CHAPTER 6 - PUBLIC SECTOR PROGRAMME AND ITS FINANCING

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Chapter 6

Public Sector Programme and Its Financing

6 PUBLIC SECTOR PROGRAMME AND ITS FINANCING

I. INTRODUCTION

6.01 The focus of the public sector programme was to enhance productivity and efficiency and to fulfil the increasing demand for better services. During the first half of the Seventh Plan period, the public sector accounts registered a surplus as a result of the Government's continuous efforts to strengthen the public sector's financial position by assuming a supportive role in the development process. However, in response to the 1997-1998 financial crisis, the Government embarked on a strategy of fiscal stimulus to prevent further economic contraction in 1998. The package was directed towards programmes and projects that have strong linkages with the economy and minimal import content. This resulted in the Federal Government overall account recording a deficit during the second half of the Plan period.

6.02 Public sector programme for the Eighth Plan will focus on strengthening the resilience and competitiveness of the economy and improving further the quality of life of all Malaysians. The public sector will continue to facilitate private sector initiatives in spearheading Malaysia's efforts to develop a knowledge-based economy, to meet the challenges of a globalized and liberalized world economy. As such, public sector investment will focus on expanding further the productive capacity of the economy and enhancing productivity and efficiency. This will be achieved through upgrading the quality of entrepreneurship and workforce, developing a critical mass of science and technology (S&T) human resource, increasing investment in research and development (R&D), fostering and promoting technology development, and improving social and physical infrastructure. Nevertheless, the public sector will continue exercising fiscal prudence to promote price stability and efficiency as well as to strengthen public sector finances.

II. PROGRESS, 1996-2000

6.03 During the first two years of the Plan period, the consolidated public sector account recorded an overall surplus equivalent to 5.5 per cent of the Gross National Product (GNP). This was attributed to the strong financial positions of the Federal Government and Non-Financial Public Enterprises (NFPEs). As a strategy to manage the financial crisis, the Federal Government introduced measures to prevent further contraction of the economy and a decline in the standard of living. In 1998, the Government launched a fiscal stimulus package amounting to RM7 billion to generate economic activities. This package was channelled mainly towards infrastructure facilities, housing, education and public health development. The Government also launched several assistance schemes, amounting to RM1 billion to mitigate the adverse impact of economic adjustments on the lower-income group and vulnerable segments of society. The programme under this scheme comprised Fund For Food, credit facilities for traders as well as rural industrial activities.

6.04 The total amount of the public sector development expenditure for the Seventh Plan period was RM222.9 billion, as shown in *Table 6-1*. Of this total, the Federal Government development expenditure amounted to RM99 billion. The bulk of the development expenditure was channelled to economic and social

TABLE 6-1

PUBLIC SECTOR DEVELOPMENT ALLOCATION AND EXPENDITURE, 1996-2005
(RM million)

	7MP			*8MP*	
	Original Allocation	*Revised Allocation*	*Expenditure*	*Allocation*	*% of Total*
Federal Government	67,500	103,565	99,037	110,000	*43.4*
State Governments, Local Authorities and Statutory Bodies[1]	20,000	14,441	4,372	34,018	*13.4*
NFPEs[1]	75,000	111,288	119,468	109,337	*43.2*
Total	**162,500**	**229,294**	**222,877**	**253,355**	***100.0***

Notes:

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

programmes, with the economic sector receiving the largest allocation. Within this sector, infrastructure development received the highest allocation, reflecting the Government's efforts to provide an integrated transportation and communications network to facilitate economic development. The capital outlays for the social sector concentrated on education and training, health and housing, in line with the Government's on-going efforts to improve the social well-being of all Malaysians, particularly the lower-income group. Meanwhile, development expenditure for the state governments and local authorities as well as statutory bodies was RM35.5 billion, of which RM4.4 billion was from their own sources.

