Chapter 6

Public Sector Programme and Its Financing

6 PUBLIC SECTOR PROGRAMME AND ITS FINANCING

I. INTRODUCTION

6.01 During the Sixth Plan period, the Government continued its policy of fiscal prudence and discipline in the management of public sector finance. Public sector investment contributed towards expanding the productive capacity of the economy, particularly through human resource development and provision of infrastructure to alleviate supply constraints. The improved revenue position arising from the strong economic performance as well as the reduced financial burden resulting from the privatization programme and restrained expenditure, led to a surplus position in the Federal Government account during the second half of the Plan period.

6.02 The focus of public sector finance during the Seventh Plan period will be towards enhancing productivity and efficiency, in line with the strategy of productivity-driven growth. This is to be achieved through expanding infrastructure facilities, upgrading the quality of the workforce, improving technology and increasing investment in research and development (R&D). The public sector will continue to support the private sector's role as the engine of growth and to ensure that the National Development Policy (NDP) objective of balanced development will be achieved. These efforts will be complemented by fiscal prudence which will promote price stability and efficiency as well as strengthen public sector finances. In addition, the acceleration of the privatization programme will also contribute to further fiscal consolidation. The public sector's role in development will be complemented by the private sector which is expected to participate in socio-economic programmes and activities.

II. PROGRESS, 1991-95

6.03 The overall development expenditure of the public sector during the Sixth Plan period was RM117.7 billion, as shown in *Table 6-1.* The Federal Government development expenditure amounted to RM54.7 billion or 46.5 per cent of the total public sector expenditure. This reflected a shortfall of 6.5 per cent due to improvements in planning and implementation capability. On the other hand, the development expenditure of State and Local Governments as well as Statutory Authorities exceeded their revised allocation due to the rapid pace of development and urbanization in the states as well as the acquisition of fixed assets. Similarly, the development expenditure of the Non-Financial Public Enterprises (NFPEs), amounting to RM48.5 billion, was 6.7 per cent higher than its original estimate as a result of capacity expansion and modernization.

6.04 During the Sixth Plan period, the number of NFPEs was revised. This was due to the privatization programme which resulted in the Government divesting all or part of its equity participation in those enterprises that were privatized. By the end of the Plan period, the list included 32 enterprises, as shown in *Table 6-2*.

Development Expenditure by Sector

6.05 In order to ensure that the implementation of programmes and projects were within the Plan's schedule, various measures were taken to improve the implementation capability of agencies. These measures included closer monitoring of programmes and projects at the federal, state and district levels, reprioritization of programmes and projects, as well as approval of new projects to ensure a minimum shortfall in their expenditure. As a result, the Federal Government development expenditure during the Sixth Plan period amounted to RM54.7 billion or 93.5 per cent of the allocation, as shown in *Table 6-3*.

6.06 Economic and social programmes accounted for the major share of development expenditure. The expenditure for the economic sector was RM27.7 billion or 50.6 per cent, social sector RM13.6 billion or 24.8 per cent, security sector RM11 billion or 20.1 per cent and general administration RM2.4 billion or 4.5 per cent of the total development expenditure.

6.07 Within the *economic sector*, expenditure on transport, communication, energy and water resources subsectors amounted to RM16.6 billion or 30.3 per

TABLE 6-1

PUBLIC SECTOR DEVELOPMENT ALLOCATION AND EXPENDITURE, 1991-2000

(RM million)

	6MP				*7MP*	
	Original Allocation	*Revised Allocation*	*Expenditure*	*(%)*	*Allocation*	*(%)*
Federal Government	55,000	58,500	54,705	*46.5*	67,500	*41.5*
Own Sources[1]						
State Governments	12,000	7,251	7,737	*6.6*	12,046	*7.4*
Local Governments & Statutory Authorities	2,000	6,249	6,667	*5.7*	7,954	*4.9*
NFPEs	35,000	45,500	48,549	*41.2*	75,000	*46.2*
Total	**104,000**	**117,500**	**117,658**	***100.0***	**162,500**	***100.0***

Note: [1] Allocation and expenditure for State Governments, Local Governments, Statutory Authorities and NFPEs reflect the utilization of their own sources.

cent of the total development expenditure. The expenditure for transport and communication subsector was mainly for increasing the capacity of infrastructure facilities in order to overcome supply constraints and to improve operational efficiency. During the Plan period, continued emphasis was given to the expansion and modernization of the nation's transportation network of roads, ports, airports and railways. In this regard, about 10,330 kilometres of new roads were completed, 29 new berths were constructed, one new airport was built and three airstrips were upgraded. In addition, 440 kilometres of railway track was rehabilitated, while another 400 kilometres of single track was constructed, upgraded and electrified for commuter train service.

6.08 In the energy subsector, expenditure for electricity was mainly for the rural electrification programme to improve accessibility to electricity for the rural population. In the water resources subsector, focus was given to increasing the capacity of water supply by upgrading and improving the efficiency of

TABLE 6-2

LIST OF NON-FINANCIAL PUBLIC ENTERPRISES (NFPEs)[1], 1995

Cement Industries (Sabah) Sendirian Berhad
Felda Oil Products Sendirian Berhad
Golden Hope Plantation Berhad[2]
Keretapi Tanah Melayu Berhad (KTMB)
Kontena Nasional Sendirian Berhad
Kumpulan Guthrie Berhad[2]
Lembaga Letrik Sabah
Lembaga Pelabuhan Kuching
Lembaga Pelabuhan Sabah
Malaysia LNG Sendirian Berhad
Malaysian Rubber Development Corporation Berhad (MARDEC)
Malaysian International Shipping Corporation Berhad (MISC)[2]
Penang Port Commission
Perbadanan Kilang FELDA
Perbadanan Niaga FELDA
Perbadanan Pengangkutan dan Perusahaan Tabung Haji
Pernas Edar Sendirian Berhad
Pernas International Hotels & Properties Berhad[2]
Pernec Corporations Sendirian Berhad
Pernas Trading Sendirian Berhad
Perwaja Terengganu Sendirian Berhad
Petroliam Nasional Berhad (PETRONAS)
Petronas Carigali Sendirian Berhad
Petronas Dagangan Berhad[2]
Petronas Penapisan Sendirian Berhad
Sabah Energy Corporation
Sarawak Electricity Supply Corporation (SESCo)
Sebor (Sabah) Sendirian Berhad
Telekom Malaysia Berhad[2]
Tenaga Nasional Berhad[2]
The Road Railer Services Berhad
Urban Development Authority (UDA)

Notes:

[1] From the original 56 entities, the current list excludes 24 agencies which were privatized/sold during the 1988-95 period.

