Cover Story: Fulfilling public transport needs while maintaining fiscal discipline

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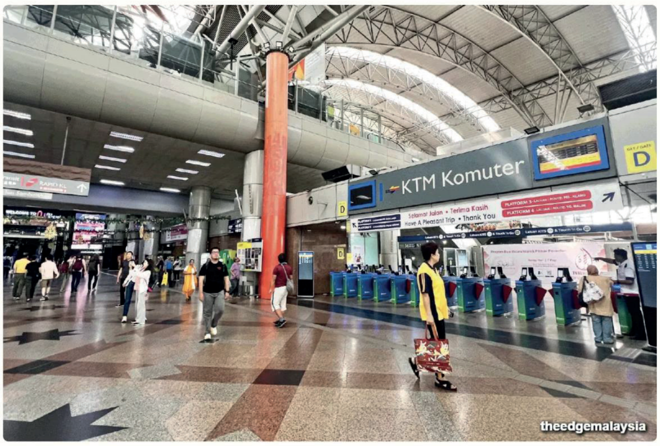

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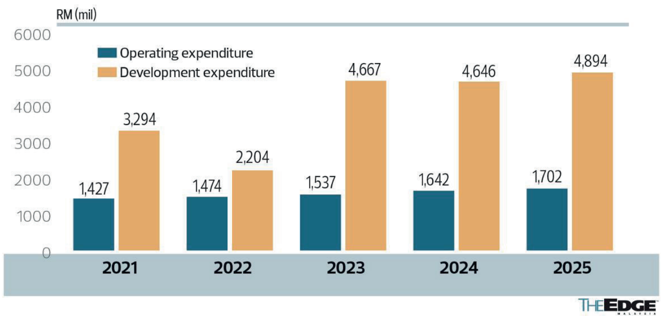
THE interview with Anthony Loke Siew Fook started half an hour late as he was attending to a delegation from Chinese railway giant China Railway Rolling Stock Corp (CRRC). Nevertheless, the 47-year-old transport minister was ever ready to answer any questions The Edge could throw at him, despite having to run from one meeting to another.

The meeting with CRRC could have been about Malaysia's plan to lease 62 train sets to improve the services of Keretapi Tanah Melayu Bhd (KTMB), which is notorious for delays, electrical breakdowns and poor maintenance of the many lifts at its stations.

While the government is looking for ways to upgrade the KTM Komuter network in the Klang Valley, there is a need for other public transport systems to be upgraded, maintained or even built from scratch. As the government does not have enough money to build huge networks, the Ministry of Transport (MoT) will have to get creative in terms of financing these projects.

"If we were to use our conventional method, through development expenditure (devex) and ask for funds [from the Ministry of Finance] for rolling stocks, for maintenance and all that, we would have a limit to what we can get, and our procurement in terms of rolling stocks would have to be staged out. Yes, the replacement of our fleet is not fast enough. That was the limitation based on devex," says Loke at his new office at Menara Sentral RAC in Brickfields, Kuala Lumpur, on Dec 5.

MoT's actual expenditure (2021 to 2023) and allocated amount (2024 and 2025)



In August, Loke announced that the government would enter into a 30-year lease programme with CRRC to lease 62 new passenger train sets at an estimated cost of RM10.7 billion. The first batch of train sets are expected to arrive in 2027.

There is a lot to be done to develop a comprehensive and efficient public transport infrastructure and network in the country, especially if the government is to meet its aspiration of having a 40% modal share of public transport by 2030, compared with about 18% currently. The lack of devex for public transport, especially urban transport, could hamper its plan.

Already, the biggest public transport project to be undertaken to date — the Klang Valley Mass Rapid Transit Line 3 (MRT3) — is facing implementation delays, with the Ministry of Finance (MoF) yet to award jobs despite calling for tenders in 2022.

Under Budget 2025, the government is allocating RM88 billion, or 20.8% of its RM423 billion budget, to devex, with the rest going to operating expenditure (opex). Some RM54.7 billion, or about 13% of its budget, is for debt service charges.

"Because our current ratio [between opex and devex] is almost 80:20 in terms of our budget, of course, overall, that is not ideal or healthy. We should be spending more resources for development rather than on opex. But because of our fiscal limitation and, partly also of course, our commitments to repayment of loans, we are hampered in terms of our ability to undertake more development projects. For the time being, we have to live with it," says Loke, who is in his second stint as transport minister, following his first from June 2018 to February 2020.

Due to the fiscal restrictions, he says his ministry is being more innovative to overcome the challenges. Besides the leasing model that it is undertaking for the 62 train sets for KTMB, MoT is also looking at public-private partnerships (PPP) to undertake development projects.

