

Figure 3: The ETP is narrowly based - just 2 mega projects and 1 NKEA account for the bulk of investments



Sources: As cited in A Critique of the ETP Part 5: The ETP so far is just a handful of mega-projects. Available at www.refsa.org

Corollary to the massive government role (both the MRT and RAPID are government-linked projects) is the severely lagging private investment, as we pointed out in Part 3 of this series. Even more worrying, as we highlight today, some of the private sector projects may be duds with overinflated GNI and job creation forecasts.

[8] A Critique of the ETP Part 5: The ETP so far is just a handful of mega-projects. Available at www.refsa.org

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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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