[2] These companies were listed on the Kuala Lumpur Stock Exchange (KLSE) and the Government is still the majority shareholder.

TABLE 6-3

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY SECTOR, 1991-2000

(RM million)

Sector	*6MP*				*7MP*	
	Revised Allocation	*(%)*	*Expenditure*	*(%)*	*Allocation*	*(%)*
Economic	**29,875**	***51.0***	**27,712**	***50.6***	**33,706**	***50.0***
Agricultural Development	6,685	*11.4*	6,344	*11.6*	5,460	*8.1*
Mineral Resources Development	55	*0.1*	50	*0.1*	47	*0.1*
Commerce & Industry	5,034	*8.6*	4,047	*7.4*	5,864	*8.7*
Transport	12,749	*21.8*	12,270	*22.4*	15,762	*23.3*
Communications	76	*0.1*	70	*0.1*	58	*0.1*
Energy	872	*1.5*	829	*1.5*	1,058	*1.6*
Water Resources	3,641	*6.2*	3,433	*6.3*	4,030	*6.0*
Feasibility Study	130	*0.2*	99	*0.2*	223	*0.3*
Research & Development	633	*1.1*	570	*1.0*	1,204	*1.8*
Social	**14,780**	***25.3***	**13,555**	***24.8***	**19,803**	***29.3***
Education & Training	7,760	*13.3*	7,315	*13.4*	10,210	*15.1*
Health	2,519	*4.3*	2,387	*4.4*	2,658	*3.9*
Information & Broadcasting	110	*0.2*	108	*0.2*	238	*0.4*
Housing	2,056	*3.5*	1,825	*3.3*	2,875	*4.3*
Culture, Youth & Sports	502	*0.9*	451	*0.8*	946	*1.4*
Local Authorities & Welfare Services	961	*1.6*	701	*1.3*	1,550	*2.3*
Village & Community Development	633	*1.1*	543	*1.0*	1,236	*1.8*
Purchase of Land	239	*0.4*	225	*0.4*	90	*0.1*
Security	**11,139**	***19.0***	**10,987**	***20.1***	**9,188**	***13.6***
Defence	9,258	*15.8*	9,258	*16.9*	7,000	*10.4*
Internal Security	1,881	*3.2*	1,729	*3.2*	2,188	*3.2*
General Administration	**2,706**	***4.7***	**2,451**	***4.5***	**4,803**	***7.1***
General Services	2,605	*4.5*	2,352	*4.3*	4,623	*6.8*
Upgrading & Renovation	101	*0.2*	99	*0.2*	180	*0.3*
Total	**58,500**	***100.0***	**54,705**	***100.0***	**67,500**	***100.0***

existing water supply facilities to meet domestic and industrial demand. Production capacity in the urban areas increased by 54.7 per cent from 6,103 million litres per day (mld) in 1990 to 9,442 mld in 1995, while another 1,300 schemes under the rural water supply programme were implemented. These programmes increased the national coverage for water to about 89 per cent at the end of the Plan period, of which the urban and rural coverage was 99 per cent and 77 per cent, respectively.

6.09 The expenditure of the agricultural development programme amounted to RM6.3 billion or 11.6 per cent of the total development expenditure. The expenditure was largely for *in-situ* development as well as new land and regional development. During the Plan period, *in-situ* development included the replanting of about 305,420 hectares, mainly with rubber and oil palm, as well as the consolidation and rehabilitation of 48,310 hectares and the development of 1.8 million hectares under the Integrated Agricultural Development Projects (IADPs). About 290,450 hectares were developed under the new land development programme. In addition, the expenditure was for drainage and irrigation projects, particularly for flood mitigation and the prevention of coastal erosion. Expenditure for agricultural support services was significant in improving productivity and quality of agricultural products. These services included training, extension services, provision of credit facilities and marketing services as well as the introduction of new technologies.

6.10 Expenditure in the commerce and industry subsector constituted RM4.0 billion or 7.4 per cent of the total development expenditure. The major programmes implemented during the Sixth Plan period included the establishment of industrial estates by public sector agencies, the provision of financial facilities and the establishment of five small- and medium-scale industrial parks as well as 18 new rural industrial estates to promote the development of small- and medium-scale industries (SMIs). In addition, the preservation and restoration of historical buildings, sites and monuments, as well as beautification and cleanliness programmes were undertaken to promote tourism.

6.11 The expenditure for the *social sector*, comprising education and training, health, housing and other social services amounted to RM13.6 billion or 24.8 per cent of the total development expenditure. Education and training accounted for the largest share of the expenditure in this sector, mainly for programmes to equip students with adequate knowledge and skill as well as to instil positive values. An additional 9,530 classrooms for primary schools, 3,960 classrooms for secondary schools, 11 secondary vocational schools, four new polytechnics and two new university campuses were under construction. Expenditure on the health subsector was also considerable, reflecting the importance given to the provision of comprehensive health services. In this regard, 31 hospitals and 29 new health centres were built. Expenditure for housing was given emphasis, reflecting the Government's concern in addressing housing needs, especially of the low-income group. A total of 46,497 units of low-cost houses were constructed by the public sector.

6.12 Expenditure in the *security sector* amounted to RM11 billion or 20.1 per cent of the total development expenditure. This was mainly for the purchase of military hardware to replace existing equipment and for modernization programmes of the armed forces. The expenditure was to increase and enhance the capability of the armed forces and police to safeguard the security of the nation. In addition, expenditure was incurred to equip Malaysia's peace-keeping role in Bosnia-Herzegovina, Cambodia, Namibia and Somalia.

6.13 Expenditure for *general administration* accounted for the lowest share of the total development expenditure, amounting to RM2.4 billion. The expenditure was for upgrading the efficiency and productivity of Government departments and agencies through the purchase of modern office equipment, including computer systems for selected agencies. Expenditure was also incurred for the construction, renovation and maintenance of office buildings.