Looking at more PPP, investment recovery model for airports here to stay

One of the development projects under MoT that will be funded via the PPP model will be the redevelopment of Kuala Lumpur Sentral (KL Sentral) by Malaysian Resources Corp Bhd (KL:MRCB ASK EDGE). The redevelopment of the transport hub, announced in 2023, has been approved in principle by the government (see "Why MRCB was the choice for KL Sentral redevelopment" on Page 67).

Meanwhile, two consortia are bidding for the development of an urban transport system in Johor Bahru, which is believed to be via the PPP model as well. Meanwhile, Prasarana Malaysia Bhd is looking at outsourcing to add 164 buses to its network.

MoT does not have to be concerned with port developments as it is mostly spearheaded by the private sector. (Photo by Shahrill Basri/The Edge)

Besides the leasing and PPP model, the user-pay model and investment recovery model are currently in place for airports and seaports. Since port developments are mostly undertaken by private entities in Malaysia, it is one aspect of transport infrastructure that MoT does not have to be concerned with.

Many private investors are interested in owning a port, especially along the Strait of Malacca. The development of a smart artificial intelligence port in Port Dickson, Negeri Sembilan, is being proposed by Tanco Holdings Bhd (KL:TANCO ASK EDGE).

State governments and their entities are also spearheading investments in ports, such as the Tanjung Langsat container port project in Johor by Johor Corporation. The Kedah and Perlis governments are proposing a port in Sanglang (see "No urgent need for national policy on airport, seaport development, says Loke" on Page 66).

Therefore, most of the devex allocated to MoT is for land transport, particularly interstate rail and urban public transport networks.

The cost to upgrade KTMB's network capacity alone, as well as to add to its rolling stocks, is estimated at RM21.16 billion, according to Budget 2025. Since 2016, the ministry has been developing the Gemas-Johor Bahru double-tracking project, which is expected to be completed next year.

Meanwhile, MoT is spending an estimated RM19.31 billion on urban public transport, including RM10 billion on the Johor Bahru-Singapore Rapid Transit System (RTS) Link.

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Moving away from off-budget mechanism

As the development of the Gemas-Johor Bahru double-tracking project and the Johor Bahru-Singapore RTS Link is coming to an end, MoT will have more capacity under its devex for other projects, says Loke. This is how the government is funding the Penang LRT, he notes.

As much as it can, the government is not going to undertake infrastructure development projects using off-budget measures, which was the practice during previous administrations, he adds.

"During [former prime minister Datuk Seri] Najib Razak's administration, all urban rail projects, be it the LRT or MRT, were under the Land Public Transport Commission (SPAD). So, SPAD initiated [the projects], not MoT. MoT had no say over all those projects," says Loke.

SPAD, which was dissolved in 2018, morphed into the Land Public Transport Agency (APAD) and was absorbed into MoT.

Menara Sentral RAC is an example of how RAC's assets have been monetised. (Photo by Shahrin Yahya/The Edge)

"So, it was always under SPVs (special purpose vehicles), MRT Corp or Prasarana. And they undertook the development through sukuk. So, from MRT1 and MRT2 to LRT3 and even ECRL (East Coast Rail Link), all were under separate, off-budget mechanism."

The ministry has estimated RM586 million for the development and upgrading of airports and RM356.83 million for the upgrading and development of air traffic control systems. For maritime transport, it has estimated RM326.52 million for the repair and upgrading of jetties and RM199.99 million for dredging works in the river mouths of ports in Peninsular Malaysia.

It is worth noting that MoT was allocated a total budget of RM6.6 billion for 2025, of which RM4.89 billion is for devex. An estimated RM1.42 billion is for the upgrading of KTMB's network capacity, while RM1.89 billion is allocated to the urban public transport system.

None of the devex will be funded by borrowings. The practice to no longer fund most development projects through borrowings is also because of the government's aim to keep its spending in check, as espoused under the Public Finance and Fiscal Responsibility Act 2023 (FRA).

Under FRA, the government's budget deficit must not exceed 3% of the gross domestic product (GDP), while its debt levels should not exceed 60% of GDP. Also, its financial guarantees must not exceed 25% of GDP in total.

"That's the reason why over the past few months, we have deliberated on a new model — the leasing model [for KTMB]. Under this model, we want to increase our fleet immediately in a short span of time," says Loke.

"We want to have another 50 sets of trains over the next three years. If this were to be done through the traditional or conventional procurement process, it would take us more than 10 years to get the 50 sets."

The leasing deal comes with maintenance, repair and overhaul services to be borne by CRRC. This means KTMB will not have to worry about maintaining the fleet, as a leasing deal will come with a minimum availability rate for the customer.

Funding for the MRT Circle Line (MRT3) remains unclear. The government has yet to award contracts for the construction of MRT3, but Loke is adamant that the project will be implemented. He says the government is currently focusing on acquiring land along the MRT3 alignment.

