

All that is wrong with 1MDB and PM's billions
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COMMENT 1MDB is not a wealth fund as it is touted to be. Except for the RM1 million contributed by the government, the rest of the RM42 billion is borrowed money.

Borrowed money cannot be regarded, or classified, as wealth. It is a liability that imposes on 1MDB, or in case of its failure, the government has to repay the interest and the principal.

The sum is so huge that if the government cannot pay them (the financiers) it could be bankrupted. This has happened to Greece.

The possibility of this happening imposes a heavy responsibility on the management of 1MDB and its oversight by the government.

And very quickly, it became clear that the executives and board of 1MDB did not take their responsibilities seriously.

Shahrol Azral Ibrahim Halmi, the (then) chief executive officer (CEO) of 1MDB, borrowed RM5 billion from the banks without the knowledge and approval of the board of directors.

The borrowings were at high interest rates. In one case, Goldman Sachs was paid a 10 percent commission for raising a loan with a 5.9 percent interest.

This means that 1MDB gets only 90 percent of the loan, but has to pay interest on 100 percent. It is the same with the principal.

The money was apparently used to buy power plants at well over the market price.

The licences for some of the plants were due to expire. If the purchases were delayed until the expiration of the licences, the prices would be far less than the market price.

But the management seemed not to care about getting the best prices. As a result, when the plants were sold to the Chinese, 1MDB suffered a loss of more than RM1 billion.

There were two other cases where Shahrol(*photo*) had acted without the approval of the directors of 1MDB.

He entered into a joint venture (JV) with PetroSaudi before a proper and intensive due diligence was carried out. Then, he invested US\$1 billion in the JV, also without the approval of the board.

The investment was so big that it demands a thorough and extensive due diligence to be done before it could request for approval by the board of directors.

The CEO really has no authority to invest such a huge amount, but this was what he did.

It is unthinkable that on three occasions the CEO, Shahrol, would act without following the rules of the company.

In the memorandum of the company, Section 117 states that all the affairs of the company must be approved by the adviser of 1MDB, i.e. by Najib Abdul Razak, the prime minister and finance minister.

While Shahrol may be brave enough to act without the board's approval, it is unthinkable that he would act without Najib's approval.

The three actions by Shahrol must have been made after, or on the instructions of Najib, the company's adviser.

If not, Shahrol would have been scolded and probably sacked by Najib.

'If it is not a crime, it is morally wrong'

Then, 1MDB was unable to pay interest of RM2 billion on the loans. It had to borrow in order to pay.

The borrowings have thus increased to RM50 billion, probably due to subsequent borrowings. This increase in the amount of borrowings is recorded in the PAC (Public Accounts Committee) report.

Then, it was reported that Najib had US\$681 million, equal to RM2.6 billion, in his personal and secret account in AmBank.

No prime minister of Malaysia should have so much money in his own account. He should reject any such gift. If it is not a crime, it is morally wrong.

At first, Najib denied the truth of the report. He said he could not be so stupid as to put the money in his account. His stooges all echoed his words.

Then, he admitted that he did have the RM2.6 billion in his account but it was a gift.

Then, he explained that it was a donation from an Arab for his actions against the Islamic State and his interest in Islam.

Then, the Arab became a prince and subsequently, the late King of Saudi Arabia.

None of his explanations can be believed. No one would give this huge amount to anyone, even if he had done something for Islam or for any other cause.

The belief is that the money came from 1MDB, the only source of such sums accessible to Najib. He denies this, of course, but he has no documentary evidence to prove the money is not from 1MDB.

Then, International Petroleum Investment Company (IPIC), which was appointed as guarantor for the loans for 1MDB, made a statement to the authorities in London that a sum of US\$1.7 billion due to it had not been paid by 1MDB.

It therefore refused to pay the US\$50 million in interest due on the loan taken by 1MDB.

1MDB said it had paid the money to a subsidiary of IPIC named Aabar Investment PJS Ltd (British Virgin Islands, BVI).