6.05 During the Plan Period, the number of NFPEs was revised. As shown in *Table 6-2*, 37 enterprises were included in the list of NFPEs. The inclusion was based on the criteria that the Government equity was at least 51 per cent and the turnover value was at least RM100 million. In addition, enterprises with large borrowing needs and capital expenditures were also included in the list because their activities and borrowings had a huge impact on the economy. Development expenditure of the NFPEs amounted to RM119.5 billion or 53.6 per cent of the total public sector development expenditure. The capital investment of most NFPEs was generally higher in the first two years of the Seventh Plan period as a result of rapid economic growth. Several NFPEs, especially *Petroliam Nasional Berhad* (PETRONAS), *Tenaga Nasional Berhad* (TNB), and *Telekom Malaysia Berhad* continued to undertake expansion and modernization programmes during the period. PETRONAS entered into several joint-venture agreements with multinational companies to develop large-scale petrochemical projects, with a total investment of USD2.9 billion in Gebeng, Pahang and Kerteh, Terengganu. TNB also began to reinforce the national grid by upgrading the transmission lines from 275 kilovolts (kV) to 500 kV and cater to the growing demand of industrial, commercial and residential customers to accommodate the additional supply of electricity. In 1998, the capital expenditure by NFPEs declined due to the scaling down or deferring of less essential projects and lower investment overseas. Nevertheless, several NFPEs, including PETRONAS and Sarawak Electricity Supply Corporation (SESCO), increased their capital spending for capacity expansion in 1999.

Development Expenditure by Sector

6.06 During the Seventh Plan period, the Government continued to improve the implementation capability of agencies to ensure that the development programmes and projects were implemented on schedule. In response to the 1997-1998 financial crisis, additional measures were undertaken to ensure an expeditious economic

TABLE 6-2

LIST OF NON-FINANCIAL PUBLIC ENTERPRISES (NFPEs)[1], 1999

Antara Steel Mills Sdn Bhd	Pacific Hardwoods Sdn Bhd
Bintulu Port Sdn Bhd	Penang Port Sdn Bhd
Cement Industries (SABAH) Sdn Bhd	Perwaja Terengganu Sdn Bhd
Central Spectrum (M) Sdn Bhd	Petroliam Nasional Berhad (PETRONAS)
Felda Agricultural Services Sdn Bhd	Pos Malaysia Berhad
Gas Malaysia Sdn Bhd	PPES Works (SARAWAK) Sendirian Berhad
Golden Hope Plantation Berhad[2]	Putrajaya Holdings Sdn Bhd
Kelang Container Terminal Sdn Bhd	Rakyat Berjaya Sdn Bhd
Keretapi Tanah Melayu Bhd (KTMB)	Sabah Electricity Sdn Bhd
Klang Port Management Sdn Bhd	Sabah Energy Corporation
Kontena Nasional Sdn Bhd	Sabah Port Authority
Kuching Port Authority	Sarawak Electricity Supply Corporation
Kulim (Malaysia) Berhad[2]	Sebor (SABAH) Sdn Bhd
Kumpulan Guthrie Berhad[2]	Sergam Berhad
Malaysian Rubber Development Corporation Bhd (MARDEC)	Sinora Sdn Bhd
	Telekom Malaysia Bhd[2]
Malaysia Airport Bhd (MAB)	Tenaga Nasional Berhad (TNB)[2]
Marconi (Malaysia) Sdn Bhd	TH Plantations Sdn Bhd
Multimedia Development Corporation Sdn Bhd	UDA Holdings Sdn Bhd

Notes:

[1] From the original 28 entities, the current list excludes 10 agencies which were privatized/sold during the 1996-1999 period and includes 19 new enterprises.

[2] These companies are listed on the Kuala Lumpur Stock Exchange (KLSE), with the Government as the majority shareholder.

recovery. These measures included additional allocation for new programmes and projects, allowing implementing agencies to launch programmes and projects under forward commitment guidelines as well as delegating specific approving authority to the implementing agencies for the selection of contractors. These recovery measures undertaken by the Government during the second half of the Seventh Plan resulted in an increase of the Federal Government development allocation from RM89.5 billion to RM103.6 billion.

6.07 The development allocation and estimated expenditure of the Federal Government by sector, are as shown in *Table 6-3*. Economic and social programmes accounted for the major share of the development expenditure. The expenditure for the economic sector was RM47.2 billion or 47.6 per cent, social sector RM31.3 billion or 31.6 per cent, security sector RM11.6 billion or 11.8 per cent and general administration RM8.9 billion or 9.0 per cent of the total development expenditure.

