

Fears over Tabung Haji test Najib's support base

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For Malaysia's 18 million Muslims, the ultimate in holy duty is to travel to Mecca, a pilgrimage that can require decades of saving. Now the fund that holds much of their money is under a cloud, a fresh challenge for a scandal-hit government.

Concerns over unpopular and unprofitable investments at the government-linked fund may erode loyalty to Prime Minister Datuk Seri Najib Razak among his main supporters – rural Malays – and potentially do more damage than a clutch of political funding probes that have been running for months.

The prime minister has so far weathered the fallout from a US\$681 million (RM2.6 billion) donation investigation and alleged financial impropriety at state investment company 1Malaysia Development Berhad (1MDB).

But controversy over the haj fund known as Tabung Haji – a statutory agency under the Prime Minister's Department – cuts to the heart of religion in the secular Muslim nation, and the fund has almost nine million depositors.

Najib is already grappling with a slowing economy, and ordinary Malaysians face rising living costs.

With an election due by 2018 he needs the votes of the Malay majority, who returned him and Umno to power in 2013 as Chinese and Indian Malaysians shifted to the opposition. The coalition led by Umno, which has ruled since independence in 1957, won the last election with its slimmest margin yet.

"The haj is fundamental to Islam and Islam is now a core component to political discourse within the country," said Terence Gomez, a professor at the University of Malaya.

"Because they are dealing with the savings of so many people, and many of them are core to Najib's constituency, he has to be very careful," he said.

"Najib cannot afford to lose the Malay ground."

Concerns over nest eggs emerged last year after the haj fund bought land from 1MDB, which is being investigated at home and overseas for alleged financial irregularities and money laundering.

In a letter late last year the central bank warned Tabung Haji its liabilities exceeded assets and pointed to negative reserve levels, while opposition politicians have highlighted loss-making investments they say amount to over RM1 billion.

Tabung Haji referred Bloomberg queries to an earlier statement that rebutted concerns over its liabilities and said it's reviewing its reserves policy based on the central bank's advice.

While the deposits are government-guaranteed, that hasn't stopped Malaysians from worrying their savings are at risk or that dividends of 5.5% to 8.25% in recent years will evaporate.

After the central bank's letter was made public in late January, depositors flooded Tabung Haji's Facebook page, asking about dividend payments and expressing concern their funds may have been mismanaged.

In the five decades Tabung Haji's operated, Malaysian Muslims have moved from hoarding haj savings at home – given Islam's ban on interest-bearing instruments – to helping create one of the largest funds in the country, investing in shariah-compliant assets from land to shares.

Depositors have surged from 5.6 million in 2010. As the fifth and final pillar of Islam, every able-bodied adult Muslim must undertake a pilgrimage to Mecca, the birthplace of Prophet Muhammad, at least once in their lives if they can afford it.

More than 20,000 Malaysians perform the haj each year based on quotas allotted by Saudi Arabia.

Najib in May ordered the fund to sell land it bought from 1MDB just days after the purchase was disclosed, following a public outcry on social media and protests outside Tabung Haji.

Last month he blasted unnamed elements who he said were creating unnecessary fear and causing some to withdraw their savings.

"There are some who have kept their savings with Tabung Haji for so long, who are nearly in their twilight years, but because they fell for twisted statements, they lost their turn to perform the pilgrimage," Najib said on his website.

His office did not respond to requests for comment.

Tabung Haji said in its latest annual report that net assets at the group level rose to RM57 billion in 2014 from RM31 billion in 2010.

In a January statement it said the central bank's evaluation of its assets and liabilities did not include its investment portfolio, and that its holdings exceeded what it owed for all of 2014 and 2015 when its investments were taken into account.

Malaysians' trust in the government dropped seven points to 39% over the past year as credibility took a "big hit" amid alleged graft, real and perceived lack of transparency and widespread allegations of mismanagement at state-linked companies, according to the latest annual Edelman Trust Barometer. It polled 1,150 people.

"Because of the lack of trust in the government, more and more Malays are looking at Umno more critically than before," said PKR vice-president Rafizi Ramli, a critic of Tabung Haji.

“It’s too early to say that those Malays who are disillusioned will switch to the opposition but we definitely have made a breakthrough.”

The Edelman report follows months of controversy over 1MDB’s finances. The attorney-general meanwhile said Najib received the US\$681 million in his accounts from a member of the Saudi royal family before the 2013 election, with US\$620 million later repaid and the fate of the rest of the funds not specified.

Najib has denied any wrongdoing. 1MDB has repeatedly denied paying any money to his accounts.

Tajudin Wahab, who opened an account with Tabung Haji in 1978 with a monthly contribution of RM50, said he was disturbed by recent news reports on the fund.

“I’ve lost confidence in the government,” said the 62-year-old consultant for the oil and gas industry, who has been to Mecca twice but is now reviewing the amount of money he keeps in the fund.

“I felt Tabung Haji was being taken to the cleaners, that it was being used by the political masters.”

The pilgrims fund said in a statement last month an investment in Felda Global Ventures Holdings Bhd – a plantations company whose share price has fallen 68% since its share sale in 2012 – is a long-term strategic investment in a core sector.

The investment was estimated by Bloomberg around RM1 billion. Tabung Haji said it typically issues its annual report around the middle of the year after it has been presented to the Parliament.

Tabung Haji Chairman Datuk Seri Abdul Azeez Abdul Rahim is an Umno Supreme Council member.

CEO Datuk Ismee Ismail, who has led the fund since 2006, is a director at 1MDB.

Some depositors have turned to social media to ask Najib to replace Azeez with Bank Negara governor Tan Sri Zeti Akhtar Aziz, whose term ends in April. The central bank did not reply to an e-mail seeking comment.

People in rural heartlands are “the pockets of voters who are crucial in the next elections,” said Oh Ei Sun, an analyst at the S. Rajaratnam School of International Studies in Singapore and Najib’s political secretary from 2009 to 2011.

“If anything happens to Tabung Haji, a lot of people will feel insecure and angry,” he said. – Bloomberg, March 10, 2016.

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