IPIC says that Aabar Investment PJS (BVI) is not an IPIC company, although it has a company by almost the same name, i.e. Aabar Investment PJS.

This company had received no payment from 1MDB. IPIC implied that the company the 1MDB paid to was a false company.

Putrajaya risks bankruptcy

There was a suggestion of fraud and Arul Kanda Kandasamy(*photo*), the (current) CEO of 1MDB, admitted that it may have paid to the wrong company.

But 1MDB insists that IPIC should pay the US\$50 million in interest, since it was the guarantor of the loan. 1MDB would not pay.

A guarantor could be obliged to pay if 1MDB was really incapable of paying. But a guarantor is not obliged to pay simply because 1MDB refused to pay.

Besides, IPIC as guarantor had not been paid the US\$1.7 billion which was due.

As both 1MDB and IPIC would not pay the interest on the loans, there would be a default. This will cross default other loans taken by 1MDB.

Since 1MDB is a fully government-owned company, the defaults will affect the government's credit-worthiness.

The government may not be able to borrow any more in the market. The government will have financial deficits, which may lead to bankruptcy if the loans are not serviced and the principal paid.

In the meantime, the RM2.6 billion in Najib's account was said to be moved into Singapore banks.

Singapore was said to have frozen the bank accounts of several people, pending investigations for money laundering.

Though no mention was made that the frozen accounts belong to Najib, Singapore as a financial centre cannot be seen to cover up an obvious case of money laundering.

Bank Negara had made a report to the attorney-general (AG), presumably on Najib's money in Ambank. But the AG dismissed the report, claiming that there was no wrongdoing by the prime minister.

Similarly, the report by MACC was also dismissed by the AG.

The contents of those reports were made official secrets to prevent public scrutiny. However, the Official Secrets Act (OSA) is not meant to cover up possible crimes.

Gov't received short end of land deals

1MDB, presumably upon the advice of the company's adviser, i.e. the prime minister, bought government land in Kuala Lumpur at RM60 per square foot (psf) in an area where land had been sold for as high as RM7,000psf.

Najib, who is also the finance minister, should have sold the government land at near market price.

By selling it at RM60psf, the government lost a lot of money.

There is a clear case of conflict of interest when the finance minister is also the adviser to 1MDB.

If it was not Najib who approved this sale, then who did? The officer approving this sale should be charged with losing government money.

This land was revalued upwards, so that the asset of 1MDB increased to RM50 billion.

Similarly, the Sungai Besi airport land was sold to 1MDB. The price is not known but effectively, 1MDB already owned the land and made preparations to move the Royal Malaysian Air Force base to Subang.

Revaluing this land would increase the asset of 1MDB. Again, the government lost a lot of money.

1MDB then sold a portion of the land at Jalan Tun Razak to Tabung Haji at RM3,500psf.

Thus, the fund contributed by intending pilgrims was used to repay 1MDB loans.

This is grossly unfair to the intending pilgrims, most of whom are poor.

Land was also bought in Penang at higher than the market price. This land is occupied by nearly 1,000 squatters.

Besides, Penang is ruled by the opposition party. It is unlikely that any development plan for this land would be approved.

1MDB stands to lose more money because of this purchase.

'Najib yet to act against allegations'

All of 1MDB other investments have hardly yielded any profit. 1MDB simply cannot repay the RM42 billion in loans that it has taken.

There is evidence of fraud and unexplained loss of money. Claims that the money has been properly invested and is giving profits cannot be verified.

No documentary proof can be found as to where huge sums of money are being kept.

The belief is that the RM2.6 billion in Najib's private accounts is from 1MDB has not been properly and credibly refuted.

The fact that Najib has not sued *The Wall Street Journal* for exposing many of the wrongs committed by 1MDB and Najib himself seems to prove that what the newspaper had reported is irrefutable.

So is the failure to sue *Sarawak Report* on 1MDB and Najib's US\$681 million in his private account.

This is only a part of the 1MDB story. There are more scandals involving the 1MDB than any other funds in Malaysian history.

This is a part of the reason why Najib should cease to be the prime minister of Malaysia.

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