6.08 Within the *economic sector*, the expenditure of the agricultural development programme amounted to RM8.1 billion or 8.2 per cent of the total development expenditure. The expenditure was largely utilized for *in-situ* development, particularly by the Integrated Agricultural Development Projects (IADPs), Regional Development Authorities (RDAs), Federal Land Consolidation and Rehabilitation Authority (FELCRA), Rubber Industry Smallholder Development Authority (RISDA) and Farmers Organization Authority (LPP). A total of RM1.7 billion was spent for drainage and irrigation projects and RM811 million was utilized to finance regional development programmes in various RDA areas. To further develop R&D and other support services, a total of RM388.7 million was spent, particularly to strengthen research in agricultural product development by Malaysian Agricultural Research and Development Institute (MARDI) and Malaysian Palm Oil Board (MPOB) and new technology development for the rubber industry by Malaysian Rubber Board (MRB).

6.09 Expenditure in the commerce and industry subsector during the Seventh Plan period constituted RM11.3 billion or 11.4 per cent of the total development expenditure. The expenditure was utilized to complement and enhance private sector participation as well as to sustain the activities of the subsector during the economic crisis. Priority was given to programmes that supported the development of small- and medium-scale enterprises (SMEs) as well as the provision of infrastructure facilities such as industrial parks and estates. Recognizing the importance of information and communications technology (ICT), various initiatives were taken to promote the utilization and diffusion of ICT, particularly the launching of the Multimedia Super Corridor (MSC). To promote tourism, several programmes were implemented which included the provision of tourism-related infrastructure and medium-budget accommodation as well as tourism product development.

6.10 About RM20.8 billion or 21.0 per cent of the total development expenditure was for the transport and communications subsector. This was to provide a comprehensive range of infrastructural facilities for the modern economy. In this regard, the nation's networks of roads, railways, ports and airports were expanded and modernized with the participation of the private sector. The major projects implemented included the Middle Ring Road II and the Light Rail Transit (LRT)

Table 6-3

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY SECTOR, 1996-2005

(RM million)

Sector	7MP				8MP	
	Revised Allocation	*(%)*	*Expenditure*	*(%)*	*Allocation*	*(%)*
Economic	**49,351.6**	***47.7***	**47,171.9**	***47.6***	**50,514.6**	***45.9***
Agricultural Development	8,286.9	*8.0*	8,139.3	*8.2*	7,860.0	*7.1*
Mineral Resources Development	46.1	*0.0*	40.8	*0.0*	50.0	*0.0*
Commerce & Industry	12,208.8	*11.8*	11,257.8	*11.4*	10,295.4	*9.4*
Transport	21,677.7	*20.9*	20,826.2	*21.0*	21,818.9	*19.8*
Communications	51.3	*0.0*	47.0	*0.0*	146.5	*0.1*
Energy	2,544.0	*2.5*	2,543.6	*2.6*	2,601.6	*2.4*
Water Resources	3,131.5	*3.0*	2,999.5	*3.0*	5,988.4	*5.4*
Feasibility Study	299.3	*0.3*	264.9	*0.3*	131.0	*0.1*
Research & Development	1,106.0	*1.1*	1,052.8	*1.1*	1,622.8	*1.5*
Social	**32,156.0**	***31.0***	**31,284.0**	***31.6***	**37,518.1**	***34.1***
Education & Training	20,185.8	*19.5*	19,724.1	*19.9*	22,660.0	*20.6*
Health	3,737.1	*3.6*	3,725.5	*3.8*	5,500.0	*5.0*
Information & Broadcasting	246.2	*0.2*	192.3	*0.2*	254.1	*0.2*
Housing	3,372.4	*3.3*	3,330.8	*3.4*	4,223.3	*3.8*
Culture, Youth & Sports	1,571.3	*1.5*	1,365.4	*1.4*	964.8	*0.9*
Local Authorities & Welfare Services	1,624.9	*1.6*	1,565.1	*1.6*	2,972.6	*2.7*
Village & Community Development	1,350.4	*1.3*	1,318.5	*1.3*	943.3	*0.9*
Purchase of Land	67.9	*0.1*	62.3	*0.1*	0.0	*0.0*
Security	**12,747.6**	***12.3***	**11,644.0**	***11.8***	**10,750.0**	***9.8***
Defence	10,293.9	*9.9*	9,539.3	*9.6*	8,750.0	*8.0*
Internal Security	2,453.7	*2.4*	2,104.7	*2.2*	2,000.0	*1.8*
General Administration	**9,309.7**	***9.0***	**8,937.1**	***9.0***	**11,217.3**	***10.2***
General Services	9,106.5	*8.8*	8,746.1	*8.8*	10,975.6	*10.0*
Upgrading & Renovation	203.2	*0.2*	191.0	*0.2*	241.7	*0.2*
Total	**103,564.9**	***100.0***	**99,037.0**	***100.0***	**110,000.0**	***100.0***