Expenditure for Rural Development

6.14 With respect to rural development, a total of RM15 billion was spent during the Sixth Plan period, particularly on IADPs, replanting, land development, health services, rural roads, rural water supply and rural electrification. Emphasis was also given to increasing the road network in the rural areas. Under the rural road programme, a total of 5,445 kilometres of new rural roads was constructed and the quality of existing rural roads was also improved. In terms of rural electrification, 92 per cent of the rural households had access to electricity by the end of the Plan period, compared with 80 per cent in 1990. In addition, rural housing programmes were implemented during the Plan period to provide the rural population with better housing and living conditions. The programmes included the Sites and Services Programme, the Traditional Village Regrouping

Programme and the Rehabilitation of Dilapidated Houses for the low-income group and the hardcore poor. All these programmes were aimed at inculcating positive values, self-reliance and resilience in the rural community as well as improving the standard of living of the rural population.

Development Expenditure for Poverty Alleviation

6.15 During the Sixth Plan period, emphasis was given to various programmes directed at reducing overall poverty. The rapid growth of the economy provided greater employment opportunities which increased income from off-farm and non-farm activities and, as a result, helped to reduce the level of poverty in the country. Efforts to reduce hardcore poverty were undertaken under the *Program Pembangunan Rakyat Termiskin* (PPRT) where 16,740 hardcore-poor households benefitted from various income generating projects, 39,060 participated in the attitudinal change programme and 37,200 received direct welfare assistance. The *Amanah Saham Bumiputera* (ASB)-PPRT scheme which aimed at increasing the income of the hardcore-poor households provided a RM5,000 interest-free loan to every hardcore-poor household to enable them to participate in the scheme.

6.16 The implementation of programmes by non-governmental organizations (NGOs), particularly *Amanah Ikhtiar Malaysia* (AIM) and the state-based *Yayasan Basmi Kemiskinan* (YBK), complemented the Government's efforts in reducing poverty. At the same time, the private sector also participated in programmes to eradicate poverty through the provision of financial contributions and skill training. The Government also implemented programmes that improved the quality of life of the poor. By the end of the Plan period, 88 per cent of the urban poor and 72 per cent of the rural poor households had access to electricity, while 92 per cent of the former and 65 per cent of the latter had access to safe drinking water.

Development Expenditure by State

6.17 The expenditure of Wilayah Persekutuan, Selangor, Johor, Perak, Pulau Pinang, Negeri Sembilan and Melaka amounted to RM17.5 billion or 31.9 per cent of the total Federal Government development expenditure, as shown in *Table 6-4*. A substantial portion of this amount was spent on the implementation of projects such as the new administrative centre of Putrajaya, airports, roads, water supply, higher education facilities, new hospitals and IADPs.

TABLE 6-4

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY STATE, 1991-2000

(RM million)

State	*6MP*				*7MP*	
	Revised Allocation	*(%)*	*Expenditure*	*(%)*	*Allocation*	*(%)*
Johor	3,344	*5.7*	3,119	*5.7*	3,613	*5.3*
Kedah	3,208	*5.5*	3,161	*5.8*	3,341	*4.9*
Kelantan	1,527	*2.6*	1,517	*2.8*	1,850	*2.7*
Melaka	1,009	*1.7*	945	*1.7*	1,191	*1.8*
Negeri Sembilan	1,325	*2.3*	1,220	*2.2*	1,801	*2.7*
Pahang	2,734	*4.7*	2,546	*4.7*	3,090	*4.6*
Perak	2,321	*4.0*	2,293	*4.2*	3,216	*4.8*
Perlis	614	*1.0*	537	*1.0*	953	*1.4*
Pulau Pinang	1,672	*2.9*	1,451	*2.7*	1,968	*2.9*
Sabah	2,595	*4.4*	2,549	*4.7*	4,495	*6.7*
Sarawak	3,133	*5.4*	2,918	*5.3*	4,548	*6.7*
Selangor	4,345	*7.4*	4,320	*7.9*	4,296	*6.4*
Terengganu	2,096	*3.6*	1,890	*3.4*	2,553	*3.8*
Wilayah Persekutuan	5,973	*10.2*	4,125	*7.5*	5,756	*8.5*
Multi-state[1]	22,604	*38.6*	22,114	*40.4*	24,829	*36.8*
Total	**58,500**	***100.0***	**54,705**	***100.0***	**67,500**	***100.0***

Note: [1] Multi-state projects are those whose beneficiaries are nation-wide.

6.18 Development expenditure of Kedah, Sarawak, Pahang, Sabah, Terengganu, Kelantan and Perlis amounted to RM15.1 billion or 27.7 per cent. A large proportion of the expenditure was to provide basic infrastructure and to implement agriculture and rural development programmes. Among the major projects implemented were roads, airports, schools, hospitals, water supply, land development and rehabilitation, and IADPs.

6.19 A total of RM22.1 billion or 40.4 per cent was spent on *multi-state* projects. Multi-state projects are those projects which benefit the nation as a whole. The bulk of the expenditure was for rural water supply, roads and highways and *Keretapi Tanah Melayu Berhad* (KTMB) commuter train service, as well as land acquisition for the Light Rail Transit project.

Current Expenditure

6.20 The current expenditure of the Federal Government increased by 7.9 per cent per annum during the Sixth Plan period, as shown in *Table 6-5*, higher than the estimated rate of 7.2 per cent. This increase was mainly to finance the implementation of the New Remuneration System and the recruitment of staff to fill vacancies in essential services, particularly education and health. In addition, greater emphasis on improving the provision of public services and facilities and the maintenance of government assets resulted in increased expenditure. At the same time, expenditure for educational aid and scholarships was higher, due mainly to the increasing number of students studying locally and overseas. The Government continued to privatize public sector agencies and services with a view to reducing its financial burden.

Sources of Revenue

6.21 During the Sixth Plan period, the total revenue of the Federal Government expanded at a rate of 11.5 per cent per annum from RM29.5 billion in 1990 to RM50.9 billion in 1995, as shown in *Table 6-6*. For the first time in Malaysian history, the Federal Government achieved a balanced overall budget in 1993 and this was maintained in 1994 and 1995. Thus, for the period, the overall balance recorded a surplus of 0.3 per cent of Gross National Product (GNP).

