

ACEM's Response to EPU for onwards submission to the Majlis Tindakan Ekonomi on:

1. *Data atau survei kesan Covid-19 MCO terhadap badan professional industri pembinaan*
2. *Isu & cabaran yg dihadapi oleh badan professional dalam sektor pembinaan*
3. *Moving forward atau cadangan daripada badan professional dalam menghadapi situasi semasa*

i. Data atau survei kesan Covid-19 MCO terhadap badan professional industri pembinaan

An online rapid survey was formulated by ACEM to study the impact of the Movement Control Order (MCO) to contain the spread of COVID-19 on Professional Engineering Services in Malaysia. The survey was intended to gauge the impact of covid-19 pandemic and readiness of the engineering consultancy business and industry to resume and sustain business post the MCO.

The MCO has imposed various magnitudes of disruptions to the Engineering Consultancy Practices (ECP) with more than 85% associated with late fees collection and billings. This has the most adverse impact as it diminishes the ability of the ECP employer to pay wages. 29.4% of the practices has zero income since March 2020 and 50% can only sustain their business for 1-2 months under the current scenario. Ultimately, pay cut and/or staff retrenchment become inevitable. One of the main reasons for the non and late payment is that projects especially construction are stalled, resulting in productivity falling below 30% among 60% ECP. Non-execution of consultancy agreement is another reason for non-processing and remittance of payment despite deliverables and services rendered by the ECP. Low productivity is also prevalent due to the lack of support system to efficiently work from home. 40% of the respondents has 50% of their workforce prepared to resume work during the MCO but regulated under stringent safety environment, in order to increase productivity.

The survey has also indicated that 53% will require more than 6 months to arrive to the pre-MCO working situation, with close to 30% requiring financial aid in the form of loan or borrowings.

ii. Isu & cabaran yg dihadapi oleh badan professional dalam sektor pembinaan

- 1) Of the total number of 2,662 Consultancy Companies, 1,200 are Body Corporates (Sdn. Bhd. and Multi Disciplinary) the remainder 1,462 are partnership (230) and sole proprietorship (1,232). Of the Body Corporates, only 1 is Public Listed and about 15 can be considered as large companies. Thus 99% of the ECPs are in the SME category.
- 2) As SMEs, especially the small sized firms, are very vulnerable to fluctuations in cashflow. The situation of declining job opportunities has in fact occurred over the last 3- 4 years and many, including the large sized firms have begun cost cutting exercises over the last 2 – 3 years to manage their cashflows.
- 3) The covid-19 pandemic has exacerbated the cashflow issues. Again many have even terminated staff employment, stopped recruitment and invoke pay cuts.
- 4) The recent Stimulus Package 2 has helped the SMEs especially the wage subsidies for those earning RM 4,000 and below. However, one of the main characteristics of Consultancy Companies is that they are “top heavy” with highly skilled and experienced Engineers and Technical staffs comprising up to 50% of the total staffs with salaries above RM 4,000 per month. Thus the companies are not able to sustain the employment and salaries of this major “assets” of the company.
- 5) Under the MCO, companies are not able to work at full capacity and productivity has dropped to 50% for office works (studies, planning and design) and 0% for site

construction supervision. This has a severe impact on cashflows as no claims could be submitted if there are no deliverables and no work done on site. And overheads still have to be paid for.

- 6) The recent relaxation to revitalise the construction industry appears to focus on the construction activities only. This is another aspect of the industry that is substantial and important and this is the studies, planning and design. This work needs to continue for projects to be tender-ready and implemented soonest when budgets are available. This in fact is the critical aspect of to spur and sustain economic revitalisation.
- 7) The G1 and G2 small contractors are allowed to resume work on the principle that they need to work to get income. The same should apply for the Consultancy Companies by allowing them to proceed with office-based studies, planning and design of projects in the pipeline. The SoP established by the relevant Ministries would ensure controls on the covid-19 management.

ii. Moving forward atau cadangan daripada badan professional dalam menghadapi situasi semasa

ACEM would like to recommend the following post-MCO economic recovery measures based on the feedback from the survey

- Reduction of corporate & individual tax was recommended by 86.8% respondents;
- Waiver or reduction of SST or Retention of part of SST payment (58.8%);
- Wage subsidy for all employees for 6 months with 40-60% being rate of subsidy;
- To subsidize EPF employer's contribution rate (subsidy of 5-7%);
- Full exemption from contributing to EIS and SOCSO until December 2020;
- Provide interest-free financial loan to qualified ECP (72.1% respondents);

Moving forward, the Government should also consider to

- Award non-physical projects e.g techno-feasibility studies of infrastructure or facilities especially those with RFP already floated in the last 24 months;
- Encourage more Private Public Funded projects with better returns on the private sector's investment to encourage participations;
- Resume partial opening and ultimately full opening of construction sites especially those advanced in progress;
- Some projects to be brought forward through stimulus packages (eg public health related projects; infrastructure & communications);
- Create more tourism related project such as improved infrastructure and upgrading of tourist destinations as well as better transportation modes to these destinations.

