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IMDB

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ties. Its extraordinary grip on power has delivered economically for Malaysia, boosting living standards and establishing the country as a fast-growing emerging market and U.S. ally in Asia.

But its dominance of the vote, its critics contend, has prevented Malaysia's democracy from maturing in a similar fashion, instead leaving a system riven by patronage and vote-buying that analysts say has consistently skewed results in UMNO's favor.

The Journal examination, which included interviews with ruling coalition politicians and former government employees as well as a review of documents related to a state-investment fund Mr. Najib set up, found hundreds of millions of dollars in unreported political spending. Much of it flowed from public sources or programs set up for other purposes.

The effort relied heavily on the state investment fund Mr. Najib controlled, IMMalaysia Development Bhd., according to minutes from IMDB board meetings seen by The Wall Street Journal and interviews with people who worked there.

The prime minister, who is chairman of IMDB's board of advisers, promised repeatedly that the fund would boost Malaysia's economy by attracting foreign capital. It rolled up more than \$11 billion in debt without hiring major investments.

Charity projects

Yet Mr. Najib used the fund to funnel at least \$140 million to charity projects such as schools and low-cost housing in ways that boosted UMNO's election chances, the Journal investigation found.

The minutes portray a fund that repeatedly prioritized political spending, even when IMDB's cash flow was insufficient to cover its debt payments.

Board members wondered aloud if they would get in trouble. In a meeting on Dec. 20, 2014, they discussed what to do about police who came to investigate allegations of financial irregularities, according to the minutes.

The IMDB fund also transferred hundreds of millions of dollars to politicians through Ihsan Perdana Bhd., a company formed in 2011 to carry out IMDB's corporate social responsibility programs, said a person involved with setting up the fund. Ihsan Perdana is exempt from filing financial statements, according to Malaysian company records.

Malaysian investigators believe the cash that ended up in Mr. Najib's personal accounts moved through government agencies, banks and companies linked to IMDB. At least \$14 million flowed into his accounts via Ihsan Perdana, according to documents from a Malaysian government investigation.

The source of that \$14 million was SHC International Bhd., a company controlled by Malaysia's finance ministry, which Mr. Najib also heads, the documents show.

The prime minister signed checks from his personal accounts to lawmakers, who used the money as they saw fit, according to the Malaysian cabinet member interviewed by the Journal and another lawmaker who said he accepted the money.

Mr. Najib declined multiple interview requests. He has denied wrongdoing or taking money for personal gain, while defending IMDB spending as good for Malaysia. He hasn't explained where the \$700 million in his accounts came from or how it was used.

Senior UMNO politicians have said the money was a political donation from an unnamed Middle East donor. Malaysia's anticorruption agency has defended Mr. Najib's right to use personal accounts for political

A U.S. Federal Bureau of Investigation probe into IMDB is looking at assets owned by Mr. Najib and his family, including luxury real estate in New York and Los Angeles, according to people familiar with the matter. These people said the agency is also looking at the funding of a film-production company, Red Granite Pictures, which was set up by Mr. Najib's stepson and produced "The Wolf of Wall Street" starring Leonardo DiCaprio.

These inquiries are at an information-gathering stage and neither Mr. Najib nor any of his family members have been accused of wrongdoing. Red Granite Pictures, in a statement to the Journal, said that neither the stepson nor the company engaged in any "inappropriate" business activities.

Tens of thousands of protesters took to Kuala Lumpur's streets in August to call for Mr. Najib's ouster over his handling of the economy and management of IMDB. Some lawmakers are still calling for him to resign.

Activities like the use of personal bank accounts to fund election spending don't happen in "most decent democracies with an element of accountability," said Lily Zubaidah Rahim, a University of Sydney professor who is involved with the Electoral Integrity Project, a survey of voting standards with Harvard University.

Mr. Najib's UMNO party, founded in the 1940s to represent ethnic Malays, has ruled for decades in coalitions with parties drawing support from ethnic Chinese and Indian minorities.

UMNO benefited from an affirmative-action program it set up in the 1970s that reserves an outlier proportion of state jobs, school places and government contracts for Malays, who make up just over half of Malaysia's 30 million people.

Opposition critics say UMNO doled out contracts to Malay companies in return for donations to fund election spending. Ruling coalition politicians confirmed the practice in interviews but emphasized it is legal.

There are no laws in Malaysia on how much a company or individual can give to a party or politician, and neither is required to report who donated. Candidates are limited to spending \$47,000 during election periods, but there are no caps on what a party can disburse. There are no laws against tapping state resources for campaigns.

Disbursing money or other favors to sway an election, known as vote buying, is prohibited but widespread, politicians say. Malaysia's election watchdog has no legal power to investigate complaints.

After 2008 elections in which the ruling coalition lost its two-thirds majority in parliament, the



Malaysian Prime Minister Najib Razak, under scrutiny for political funds, at a UMNO assembly in Kuala Lumpur this month.

UMNO ditched its leader and elevated Mr. Najib, then deputy prime minister. He pledged to end corruption and improve transparency. He promised a Malaysia in which all citizens benefited, dubbing the effort "Malaysia."

He also talked about the need to break UMNO free from dependence on corporate donations, said people who interacted closely with him. Yet Mr. Najib knew he needed funding sources, they said.

An opportunity presented itself when Jho Low, a Malaysian financier then in his late 20s, appeared. Hailing from the Malaysian state of Penang, Mr. Low

The board minutes portray a fund that repeatedly prioritized political spending.

studied in England and befriended Mr. Najib's stepson in London, according to people who know him. He later attended the University of Pennsylvania's Wharton School.