6.22 Greater efficiency in tax collection, the broadening of the tax base and the good performance of the economy contributed to the increase in Government revenue. Similarly, better enforcement of tax laws, publicity and public education

TABLE 6-5

FEDERAL GOVERNMENT EXPENDITURE AND FINANCING, 1990-2000

Item	*RM million*					*% of GNP*			*Average Annual Growth Rate (%)*	
				Cumulative						
	1990	*1995*	*2000*	*6MP*	*7MP*	*1990*	*1995*	*2000*	*6MP*	*7MP*
Total Revenue	29,521	50,953	71,877	215,393	319,406	*26.7*	*25.2*	*20.9*	*11.5*	*7.1*
Direct Taxes	10,402	22,699	29,865	88,582	135,430	*9.4*	*11.2*	*8.7*	*16.9*	*5.6*
Indirect Taxes	10,842	18,971	30,213	77,078	129,566	*9.8*	*9.4*	*8.8*	*11.8*	*9.8*
Non-Tax Revenue	6,946	8,469	10,683	45,881	49,246	*6.3*	*4.2*	*3.1*	*4.0*	*4.8*
Non-Revenue Receipts	1,331	814	1,116	3,852	5,164	*1.2*	*0.4*	*0.3*	*-9.4*	*6.5*
Current Expenditure	25,026	36,573	58,435	164,227	252,829	*22.6*	*18.1*	*17.0*	*7.9*	*9.8*
Current Surplus	4,495	14,380	13,442	51,166	66,577	*4.1*	*7.1*	*3.9*	*26.2*	*-1.3*
Development Expenditure[1]	10,689	14,051	13,854	54,705	67,500	*9.7*	*6.9*	*4.0*	*5.6*	*-0.3*
Repayment[2]	2,757	1,531	1,200	6,276	6,000					
Overall Surplus/Deficit	-3,437	1,860	788	2,737	5,077					
(% of GNP)	*-3.1*	*0.9*	*0.2*	*0.3*	*0.4*					
Sources of Financing										
Net Foreign Borrowing[3]	-787	-1,635	-158	-12,578	-1,016	*-0.7*	*-0.8*	*-0.0*		
Net Domestic Borrowing	3,816	0	-630	6,762	-4,061	*3.4*	*0.0*	*-0.2*		
Change in Assets & Special Receipts	408	-225	0	3,079	0	*0.4*	*-0.1*	*0.0*		

Notes:

[1] Includes transfer to Development Fund for 1991-95.

[2] Loan repayments by State and Local Governments, Statutory Authorities and NFPEs.

[3] (-) Indicates net repayment.

campaigns, including the income tax service week, enhanced tax collection. The revenue of the Federal Government continued to be dependent on direct taxes which grew by 16.9 per cent per annum. Its share to total revenue rose from 35.3 per cent in 1990 to 44.6 per cent in 1995. Corporate tax constituted a major component of the increase in direct taxes despite the reduction of the tax rate from 35 per cent in 1991 to 30 per cent at the end of the Plan period. The share of corporate tax to total direct taxes improved from 43.2 per cent in 1990 to 51.6 per cent in 1995. Similarly, despite the reduction in individual income tax rates, revenue collected from this source grew by 19.9 per cent per annum.

TABLE 6-6

FEDERAL GOVERNMENT REVENUE, 1990-2000

Source	*RM million*					*Share of Total (%)*			*Average Annual Growth Rate (%)*	
				Cumulative						
	1990	*1995*	*2000*	*6MP*	*7MP*	*1990*	*1995*	*2000*	*6MP*	*7MP*
Direct Taxes	10,402	22,699	29,865	88,582	135,430	*35.3*	*44.6*	*41.6*	*16.9*	*5.6*
Income Taxes	9,647	20,094	26,517	79,866	120,177	*32.7*	*39.5*	*36.9*	*15.8*	*5.7*
Company	4,497	11,706	16,553	43,696	74,059	*15.2*	*23.0*	*23.0*	*21.1*	*7.2*
Individual	2,506	6,203	7,572	21,447	34,618	*8.5*	*12.2*	*10.5*	*19.9*	*4.1*
Petroleum	2,644	2,185	2,392	14,723	11,500	*9.0*	*4.3*	*3.4*	*-3.7*	*1.8*
Other Direct Taxes	755	2,605	3,348	8,716	15,253	*2.6*	*5.1*	*4.7*	*28.1*	*5.1*
Indirect Taxes	10,842	18,971	30,213	77,078	129,566	*36.7*	*37.2*	*42.0*	*11.8*	*9.8*
Export Duties	1,970	852	665	7,193	3,503	*6.7*	*1.7*	*0.9*	*-15.4*	*-4.9*
Petroleum	1,910	751	561	6,905	3,038	*6.5*	*1.5*	*0.8*	*-17.0*	*-5.7*
Palm Oil	2	68	8	113	69	*0.0*	*0.1*	*0.0*	*102.4*	*-34.8*
Others	58	33	96	175	396	*0.2*	*0.1*	*0.1*	*-10.7*	*23.5*
Import Duties	3,420	5,622	7,162	24,293	32,237	*11.6*	*11.0*	*10.0*	*10.5*	*5.0*
Excise Duties	2,266	5,280	7,470	19,201	33,620	*7.7*	*10.4*	*10.4*	*18.4*	*7.2*
Sales & Service Taxes	2,563	5,885	13,044	21,223	51,711	*8.7*	*11.5*	*18.1*	*18.1*	*17.3*
Other Indirect Taxes	623	1,332	1,872	5,168	8,495	*2.0*	*2.6*	*2.6*	*16.4*	*7.0*
Non-Tax Revenue	6,946	8,469	10,683	45,881	49,246	*23.5*	*16.6*	*14.8*	*4.0*	*4.8*
Petroleum[1]	2,927	3,810	3,937	18,880	19,403	*9.9*	*7.5*	*5.4*	*5.4*	*0.7*
Other Non-Tax Revenue[2]	4,019	4,659	6,746	27,001	29,843	*13.6*	*9.1*	*9.4*	*3.0*	*7.7*
Non-Revenue Receipts[3]	1,331	814	1,116	3,852	5,164	*4.5*	*1.6*	*1.6*	*-9.4*	*6.5*
Total	**29,521**	**50,953**	**71,877**	**215,393**	**319,406**	***100.0***	***100.0***	***100.0***	***11.5***	***7.1***

Notes:

[1] Includes petroleum dividend and royalties on petroleum and gas.

[2] Includes items such as Government commercial undertakings, interest and returns on investment, licences and services fees.

[3] Includes rental revenue from Federal Territories, income from sale of equity and assets, fines and forfeitures and contributions from foreign governments and international agencies.

However, revenue from petroleum income tax declined by 3.7 per cent per annum due to the weakening in crude oil prices from US$23.50 per barrel in 1990 to US$18.30 in 1995 and a reduction of the tax rate from 45 per cent to 40 per cent, effective from 1994. As a result, its share to total revenue declined from 9.0 per cent in 1990 to 4.3 per cent in 1995.