As working offline/online will be the new norm; it is critical to establish dependable facilities for such purposes. This will entail upgrading of the IT and telecommunication infrastructure at the national's level. ECP will equally encourage to support work from home (WFH) deliverables and create new targets (KPI) for WFH and what will be of urgent need is to upgrade into better network / cloud-based system for data transfer and savings within controlled environment.

ACEM has also submitted feedback and suggestions that are also relevant feedbacks to EAC as follows:

1. ACEM Feedback to MITI 24/04/2020

A. Post-MCO Economic Recovery Measures

- i) Reduce Costs Of Doing Business/ Easing Cash Flow
 - Immediate release of all claims made prior to MCO
 - Faster process and procedures for tender evaluation, awards and project progress payment
 - Faster signing of Memorandum of Agreement
 - Increased opportunities for studies, planning and design works
 - Reduction of corporate tax
 - Retention of part of SST payment
 - Provide interest-free loan to qualified ECP
 - Flexible repayment terms for existing loans
 - Flexible terms and conditions for loans to respond to the economic situation
 - Provide matching grants for innovative engineering solutions
 - Allow Double Tax Deduction of 6 months (starting from March 2020) for the ECP for the Salary of Professional Staff above RM4000 that are not covered in the Government Stimulus Package 2.
 - As Post-MCO and Post COVID19 Pandemic will require adoption of the New Norm. Government incentives are needed for this New Norm and to be at par with other developed countries. This would include:
 - Interest Free Loan based on size of company and revenue to ensure repayment. The repayment starts after 1 year and to pay back in 5 years time.
 - Matching Grants
 - Double tax deductions for Infrastructure improvement

Note : the Cost is about RM5525 / Employee (this is Basic Cost only excluding the cost of Engineering Software)
- ii) Restoring Investor Confidence
 - Risks register will be formulated and risk tolerance assessed
 - Identify new priorities & reset financial performance expectations
 - Establish good communication programs & keep shareholders informed
 - Fair terms and conditions of contract and payment processing
 - Reduced red-tapes
 - Regular engagement with the industry players
 - Demonstrate high levels of transparency and governance
- iii) Increase Domestic Demand
 - Activate and award non-physical projects e.g. feasibility studies, techno-feasibility, planning and design, studies of infrastructure or facilities especially those with RFPs being floated in the last 24 months

- Resume partial opening and ultimately full opening of construction sites especially those advanced in progress
 - Some projects to be brought forward through stimulus packages (eg public health related projects, utilities, rural development)
- iv) Supply Chain Sustainability/Self Sufficiency
- Support & empathy to staffs
 - Working offline will be the new norm; establish dependable facilities for staff
 - Ensure affordable, fast & stable Internet coverage
 - Negotiate with software companies for affordable terms and conditions;
 - All government projects and authority to allow e-Submission and the use of blockchain technology;
 - Encourage all government meetings to be conducted on virtual platforms; and
 - Facilitate blockchain technology (while protecting business privacy).

2. ACEM Feedback to EAC 23/04/2020

Mesyuarat berkaitan Isu-Isu Sektor Pembinaan bersama Wakil Badan Profesional

1. YB Dato' Sri Mustapa Mohamed - Menteri Kanan (Ekonomi)
2. Prof Tan Sri Dato' Dr Noor Azlan Ghazali – Executive Director EAC

2. Feedback from ACEM

- a) ACEM is concerned that based on the recent experience in applying for permit to work during MCO, **red tapes could stifle rapid revitalisation of the construction industry and the economy as a whole.**
- b) The procedure should be simplified.
- c) MITI and CIDB **need to understand the supply chain of the construction industry.**
- d) **For construction, the input for Professional Services are mandatory for the Contractor to work.** This is because the works need to be supervised by the PSPs (Engineers and Architects) and to obtain the CCCs.
- e) Thus a faster way is for the contractor to apply and include in their applications the names of the PSPs related to the project. The approvals shall then cover for all firms involved.
- f) The idea for this relaxation to work during MCO is to have an early start to revitalise the construction industry. This is one of the main strategies to revitalise the economy as construction has a high economic multiplier effect within and across economic sectors.
- g) However the process and procedures are onerous with conditions imposed on the firms that exposes them to high risk eg Item 19 of the MITI SoP. This dampens the enthusiasm shown by the Professional Services to apply.
- h) The application procedures could be simplified if the **Ministries and Departments could give a higher degree of trust and confidence that the Professional Services would not deviate from their expected roles and responsibilities.** Most of the firms are well established and the professionals experienced. All are licensed and regulated by their respective Professional Bodies and would not do anything to jeopardise their registration.
- i) Construction Industry is **not just about construction works but the feasibility studies, planning and design aspects** are integral.