In Malaysia, he helped set up an investment fund for the oil-rich Terengganu state, he told a Malaysian newspaper in 2010. Mr. Najib turned the fund into a federal entity and IMDB was born.

Mr. Low, whose full name is Low Taek Jho, would later help direct election-related spending, despite not holding a formal title within UMNO, said a former Malaysian ruling-coalition politi-

cian interviewed by the Journal. Mr. Najib and IMDB executives said the fund was supposed to attract investment in energy, real estate and tourism, with no mention of charity spending.

In early 2010, Mr. Najib authorized creating a IMDB charity arm that gave \$140 million for corporate social responsibility spending up until the 2013 elections, the fund's board minutes show. None of it was required to be reported in IMDB financial accounts, though some projects were publicized in fund promotional materials.

The prime minister's office viewed IMDB as a way to finance projects aimed at boosting UMNO's popularity, said Oh Ee Sun, who at the time was Mr. Najib's political secretary. Money from IMDB was available for projects drawn up by staff in the prime minister's office, he said.

"If we thought it could help the incumbent government pull in some votes, we could propose that," said Mr. Oh. He said he helped give scholarships to ethnic Chinese students, but said he later quit, citing his concern about lack of transparency in the government.

IMDB's management proposed the spending should happen only when the fund made profits, but asked for a waiver of the rule to allow immediate spending on schools, the minutes say.

In July 2010, the prime minister traveled to Sarawak, a rainforest-covered Malaysian state on Borneo island whose voters

include members of indigenous tribes. Ahead of the visit, IMDB's board of directors approved around \$540,000 in financial aid to build shelters for tribal people, among other uses.

The board's chairman "noted that it is vital for the company to win the support of Sarawakians, particularly the natives," the minutes said.

There was wasteful spending, Malaysia's government in 2010 sold prime land in Kuala Lumpur to IMDB at below-market rates to develop a financial center, in a joint venture with a subsidiary of an Abu Dhabi sovereign-wealth fund.

After spending almost \$2 million to organize a launch party, IMDB ditched the event when the Gulf emirate's crown prince decided not to attend, according to board minutes.

Local media began criticizing the fund. "The company is perceived as a secretive cloak-and-dagger setup with sinister motives to benefit cronies and not the Malaysian people," read a plan submitted to the board in October 2010 by IMDB's management to improve the fund's image.

The solution was a media blitz to promote IMDB's focus on "new sources of growth," the plan said. Mr. Najib, in other minutes, ordered the board to better promote IMDB education scholarships.

To book profits, the fund took the land it bought cheaply from the government and marked it up to market prices. In the financial year ended March 31, 2011, the fund revalued the land by 426%, even though it had neither sold nor developed it. The fund also borrowed heavily. Goldman Sachs Group helped it raise \$6.5 billion in bond issuances in 2012 and 2013. Some money was used to buy power plants.

Project stalled

A \$3 billion bond two months before the 2013 elections was supposed to fund development of the Kuala Lumpur financial center, according to offering documents. The project stalled and the money was used for other purposes, including working capital, according to a IMDB financial statement.

A Goldman spokesman declined to comment. As elections approached in 2013, the fund began transferring hundreds of millions of dollars to politicians to spend on their campaigns, said the person who helped set up the fund.

Mr. Najib began pushing out checks from his accounts to politicians, according to a lawmaker interviewed by the Journal. The

to the recipients came from the prime minister's office.

Mr. Najib has said such projects show that IMDB is beneficial to Malaysians.

Perhaps the biggest UMNO effort to win back votes was in Penang, a historic trading entrepôt won by the opposition in 2008.

Mr. Low, the financier, returned home to Penang before the May election and acted as a senior strategist, according to the former ruling-coalition leader in the state. Coalition candidates were told by Mr. Low they could request money for their campaigns and he would deliver it, the politician said. Candidates asked for money to paint voters' houses and give out free food and other favors, the politician said.

'Flowing like hell'

The source of the money, which didn't flow through official UMNO channels, and its total size were unclear, ruling-coalition politicians said.

Another former coalition lawmaker said he assumed the funds came from corporate donors. "The money was flowing like hell," he said.

A school friend of Mr. Low's, Geh Choh Hun, organized a group called IMalaysia Penang Welfare Club, which hired a hotel ballroom and handed out checks for hundreds of thousands of dollars to nongovernment groups, according to people who attended. It is unclear where the money came from. Mr. Geh declined to comment.

Loh Cheng Kooi, executive director of the Women's Center for Change, a female-empowerment organization, said she got almost \$70,000 from the welfare club. She said she assumed the government was financing the event because of "IMalaysia" slogans at the ballroom.

UMNO lost the popular vote and failed to win Penang. But its coalition won enough votes to hold on to power nationally.

After the victory, IMDB had only about \$20 million in cash compared with liabilities of over \$10 billion, board minutes show. IMDB says the value of its assets covers the fund's debt.

Deloitte Touche Tohmatsu Ltd., the fund's current auditor, told IMDB's board in February 2014 it had received emails and letters alleging "financial reporting fraud" in connection with the PetroSaudi deal, the changing of auditors and alleged overpayment for power-plant assets, the board minutes show.

The auditor said there was no evidence of wrongdoing, accord-



A billboard for IMalaysia Development Bhd., a state investment fund controlled by Mr. Najib.

Web of Spending

The IMalaysia Development Bhd. state investment fund was set up by Prime Minister Najib Razak to boost the economy but was used as a source of political funding to help win a close election in May 2013. Mr. Najib and IMDB deny wrongdoing and say they are cooperating with investigations.

How funds were allegedly moved