6.23 During the Sixth Plan period, indirect taxes grew by 11.8 per cent per annum due to improved collection from sales tax. Increased private consumption arising from higher private disposable incomes contributed to this growth. The widening of the service tax base to include dental, parking bay, veterinary and courier services, also contributed to this increase. Another contributory factor was the increased inflow of tourists in conjunction with the Visit Malaysia Year 1994 campaign. The increase in the volume of imports such as cars and spare parts, machinery and spare parts, diesel and clothing as well as a higher rate of import duty on tobacco, cigarettes and liquor contributed to an expansion in the collection of import duties. This was achieved inspite of the abolition or reduction of import duties on more than 3,700 items. However, the share of export duties to total revenue declined from 6.7 per cent in 1990 to 1.7 per cent in 1995. This decline was due to the weakening in prices and export volume of crude oil as well as the reduction of export duty on crude oil from 25 per cent to 20 per cent in 1995. The share of indirect taxes to total revenue increased from 36.7 per cent in 1990 to 37.2 per cent in 1995.

6.24 Non-tax revenue continued to contribute significantly with its share to total revenue at 16.6 per cent by the end of the Plan period. The significant contribution was due to the higher collection of fees from the issuance of licenses, permits and road tax, as well as investment income and dividend payments by *Petroliam Nasional Berhad* (PETRONAS).

Consolidated Public Sector Financing

6.25 Increased revenue, as a result of better economic performance and prudent expenditure, made it possible for the Federal Government to rely less on domestic and external borrowings, as well as to prepay the more expensive external loans. Domestic debt increased marginally by 11.4 per cent from RM70 billion in 1990 to RM78 billion in 1995. However, in terms of share of GNP, it declined drastically from 63.3 per cent to 38.5 per cent. Similarly, external debt was reduced from RM24.7 billion or 22.3 per cent of GNP to RM13.3 billion or 6.6 per cent of GNP during the same period.

6.26 Several major NFPEs continued to undertake large capital investments during the Plan period, mainly in the energy, telecommunications and petroleum subsectors. Among the major activities undertaken were the development of the power generating plants and the upgrading of the transmission and distribution networks by *Tenaga Nasional Berhad* (TNB) to meet the growing demand for electricity by the commercial and industrial sectors. *Telekom Malaysia Berhad* invested in a submarine fibre-optic cable system to link the Peninsular with Sabah and Sarawak and provide the country with a sophisticated telecommunication infrastructure. PETRONAS invested in upstream and downstream petroleum facilities including the construction of the 730-kilometre Peninsular Gas Utilization (PGU) II pipeline, installation of three gas processing plants in Kerteh, Terengganu and the construction of the second liquified natural gas plant in Bintulu, Sarawak.

6.27 The NFPEs as a group, recorded a current surplus of RM49.5 billion which grew at an average annual rate of 21.8 per cent during the Sixth Plan period, as shown in *Table 6-7*. The share of this current surplus to GNP increased from 5.2 per cent in 1990 to 7.7 per cent in 1995. This favourable position was attributed to the diversification of activities, increased profitability, successful restructuring of many of these companies and the prevailing strong economic growth. However, significant capacity expansion necessitated borrowings which resulted in an increase in the external debt of NFPEs from RM11.8 billion in 1990 to about RM27.9 billion in 1995.

6.28 During the Plan period, the public sector account recorded a current surplus of RM121.2 billion or 15.3 per cent of GNP. This enabled the Government to finance its development expenditure and achieve an overall surplus of RM3.5 billion or 0.4 per cent of GNP, as shown in *Table 6-7*, compared to the deficit of 4.0 per cent of GNP estimated for the Sixth Plan.

6.29 The Government continued to monitor market conditions for opportunities to reduce the overall costs of its loan portfolio. A large proportion of external borrowings was offset by the continued prepayment of the more expensive loans by the Federal Government. At the same time, foreign borrowings, particularly by the NFPEs, were monitored to ensure that such borrowings were on favourable terms. However, the appreciation of the yen impaired this effort. During the Sixth Plan, the yen debt increased in ringgit terms by 8.6 per cent from RM13.7 billion at the end of 1990 to RM14.9 billion as at the end of 1995, compared with a decrease in yen terms of 12.1 per cent.

TABLE 6-7

CONSOLIDATED PUBLIC SECTOR EXPENDITURE AND FINANCING, 1990-2000

Item	*RM million*					*% of GNP*			*Average Annual Growth Rate (%)*	
				Cumulative						
	1990	*1995*	*2000*	*6MP*	*7MP*	*1990*	*1995*	*2000*	*6MP*	*7MP*
General Government[1]										
Revenue	38,472	62,492	84,777	267,630	379,185	*34.8*	*30.9*	*24.6*	*10.2*	*6.3*
Operating Expenditure	29,409	43,660	66,220	195,965	289,830	*26.6*	*21.6*	*19.2*	*8.2*	*8.7*
Current Surplus	9,063	18,832	18,557	71,665	89,355	*8.2*	*9.3*	*5.4*	*15.8*	*-0.3*
NFPEs Current Surplus	5,787	15,514	15,078	49,524	76,316	*5.2*	*7.7*	*4.4*	*21.8*	*-0.6*
Public Sector Current Surplus	14,850	34,346	33,635	121,189	165,671	*13.4*	*17.0*	*9.8*	*18.3*	*-0.4*
Development Expenditure	14,587	33,427	34,284	117,658	162,500	*13.2*	*16.5*	*10.0*	*18.0*	*0.5*
General Government	10,076	17,107	17,894	68,691	87,500	*9.1*	*8.4*	*5.2*	*11.2*	*0.9*
NFPEs[2]	4,511	16,320	16,390	48,967	75,000	*4.1*	*8.1*	*4.8*	*29.3*	*0.1*
Public Sector Overall Surplus/ Deficit	263	919	-649	3,531	3,171					
(% of GNP)	*0.2*	*0.5*	*-0.2*	*0.4*	*0.2*					
Sources of Financing										
Net Foreign Borrowing[3]	-712	4,646	130	1,410	2,953	*-0.6*	*2.3*	*0.0*		
Net Domestic Borrowing	5,281	1,340	519	8,408	-6,661	*4.8*	*0.6*	*0.2*		
Change in Assets & Special Receipts[4]	-4,832	-6,905	0	-13,349	537	*-4.4*	*-3.4*	*0.0*		

Notes:

1 General Government comprises Federal Government, State Governments, Local Governments and Statutory Authorities.

2 Includes estimated capital transfers and net borrowing from Federal Government during Seventh Plan period.

3 (-) Indicates net repayments.