- j) In fact this is very important for the sustainability of the revitalisation efforts. There cannot be construction works without designs and tender. Thus every effort should be given **to expedite “tender readiness” to sustain subsequent construction works.**
- k) Therefore **this aspect of activities should also be allowed during MCOs.** Moreover ECPs are concern that deliverables be met on time to avoid penalties.
- l) **Clients (including Government sector) too are concern as delays will affect project deliveries** and eg for the private developers, penalties from house buyers.
- m) More than 95% of ECPs are SMEs. All are vulnerable to fluctuations in cashflow. They therefore need to start work soonest. No work, No income, paycuts and staff cuts will be inevitable.
- n) Thus the Government should allow them to go work under MCO.
- o) This is the same principle applied to the smaller G1 and G2 contractors.
- p) At the same time, all claims should be released immediately. This will also relief the cashflow issues faced by ECPs
- q) The Kementerian Kesihatan is concern that mass return to work would jeopardise existing efforts to control covid-19. This is understandable and ACEM supports this concern.
- r) ACEM is confident that all ECPs will abide by the SoPs.
- s) Moreover, feedbacks received are that only about 50% of the workforce are prepared to return to office. Thus only 50% will return. Even then, with the SoP and concern by ECPs, many have agreed to have a rotation system involving only about 20-25% staffs and each will be required to come in for only 2 to 3 days per week. Even then these involved all those that need to use the software not accessible online.

2. ACEM Feedback to DG JPS 05/04/2020

A. *Pakej Ransangan Ekonomi* to sustain ECPs (Engineering Consulting Practice) and retain employment

- 1) To reduce red-tapes to expedite all interim claims. Adjustments can be made during final account closure.
- 2) To pay in full for the site supervision team that is forced to leave the construction site during the period of the Movement Control Order (MCO)
- 3) To reduce red-tapes to expedite the signing of Memorandum of Agreements (MOAs). The MOA is the main instrument to submit claims and release payments. In cases ECPs with Letters of Award (LOAs) have been instructed to start work and are unable to claim due to delays in signing the MOAs.
- 4) To reduce red-tapes in the process of selecting winning tenders and issuing the LOA.
- 5) To base the *Pakej Ransangan* on the theme “No ECPs is left behind”.
- 6) The procurement system should be revised to expedite project award. No tenders for the moment. No technical proposals. Direct award. Selection can be based on the company track records and capacity that is already known by implementing agencies.
- 7) To review the claim and payment system to be based on monthly basis rather than on milestone basis.
- 8) For the Government to encourage the private sector to follow the Government policies on procurement and payment to ECP services under this trying times.
- 9) To allow for ECPs to undertake construction supervision instead of by the Government agencies.
- 10) To expedite and make fast and firm decisions on projects that have been awarded to ECPs but have been delay for even up to 2 years due to indecisions and frequent

changes in policies (e.g. rural water supply projects in Sarawak; Pan-Borneo Highway in Sabah).

B. Pakej Ransangan Ekonomi to revitalise the construction sector

- 1) To initiate immediately strategic masterplan and feasibility studies such as for water resources, road and rail, energy and oil and gas. Known Examples:
 - a. Langkawi Water Resources
 - b. Perak-Pulau Pinang Water Transfer (can be under PPP; International financing))
 - c. Groundwater resources
 - d. Alternative resources (Desalination Plants)
 - e. Renewable Energy
 - f. Malaysia side (Sabah and Sarawak) of Malaysia-Indonesia border in anticipation of the New Capital of Indonesia in Kalimantan.
 - g. Rural Water Supply (e.g. Sarawak, Sabah)
 - h. New dams
 - i. DUKE 2A (Design ready)
 - j. MRT 3
 - k. Pan-Borneo link between Sabah and Sarawak
 - l. "Game Changers" as identified by MEA for the RMK 12 Water Sector
 - m. Other strategic projects as identified by Ministries for the RMK 12
 - n. KLIA Aerocity
- 2) To implement all "tender ready" projects for example the MADA Tertiary Irrigation System (previously referred to as EPP10)
- 3) To expedite projects that are nearing "tender ready"
- 4) To expedite projects initiated by the private sector for example the Selangor – Kuala Lumpur Expressway (along Sungai Kelang).

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