MEDIA STATEMENT BY
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Dear Editor,

Following the announcement of Budget 2011, questions have been raised related to allocations that sit under PEMANDU. Outlined below are my responses to these questions. I have also taken the liberty of using this opportunity to address other key concerns and issues, which have appeared in the public domain in recent weeks. At the outset, I would like to maintain that the Economic Transformation Programme (ETP), which features 12 National Key Economic Areas (NKEAs), is an evolving programme with the main objective of transforming Malaysia into a high-income nation by 2020. My sincere hope is that with the successful implementation of the ETP, we will see Malaysia's economy undergo significant changes to resemble other developed nations. I do hope that many Malaysians will make the effort to read and understand the ETP Roadmap which contains concrete targets. These were developed through labs and a series of forums where the best minds from government and private sector were brought together to develop ideas into specific actions. The ETP Roadmap can be downloaded from www.pemandu.gov.my

1. What is the 2011 operating budget for PEMANDU as announced in the recent government budget?

Contrary to what has been reported, PEMANDU's operating budget for 2011 is RM40 million. This comprises manpower costs/emoluments; services and supplies; assets under existing and new policies; one-off payment for non-recurring items including costs of conducting labs, open days, workshops, surveys, consultancy fees, research and benchmarking exercises; travel and logistics; and media costs. Considering that PEMANDU is undertaking a critical role in the transformation of the Government and the Malaysian economy, this allocation is reasonable.

2. A statement was made that PEMANDU's operating budget is RM729 million, and that this amount is mainly for paying international consultants. Is this correct?

   No, PEMANDU’s operating budget for 2011 is RM40 million. This claim that the amount is RM729 million is 1,822 per cent exaggerated! As explained in the response to Question 1, the budget covers a whole host of expenditure items.

   The RM729 million consist of PEMANDU’s operating budget (RM40 million), NKRA operating budget (RM334 million) and NKEA operating budget (RM355).

3. Apart from PEMANDU's operating budget of RM40 million, it also has other development and operating expenditures for NKRAs (National Key Result Areas). What are the amounts, what are they for and why are these parked under PEMANDU, rather than the relevant Ministries?

   The majority of the budgets for the various NKRAs sit with the relevant Ministries. This budget is for the implementation of the Government Transformation Programme (GTP). This is explained in the GTP Roadmap which clearly outlines what the Government wants to deliver to the Rakyat. Anyone who is interested in finding out more details on the GTP Roadmap will be able to download the GTP Roadmap at www.pemandu.gov.my

   Out of the total budget of RM729 million, RM334 million is parked under Jabatan Perdana Menteri (JPM) because this expenditure covers initiatives that cut across various ministries and agencies. For example, RM265 million is for financial support for the hardcore poor of about 22,000 households under the NKRA for Low Income Households for the entire 12 months in 2011. None of this money is paid to consultants as alleged.

   In terms of process, this money will be paid as financial support directly to hardcore poor families, only after taking into account the full impact of the efforts by the participating ministries e.g. implementation of Azam Tani by Ministry of Agriculture, implementation of Azam Kerja by Ministry of Human Resource, etc. Release of money must be done for each hardcore poor family based on the e-kasih report by Internal Coordination Unit (ICU) and verification by the Ministry of Welfare and PEMANDU. Actual distribution of this financial support is made via Pos Malaysia. Due to the complex process and the many parties involved, it makes sense to centralise these budgets under JPM to ensure effective coordination and delivery of benefits to the hardcore families.

   It must be stated clearly that final decisions for spending the money is done collectively by the NKRA Steering Committee, which includes all involved parties, and this is chaired by the Deputy Prime Minister. In effect, although the budget allocation is parked under JPM, there is a clear approval and tracking process in place to ensure that the allocated amount is used to produce the results outlined in the GTP Roadmap.

4. There was a claim that there is a new Government ministry called "Kementerian Idris Jala" and it has been allocated RM12 billion which is a waste of public funds. Any comments?

   To be clear, there is no such ministry. Under the Economic Transformation Programme (ETP), our objective is to transform Malaysia into a high-income economy so that our gross national income per capita is USD15,000 (RM48,000). This means our GDP has to grow at least six per cent per annum. Under the ETP, we expect the private sector to provide 92 per cent of investment/funding and the Government will provide eight per cent (RM12.22 billion) investment/funding in the form of infrastructure and financial incentives/support. This is revenue generating expenditure, and in no way, a waste of public funds. We need to spend to grow the economy and increase our gross national income.

   The total 2011 NKEA budget, covering operating and development expenditures, amounts to RM355 million and RM5.5 billion, respectively. For 2012, a further RM6.4 billion has been allocated for development expenditure. The Government investment/funding of eight per cent will act as a catalyst to spur the 92 per cent private sector funding and is not a waste of public funding because without this, we will not be able to grow the economy. In addition, over the next ten years, the various programmes under the ETP are expected to generate 3.3 million additional jobs and raise our gross national income to reach RM1.7 trillion. In the spirit of transparency, we have published a detailed ETP Roadmap which explains to the public our objectives, activities and the split between public and private funding.