4 (-) Indicates build up in assets; (+) draw down in assets.

III. PROGRAMMES AND FINANCING, 1996-2000

6.30 During the Seventh Plan period, the Government will maintain the policy of prudent fiscal management by consolidating public sector finance. The Government will focus on projects that will support the private sector-led growth strategy, particularly the expansion of infrastructure facilities to meet the requirements of a modern economy and an increasingly affluent society. In addition, emphasis will be given to human resource development to meet the increasing demand for higher skilled manpower to support the strategy of productivity-driven growth. The Seventh Plan will also give priority to further improving the quality of life, while achieving balanced development among states and regions as well as ensuring that development is ecologically sustainable.

Development Allocation

6.31 For the Seventh Plan period, the total public sector development allocation will amount to RM162.5 billion, of which the Federal Government's share will constitute 41.5 per cent, State Governments 7.4 per cent, Local Governments and Statutory Authorities 4.9 per cent and the NFPEs 46.2 per cent, as shown in *Table 6-1*. The total allocation is 38.3 per cent higher than the Sixth Plan revised allocation. Although the increase in the allocation is significant, its share to GNP at 11.5 per cent is lower compared with 14.8 per cent in the Sixth Plan, as shown in *Table 6-8*.

Development Allocation by Sector

6.32 The Federal Government development allocation for the Seventh Plan will be RM67.5 billion, which is 15.4 per cent higher than the Sixth Plan allocation. The allocation will be for projects which will cater primarily for the acceleration in the development of infrastructure facilities, human resources and science and technology (S&T). In addition, priority will be given to projects that will create new capacity and reduce supply constraints as well as those that will generate new economic opportunities in the less developed states and rural sector. With regard to programmes and projects for Government administration, emphasis will be given to improving efficiency as well as increasing revenue and reducing manpower requirement through automation and computerization.

6.33 During the Seventh Plan period, the economic sector will be allocated a major portion of the development allocation amounting to RM33.7 billion or 50 per cent, as shown in *Chart 6-1*. The social sector will be provided RM19.8 billion or 29.3 per cent, security sector RM9.2 billion or 13.6 per cent and general administration RM4.8 billion or 7.1 per cent of the total development allocation, as shown in *Table 6-3*.

6.34 The larger allocation for the *economic sector* reflects the Government's commitment to ensure sustained economic growth in the country, in line with the objective of improving incomes and reducing poverty. Within the economic sector, the transport and communication subsector will be allocated RM15.8

TABLE 6-8

DEVELOPMENT ALLOCATION AND EXPENDITURE OF PUBLIC SECTOR BY FIVE-YEAR PLAN PERIOD

Plan	*RM million*			*% of GNP*	*GDP Average Annual Growth Rate (%)*
	Original Allocation	*Revised Allocation*	*Expenditure*		
Current Prices					
2MP, 1971-75	7,250	11,457	9,901	*11.2*	*12.7*
3MP, 1976-80	18,555	37,651	27,804	*14.6*	*19.1*
4MP, 1981-85	42,830	80,331	78,643	*24.1*	*7.8*
5MP, 1986-90	74,000	64,590	61,850	*14.2*	*8.4*
6MP, 1991-95	104,000	117,500	117,658	*14.8*	*13.1*
7MP, 1996-2000	162,500	—	—	*11.5*	*11.0*
Constant 1978 Prices					
2MP, 1971-75	10,398	16,432	14,200	*10.7*	*6.6*
3MP, 1976-80	18,039	36,604	27,031	*14.1*	*8.5*
4MP, 1981-85	33,453	62,744	61,426	*24.4*	*5.1*
5MP, 1986-90	53,017	46,275	44,312	*13.9*	*6.8*
6MP, 1991-95	63,328	71,549	71,645	*14.9*	*8.7*
7MP, 1996-2000	83,428	—	—	*11.5*	*8.0*

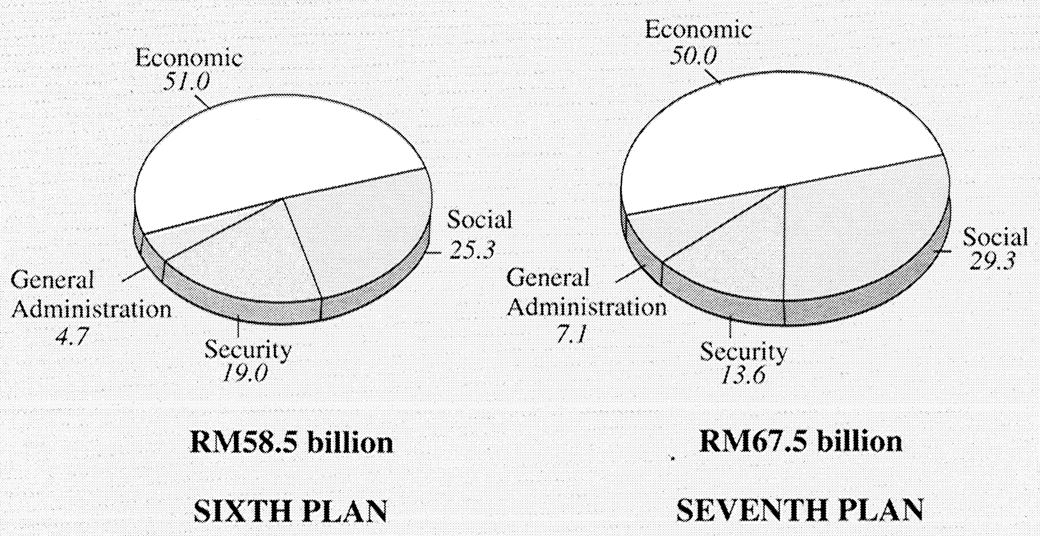
billion or 23.4 per cent of the development allocation. The emphasis given to this subsector is to ensure that infrastructure facilities are provided ahead of demand. In this regard, priority will be given to increase capacities as well as to improve the efficiency of infrastructure and utilities networks and services. Among others, the expansion of the infrastructure network will facilitate greater involvement of the private sector, as well as provide more opportunities for the rural people to participate in the process of development.