The public display had just ended on Dec 2. MRT3, estimated to cost RM45 billion, was proposed to span 51km around Kuala Lumpur's perimeter, while integrating with existing MRT, LRT, KTMB and monorail lines through 10 interchange and connecting stations.

"We are being asked to focus on the land acquisition first, so the next one or two years will be more on land acquisition. But that gives us the signal that the MRT3 project will proceed sooner or later," says Loke.

To monetise RAC land, with returns ploughed back into railway developments

Besides the leasing and PPP models, MoT is also looking at monetising more of the land that belongs to Railway Assets Corp (RAC). The ministry has mandated RAC to look for higher returns for its assets, through development returns as well as recurring income.

"RAC's role or mandate is to manage, monetise and get more returns from the assets, so they can plough back into the railway sector," says Loke.

RAC was set up in the early 1990s to become the caretaker to manage and develop railway assets into valuable properties capable of generating recurring income for the government. It was set up at the same time as the corporatisation of Malayan Railways into KTMB.

The minister points out that Menara Sentral RAC is one of the examples of how RAC has monetised its assets. The 30-storey building was developed on RAC land in Brickfields, Kuala Lumpur, through a joint development between RAC and YTL Construction Sdn Bhd, a subsidiary of YTL Corp Bhd (KL:YTL ASK EDGE). The building will be rented out to generate recurring income for RAC.

"There are many other RAC lands that have been earmarked for development. In the past one to two years, we have been actively engaging the private sector through RFPs (requests for proposal) to develop our railway land," says Loke.

He says RAC lands are valued in the billions of ringgit. The returns from the development will be ploughed back into railway development, especially small-scale projects such as upgrading the lifts at KTMB stations.

Last month, Kerjaya Prospek Group Bhd (KL:KERJAYA ASK EDGE), through an SPV with Aspen Vision Development Sdn Bhd, secured via open tender by RAC to develop a 14.57ha parcel it owns in Seberang Perai Tengah, Penang, near Penang Sentral.

The SPV, called Rivanis Ventures Sdn Bhd, will turn the land into a mixed-use development comprising 338 units of affordable housing, 1,689 residential units, 1,680 serviced apartments, commercial retail shops and offices.

RAC will be paid RM156.5 million for the land — RM54.1 million in cash and RM102.4 million worth of affordable housing. Rivanis Ventures will be given the first right of refusal to develop an adjacent tract measuring 7.96ha.

"Lands near the stations are always strategic, and we want to encourage more TODs (transit-oriented developments). We want to encourage the usage of railway stations to bring about development in the surrounding areas," says Loke.

He adds that in the past, RAC was rather passive in managing the railway assets, resulting in these strategic lands either being left vacant, occupied illegally or just being rented for a minimal sum.

"So, we have to relook at this. And my instruction to RAC is that it looks at the strategic lands and earmarks them as catalysts for development," he says. The iconic Ipoh railway station is one of those that have been earmarked for redevelopment by RAC.

Gemas-JB double-tracking, Penang LRT to cost over RM10 bil each

While MoT is counting pennies to undertake public transport infrastructure developments, its next major project is already expected to cost more than initially budgeted. The development of the Penang LRT Mutiara Line is likely to cost more than RM10 billion, says Loke.

The project, which was mooted when the Penang Transport Master Plan was launched in 2015, was initially estimated to cost RM8.4 billion. Then called the Bayan Lepas LRT, the line was proposed to stretch from the Penang International Airport to Komtar in George Town.

It was supposed to be funded through the sale of reclaimed land off the southern coast of Penang Island. The aptly named Penang Southern Reclamation (PSR) project initially involved the reclamation of 4,500 acres of undersea land to be turned into three artificial islands.

However, since the project faced opposition from environmental groups and some local fishermen in the area, the PSR was scaled down to just one island called Silicon Island, measuring 2,300 acres.

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The Penang LRT will be funded by the government's devex since the state is no longer reclaiming land for the three artificial islands off its southern coast. Silicon Island will be home to the depot for the line, as well as for the electrical and electronics sector's future industrial development needs.

The Gemas-Johor Bahru double-tracking project has also seen its cost increase to more than RM10 billion, according to Loke. The project was initially estimated at RM8.9 billion, although the latest reports pegged it at RM9.55 billion.

The 192km electrified double-tracking project is being constructed by the YTL Construction-SIPP Rail Sdn Bhd consortium. The completion of the project has been delayed to April 2025 from October 2021.

While the government is being rightly prudent when it comes to spending taxpayer money on public transport, the same focus should be given to managing the costs of the projects. That is because every ringgit used to fund an ongoing development means a ringgit less for another project.

The government is moving away from off-balance sheet spending as much as it can in developing public infrastructure. (Photo by Zahid Izzani/The Edge)