

1M'sia investment scheme: Old wine in new bottle?

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Prime Minister Najib Abdul Razak's promise of returns as high as RM13,000 for an investment of RM5,000 after a five-year period in the 1Malaysia Amanah Rakyat Scheme (SARA 1Malaysia) has raised troubling questions on its sustainability.

A check by Malaysiakini at SARA 1Malaysia's official website revealed that the scheme is in fact an "investment encouragement scheme" and all the money is to be injected into Amanah Saham 1Malaysia (AS1M), which has received lukewarm response since it was launched by Permodalan Nasional Berhad in July 2009.

The so-called "monthly returns" is in fact an "incentive payment", which will be paid in the form of additional AS1M units, and not "distributable income" which are the returns for the investment.

NONE"Through this scheme, eligible Malaysians will have the opportunity to apply for a RM5,000 loan from participating financial institutions to invest in AS1M managed by Amanah Saham Nasional Berhad (ASNB), and will receive attractive incentive payments on their savings and investments," the website revealed.

AS1M is unlike other PNB funds which are usually sold out within a short period. The government fund management company was forced to extend AS1M's subscription allocation deadline at least twice.

However, there is scant information on the website on how the incentive payment will be funded; whether it is through returns on investments or borne by the government.

Najib said at the launching ceremony on Thursday that under the SARA 1Malaysia, an investor can borrow RM5,000 to invest and the investor can expect to get attractive returns at the end of the fifth year ranging from about RM5,000 to RM13,000.

"The limit is RM5,000 and it can be bought through savings or investment loans from selected financial institutions," he said.

"We guarantee that investors would get RM134 monthly and for those who borrow, they only need to repay RM84 a month and still get RM50 in profit."

RM100mil subsidy on interest rates

Najib also said the plan is aimed at helping those with a monthly household income of RM3,000 and below.

According to a Bernama report, the scheme will be managed and guaranteed by a special purpose vehicle (SPV), Malaysian Development Holdings Sdn Bhd, a wholly-owned subsidiary of Finance Ministry Incorporated.

NONEThe president and group chief executive officer of Permodalan Nasional Bhd (PNB), Hamad Kama Piah Che Othman, said the financing offered would amount to RM500 million with the targetted number of participants being 100,000 households.

This will be unique as the SPV has been able to source the loans at a competitive rate from the participating financial institutions namely Maybank, CIMB, RHB Bank and Bank Simpanan Nasional.

As for the RM500 million financing, RM100 million will be provided by the government in the form of subsidy to SPV to pay the interest rates to the participating financial institutions.

Considering the competitive interest rates for loans and the government's subsidy, the SPV will be able to generate good income and dividends, said Hamad Kama Piah.

160% return within 5 years

Meanwhile, Malaysiakini readers questioned the rather "attractive" returns promised by SARA 1Malaysia.

It is estimated that a participant can earn as much as RM8,000, or 160 percent, after five years. It is equivalent to earning RM1,600, or 32 percent, per year.

Even a participant borrowing from bank to invest can still earn a net month return of RM50, which will bring him a net profit of RM3,000, or 60 percent, in five years. It equals to RM600, or 12 percent, per annum.

"Even Warren Buffet has to concede defeat," said a Malaysiakini Chinese edition reader with the pseudonym of 'Dogdogman', referring to the Berkshire Hathaway chairman, who is widely regarded as one of the most successful investors in the world.

"Is there any mutual fund in our country which can offer such good returns?" asked another reader with the pseudonym of 'Sweet Potato Old Man', adding that the returns rate is questionable, especially when there is a serious debt crisis in Europe.

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