5. Why is the ETP budget of RM12 billion allocated to JPM rather than to the relevant Ministries?

   The budget is parked under JPM in order to ensure effective management and control of expenditure. The ETP initiatives require massive coordination and detailed monitoring as there are 12 NKEAs, 131 Entry Point Projects and 60 Business Opportunities, and these involve more than 100 private sector companies, 13 State Governments, numerous local authorities, ministries and agencies in the Federal Government. Effective implementation requires rigorous coordination and detailed monitoring of efforts by all parties. Only then will we succeed in transforming the Malaysian economy.

   When we conducted Open Days in Kuala Lumpur, Kuching and Kota Kinabalu, which was attended by over 13,000 members of the public, the majority of the people asked the Government to make sure that the ETP is properly implemented and public funding effectively managed. The Government is aligned with the public feedback received in that the ETP depends crucially on effective implementation in terms of planning, coordination, monitoring and taking corrective action. We also agree that effective management and control of the budget is critical. To this end, it has been decided that all budgets (for development and operating expenditures) are managed (a) centrally under JPM and (b) collectively via the ETP Governance Structure.

Each of the 12 NKEAs has one or two lead ministers. The lead ministers chair a Steering Committee which has all the representatives from the relevant ministries, agencies and project owners. PEMANDU is the secretariat for these Steering Committees. These Steering Committees meet on a monthly basis to ensure effective implementation and to manage expenditure. The ETP budget is monitored on a monthly basis to ensure expenditure is controlled. Approval for budget utilisation is made collectively by these Steering Committees.

The final approval process, over and above these Steering Committees, is the Economic Council, which is chaired by the Prime Minister, and also includes the Deputy Prime Minister, Minister of Finance II, Minister in the Prime Minister's Department (EPU), Minister of International Trade & Industry, Chief Secretary to the Government, Secretary General of the Treasury, Governor of Bank Negara Malaysia, Chairman of the National Economic Advisory Council (NEAC), Director General of the Economic Planning Unit (EPU) and myself. The Economic Council meets on a weekly basis to solve problems which are escalated by the Steering Committee, and approves proposals for significant Government funding which sits outside the mandate of the Steering Committees.

Effectively, the Steering Committees and the Economic Council manage the budget and approve expenditure. PEMANDU is merely the secretariat for the Steering Committees. If the budgets were spread across all the various ministries and agencies at Federal and State Government, budget control and management will be a challenge. With the ETP budget under JPM, it is easier to collate the individual and total expenditure for each project and NKEA and conduct detailed cost value analysis. In short, centralising the ETP budget under JPM ensures more effective management and utilisation of the budget.

6. A comment was made that on one hand Dato' Sri Idris Jala warned that the country could go bankrupt by 2019, and we must rationalise subsidy. On the other hand, the Government is proposing to spend RM12 billion for the ETP in 2011 and 2012. Does this not make it worse for the economy?

There are two measures that we need to implement. Firstly, we must invest to grow the economy and consequently, increase government revenue. This is what is termed as investment or revenue generating expenditure. Second, we should gradually reduce non-revenue generating expenditure which we, as a nation, cannot afford. The ETP is all about the first measure i.e. we need to invest or spend revenue generating expenditure in order to grow and increase our revenue. Using the 92:8 ratio, if the government spends RM12.22 billion (OE and DE) in support of revenue generating projects in 2011, we expect the private sector to invest up to RM110 billion in these projects. We wish to state categorically that it is not a contradiction to spend money or invest for growth and at the same time, reduce expenditure which is not revenue generating. All nations and companies do this. This dual action is not a contradiction. We can continue to reduce subsidies and at the same time, spend money which helps to generate revenue.

7. Will it be easy to implement the ETP and achieve our high-income target? Is it achievable?

   Certainly, it is not easy to implement the ETP. It is very difficult because it requires us to transform rather than conduct business as usual. In addition, we have to compete with other nations for investment, market access and talent. Do we think it is impossible to achieve the targets that have been set by the 500-member lab over a period of eight weeks? No, we do not think it is impossible as our economy used to grow at between eight to nine per cent but since 1997, our annual growth has been only around between four to five per cent. With greater focus under the NKEAs, if we can grow at six per cent per annum, we can become a high-income economy by 2020. Most importantly, the ETP features specific actions and concrete targets. If we can all work together, we can definitely achieve this!

8. There are people who believe that the ideas in ETP are ill-conceived and do not have enough public input. Any comments?

   In May, we conducted a 1,000 people workshop, involving participation from 210 companies, to determine the 12 NKEAs. The cabinet deliberated on the NKEAs and endorsed them. Over July and August, we conducted 12 labs, comprising 500 people mainly from the private sector, on each of these NKEAs. These labs helped to develop the entire ETP. Based on the work done in these labs, participants wrote the relevant NKEA chapters, which they submitted to the editorial team of the ETP Roadmap.