6.35 The agricultural development subsector will be given an allocation of RM5.5 billion or 8.1 per cent of the total development allocation. In line with the development thrust of the sector, a major portion of this allocation will be utilized for *in-situ* land development programme. The Government will continue to provide agricultural support services to enhance the sector's effectiveness in ensuring its continued contribution towards national development. In addition,

CHART 6-1

FEDERAL GOVERNMENT
DEVELOPMENT ALLOCATION BY SECTOR, 1991-2000

(% of total)



the Government will also provide appropriate policy guidelines and directions to encourage greater participation of the private sector to further improve productivity and competitiveness of agriculture.

6.36 The allocation for the commerce and industry subsector will amount to RM5.9 billion or 8.7 per cent of the total development allocation. This allocation will be utilized to complement and accelerate private sector's participation through industrial support programmes and the provision of various infrastructure facilities to further promote the tourism industry. Priority will be given to training and skill development by industries, developing SMIs and its export-oriented support programmes, upgrading industry-related agencies, supporting infrastructure development for new industrial estates and developing specialized industrial estates.

6.37 The utilities subsectors will be allocated a sum of RM5.1 billion or 7.6 per cent of the total development allocation, of which, 6.0 per cent will be for water resources projects while the remainder will be for energy projects. The allocation for the water resources subsector will be for the improvement of water supply in the rural and urban areas, mainly for the installation of treatment plants as well as improvements in the distribution systems. While a large part of the energy projects will be undertaken by privatized entities, the Government allocation of RM1.1 billion is to improve the provision of rural electrification as well as to finance electrification in Sabah.

6.38 The allocation for R&D activities is RM1.2 billion or 1.8 per cent of the total development budget. This allocation is almost double that of the Sixth Plan allocation, reflecting the priority given to building up related infrastructure for S&T, increasing manpower to support and promote more intensive R&D activities and enhancing technology advancement. In this regard, emphasis will be given to programmes that will increase indigenous technology capability and commercialization of R&D output as well as development of a higher level S&T manpower.

6.39 The *social sector* will be allocated a sum of RM19.8 billion or 29.3 per cent of the total development allocation. This percentage share is the highest compared with the previous Plans, reflecting the greater importance accorded by the Government to this sector. In the Seventh Plan, education and training programmes will aim at providing an adequate supply of well-educated, highly-skilled and strongly motivated labour force imbued with high moral and ethical values. Major emphasis will be given to the expansion of S&T courses, particularly at the tertiary level. Greater educational opportunities will be made available to students in the rural and remote areas.

6.40 The allocation for the health subsector will amount to RM2.7 billion. The bulk of this allocation will be for curative and rehabilitative care as part of the programme to further expand and improve the health infrastructure. Nevertheless, the allocation for preventive and promotive health will continue to be given emphasis. Efforts will be continued to strengthen the delivery of efficient and equitable health services. Among others, regional referral hospitals will be established through the upgrading of existing hospitals in selected state capitals. As part of the continuing efforts to improve the quality of services, facilities in overcrowded hospitals in the state capitals will be decentralized to hospitals in major towns. A comprehensive range of rehabilitative care, particularly for the elderly population and recuperating cardiovascular and accident patients, will be provided.

6.41 The *security sector* will be allocated a sum of RM9.2 billion or 13.6 per cent of the total allocation. Most of the allocation will be for purchases of military hardware in line with the modernization programme of the armed forces as well as the construction of related infrastructure. This allocation is also to finance Malaysia's involvement in international peace-keeping operations. An allocation of RM2.2 billion will be for internal security of which RM1.3 billion will be for the Royal Malaysian Police.

6.42 Allocation for *general administration* will be RM4.8 billion, representing an increase of 77.5 per cent compared with the Sixth Plan allocation. This increase reflects Government's efforts to improve the efficiency and productivity of the public sector, particularly through the acceleration of computerization and automation and the provision of better physical facilities for employees and the public. The use of information technology (IT) will be expanded in line with the objective of increasing efficiency and productivity of the public sector. Emphasis will be given to the development of IT infrastructure and greater accessibility to information in the effort towards achieving a paperless public sector. This will be supported through greater emphasis on human resource programmes as well as the development and application of databases, particularly for strategic planning and decision-making.

Allocation for Rural Development

6.43 During the Seventh Plan, rural development programmes will be provided a sum of RM18.2 billion. This allocation is mainly for rural infrastructure amounting to RM6.7 billion, agriculture RM3.3 billion, and education and training RM3.1 billion. The Government will continue to emphasize programmes that will generate income by diversifying economic activities and reducing dependence on agricultural activities. The provision of basic infrastructural facilities and social amenities will be expanded during the period. In this regard, allocation for rural roads amounting to RM1.8 billion, water supply RM500 million and electricity RM431 million will be provided. In addition, housing programmes in rural areas will continue to be implemented through the Traditional Village Regrouping Programme and Rehabilitation of Dilapidated Houses for the low-income group and the hardcore poor. Flood mitigation facilities as well as drainage and irrigation programmes will also be implemented.

Development Allocation for Poverty Alleviation

6.44 During the Seventh Plan period, the Government will continue to implement programmes to eradicate poverty with the aim of reducing the incidence of poverty among Malaysians to 5.5 per cent by the year 2000. The rapid growth of the economy will provide opportunities for the poor to increase their income, while education and training will enable them to obtain employment in the more productive sectors of the economy.

6.45 Greater efforts will be made to practically eradicate hardcore poverty by lowering its incidence to 0.5 per cent by the year 2000. A total allocation of RM722.4 million will be provided, out of which RM522.4 million is for the PPRT programme and RM200 million for AIM. Under the PPRT programme, the largest allocation will be for income generating projects, particularly in the poorer states and districts as well as for the *Orang Asli* community and the urban poor, while the increased interest-free loan provided under AIM will expand lending activities to the hardcore poor. In addition, various programmes in agriculture, education, health and infrastructure development will benefit the hardcore poor. At the same time, the repayment schedule of the ASB-PPRT scheme will be reviewed to ensure that the hardcore poor receive the full amount of dividends and bonuses during the grace period. NGOs and the private sector are also expected to further increase their participation in activities that will help eradicate poverty.

Development Allocation by State

6.46 During the Seventh Plan period, the Federal Government development allocation by state, as shown in *Table 6-4*, reflects efforts to achieve a more balanced development among states in Malaysia. This allocation takes into account the current status of development, potentials for growth, resource availability and implementation capacity of the states. The private sector is expected to participate actively in the development of the states as well as at the subregional level.

6.47 The more developed states[1] will receive an allocation of RM21.9 billion or 32.4 per cent of the total development allocation, an increase of 9.3 per cent from the Sixth Plan allocation. The bulk of this allocation will be for education and training, transport and commerce and industry. Among the major projects to be completed in the Seventh Plan are the various interchanges in Kuala Lumpur, the permanent campus of the International Islamic University in Selangor, the Customs, Immigration and Quarantine Complex for the Malaysia-Singapore Second Link, roads and highways in Pulau Pinang and the Kelinchi Dam in Negeri Sembilan. New projects will include the construction of railway lines to the Tanjung Pelepas Port in Johor, polytechnics in Melaka and Perak, and the Advanced Skill Technical Training Centre in Selangor.

6.48 The allocation for the less developed states will amount to RM20.8 billion, an increase of 30.9 per cent from the Sixth Plan allocation. The largest allocation will be for the transport subsector, followed by agricultural development as well as education and training. Among the projects to be implemented are construction of roads and highways as well as rural electrification projects. In addition, new campuses for *Universiti Malaysia Sabah* (UMS) in Likas and *Universiti Malaysia Sarawak* (UNIMAS) in Samarahan will be built. A substantial allocation is also provided for the implementation of IADPs and projects under the Regional Development Authorities.

6.49 A total of RM24.8 billion or 36.8 per cent of the development allocation will accrue to *multi-state* projects. Among others, the projects include the financing of R&D activities, the purchasing of additional electrified multiple units for KTMB's commuter train service, the construction of highways and dams, and the procurement of military hardware.

Current Expenditure

6.50 During the Seventh Plan, the current expenditure of the Federal Government is expected to amount to RM252.8 billion or 17.9 per cent of GNP, lower than the 20.7 per cent of GNP recorded under the Sixth Plan. This reflects the continued policy of fiscal prudence and discipline in the management of

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[1] Using the composite index of development as an indicator of the development levels of each state, the states whose development index in 1995 was higher than the national average were classified as more developed, while states whose index was below the national average were classified as less developed. Based on this classification, the States of Wilayah Persekutuan Kuala Lumpur, Pulau Pinang, Selangor, Melaka, Negeri Sembilan, Johor and Perak were identified under the category of the more developed states, while Pahang, Kedah, Perlis, Terengganu, Sarawak, Kelantan and Sabah were categorized as the less developed states.

public sector finance. The major component of this expenditure will include emoluments which will account for 41.1 per cent, supplies and services 16.3 per cent and debt service charges 12.5 per cent.

Sources of Revenue

6.51 With the strong economic performance envisaged for the Seventh Plan, total revenue of the Federal Government is expected to grow by 7.1 per cent per annum, amounting to RM319.4 billion, as shown in *Table 6-6*. The major sources of Government revenue will be from direct taxes which will account for 42.4 per cent and 40.6 per cent from indirect taxes. The contribution from indirect taxes is expected to improve during the Plan period compared with direct taxes due to the conscientious efforts of the Government to reduce dependence on direct taxes and broaden the revenue base. The reduced dependency on income tax as a source of revenue is in line with the Government's efforts to maintain a competitive tax structure so as to further improve the conducive investment climate and lower the cost of doing business in Malaysia.

6.52 Revenue from direct taxes is expected to grow at a slower rate of 5.6 per cent per annum during the Seventh Plan period compared with 16.9 per cent during the Sixth Plan. The share of direct taxes to total revenue is expected to decrease slightly from 44.6 per cent in 1995 to 41.6 per cent in the year 2000. This is in line with efforts to encourage private initiatives and investment to sustain further economic expansion which will generate higher revenue in the future. In view of the rapid growth envisaged for the economy, corporate income tax is projected to increase at an average annual growth rate of 7.2 per cent despite the reduction in the tax rate. Revenue from individual income tax is expected to grow by 4.1 per cent per annum.

6.53 Indirect taxes is expected to become the major source of revenue, with its share to total revenue increasing from 37.2 per cent in 1995 to 42 per cent in the year 2000, thus broadening the tax base. At the same time, the share of import duties to total indirect taxes will decline from 29.6 per cent in 1995 to 23.7 per cent in 2000. The declining share is partly due to the projected lower imports and lower tariffs as a result of liberalization of trade envisaged under the ASEAN Free Trade Area (AFTA) arrangement and in accordance with other international agreements. The share of sales and services tax to total revenue will, however, increase from 11.5 per cent in 1995 to 18.1 per cent at the end of the Plan period, reflecting the expected increase in consumption of goods and services.

Consolidated Public Sector Financing

6.54 The better revenue performance projected for the Seventh Plan is envisaged to contribute to a higher Federal Government current surplus amounting to RM66.6 billion. During the Seventh Plan, the Federal Government will be able to finance its development allocation and register an overall surplus of 0.4 per cent to GNP, as shown in *Table 6-5*. Thus, the overall financial position of the Federal Government will remain favourable throughout the Plan period. With continued efforts to improve efficiency and productivity of the NFPEs, their current surplus is expected to be RM76.3 billion in the Seventh Plan compared with RM49.5 billion during the Sixth Plan period, as shown in *Table 6-7*.

6.55 The public sector current surplus will amount to RM165.7 billion, after taking into consideration the current surplus of the Federal, State and Local Governments as well as Statutory Bodies and the NFPEs. This is an increase of 36.7 per cent from the Sixth Plan current surplus of RM121.2 billion. With the overall development allocation of RM162.5 billion, the public sector will attain a surplus of RM3.2 billion or 0.2 per cent of GNP during the Seventh Plan as compared with RM3.5 billion or 0.4 per cent of GNP in the Sixth Plan period.

IV. CONCLUSION

6.56 The development expenditure for the Seventh Plan period will further enable the expansion of the productive capacity of the economy. Allocation of funds will emphasize projects and programmes aimed at improving the socio-economic position and quality of life of the population, as well as to provide better standards of services to meet the higher expectations from an increasingly affluent society. In addition, priority will be given to projects and programmes that will promote greater balance between the states and the regions. The public sector will continue to facilitate private sector participation in providing utilities and infrastructure facilities. With the accelerated privatization programme and restrained current expenditure, more resources could be mobilized to implement a wider range of activities to cope with the needs of a modern economy, while avoiding undue pressure on the public sector's financial position. Judicious management of the public sector account will continue to be important for the successful implementation of strategies to achieve high growth with stability as envisaged in the Plan.