   After completion of the labs, we conducted Open Days in Kuala Lumpur, Kuching and Kota Kinabalu to seek public feedback. Altogether, more than 13,000 people attended these sessions. They provided input and feedback, which was incorporated into the ETP Roadmap. From the survey of those who attended the Open Days, more than 80 per cent supported the ETP and agreed that it is a viable programme to help us transform into a high-income economy by 2020. On a scale of 0-10, the weighted average score for their agreement/support was 7.5. We can conclude from this survey that most people think the ETP is well conceived and they support it. As in any transformation or change programme, there will always be a small minority that opposes change. We have done our level best to include public feedback, and it is critical that we start the actual work on getting the ETP to come alive.

9. Comments have been made that all ETP projects must be awarded under open tender, and you have been quoted stating that if you know what you are doing, direct negotiations can lower prices. How does this work?

   The ETP, as it stands today, has 131 Entry Point Projects and 60 Business Opportunities. Eight per cent of the funding will come from the public sector while the remaining 92 per cent will come from the private sector.

   Where public funding is utilised, the Prime Minister has made it very clear that open and competitive tender will be the default process. This will cover the large majority of projects. In exceptional cases, awards may be done via restricted tenders or direct negotiations. In these situations, the parties involved, rationale and benchmarks deployed will be disclosed to the public.

   Examples of such circumstances are where qualified parties are limited and industry benchmarks are clearly defined. This does not mean that the process is void of competitive bidding. In fact, the close tender or direct negotiation process between limited qualified parties will typically create the greatest pressure to drive down cost compared to an open tender. It also aids speedy execution of critical projects.

   That said, the large majority of the 131 Entry Point Projects and 60 Business Opportunities will be undertaken by the private sector. We are in favour of open competitive tenders for these projects as well but we are in no position to dictate to the private sector how and who they award their contracts to. We believe free market forces and commercial sensibilities will dictate that the private sector extracts the highest return on investments with shortest payback time, and if they feel direct negotiations help them do that, such decisions are best left in their hands.

10. There are criticisms that the MRT project will not be executed via open tender and that the traffic study has been outsourced to third-party contractors with vested interest instead of independent transport and urban planning specialists. Are these allegations true?

    These allegations are not true. Open competitive tender is the default process and most contracts will be awarded that way, save for perhaps direct negotiations with land owners to acquire land along the route. The traffic study was never outsourced to Gamuda-MMC.

    MinConsult, an independent consultant commissioned by the Ministry of Finance (MOF), has just completed their independent study, including the analysis of Gamuda-MMC's proposal, which includes MRT network design and alignment, proposed governance structure options and methods for awarding contracts (e.g.

splitting into sub-projects such as project management, tunnelling, station construction, etc) which is then further subjected to competitive tender. This has yet to be presented to the Economic Council and the mechanism for selecting and awarding contracts for the MRT project has not been finalised.

Reference has also been made to how MRT projects are managed in countries such as Singapore and Hong Kong. In Singapore, the Land Transport Authority (LTA) has overseen the Singapore MRT project since 1987. Currently, two operators (SMART and SBS Transit) manage the five lines on the island. All MRT projects – infrastructure, tracks, depots, stations, facilities, etc - are tendered out. In fact, LTA intends to tender out new lines in future, rather than limit to the existing two operators.

Where Hong Kong is concerned, the Mass Transit Railway Corp Ltd oversees the Hong Kong SAR MRT operations and remains the single operator after merging with Kowloon-Canton Railway Corp in 2007. All MRT-related projects are tendered out.

These best practices have proven to be successful and we intend to emulate them.

A key point to note here is that all MRT projects are made up of many sub-projects – land survey, clearing and preparation, tunnelling, tracks, rolling stock (car sets), bridges and culverts, stations, depots, car parks, feeder bus pick-up areas, etc. These will be parcelled out in separate packages and will be tendered out to ensure the best outcomes in terms of both quality and cost. The biggest cost elements are for land acquisitions, double tracking and rolling stock. Apart from land which may involve direct negotiations with land owners along the route, all other packages can be tendered out. There are many companies, local and foreign, that can meet the requirements for the different packages, which will make the tendering easier and more effective.

11. Recently, Tun Dr Mahathir Mohamad was quoted as stating that high-income economy will lead to high cost of living. What are your comments?

Tun's comments are indeed incisive, and I agree with him. Higher income for the country will mean that salaries will increase. This then means that cost to business will increase in tandem. We need to focus on ensuring that the increase in income is higher than the increase in cost to business. This can be done through a combination of increasing productivity and profitability, enhancing competition to drive down costs, removing distortion to the economic system such as subsidies, whilst expanding the country's revenue base, all to better reflect the economic reality.

High-income is a necessary ingredient towards higher disposable income, which ensures that the overall quality of life improves. This is the ultimate goal of our economic transformation. Based on the Economist Intelligence Unit's quality of life index, there is a broad correlation between high income and high quality of life. Looking at the quality of life factors, high income will have a critical bearing on seven out of the nine determinants including material well-being, health, political stability and security, family life, community life, job security and gender equality.

Yours sincerely,
Idris Jala

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