System II in Klang Valley, the Second Link to Singapore, the Port of Tanjung Pelepas in Johor and the KL International Airport in Sepang.

6.11 During the Plan period, expenditure in the energy subsector constituted RM2.5 billion or 2.6 per cent of the total development expenditure, reflecting the Government's continuing effort to improve accessibility to electricity, particularly in the rural areas. The expenditure for the energy subsector was mainly for the initial construction of the Bakun Hydroelectric project in Sarawak and the completion of seven transmissions and distribution system reinforcement projects in Sabah. In the water resources subsector, RM3.0 billion or 3.0 per cent was expended during the Seventh Plan. The completion of several water supply projects such as the Kelinchi Dam in Negeri Sembilan, Babagon Dam in Sabah and the Sungai Selangor Phase II project, increased the national water supply coverage from 87 per cent in 1995 to 92 per cent in 2000.

6.12 To support R&D, RM1.1 billion was expended during the Seventh Plan. Of this expenditure, RM718.1 million was for direct public sector involvement in R&D through the Intensification of Research in Priority Areas (IRPA) programme. In addition, to promote R&D in the private sector, the Industry Research and Development Grant Scheme was launched to foster collaborative market-oriented R&D involving the private sector, universities and research institutions.

6.13 The Government continued to finance and support programmes in education and training, health, housing and other social services for the *social sector*. The expenditure for this sector amounted to RM31.2 billion or 31.6 per cent of the total development expenditure. Human resource development continued to be given priority to support the implementation of productivity-driven growth programmes. The education and training programmes focused on increasing accessibility and improving quality. Additional facilities were provided at all levels, while existing facilities were expanded to increase capacity as well as create a more conducive teaching and learning environment. To improve the performance of rural students, 205 science laboratories and 230 computer laboratories were constructed and a total of 5,750 computers supplied to these schools. Efforts were also undertaken to provide housing facilities, particularly for teachers in rural areas, with the provision of 38,970 quarters. In addition, the absorptive capacity of public institutions of higher learning was increased with the expansion of existing institutions. Seven additional advanced skills training centres were also built to meet the demand for highly skilled, trained and multi-skilled workers.

6.14 Expenditure for the health subsector reflected the importance accorded to the provision of comprehensive health services. A total of 300 rural and urban health clinics as well as 33 new hospitals were under construction while 11 existing hospitals in the state capitals were upgraded. In addition, four training colleges for allied health professionals were in various stages of implementation.

6.15 Expenditure in the housing subsector was mainly for the construction of low- and low-medium cost houses, to cater for the housing needs of the low-income group and public sector employees. This included the construction of low-cost flats for the resettlement of squatters in the Federal Territory of Kuala Lumpur and major towns in various states. In order to promote the development of a fit and healthy society as well as participation in recreation and sports, new sports facilities were built, including several sports stadiums of international standard.

6.16 Expenditure in the *security sector*, comprising defence and internal security, amounted to RM11.6 billion or 11.8 per cent of the total development expenditure. The largest portion of the expenditure was for the purchase of hardware and equipment for the replacement of existing stock and modernization of the armed forces and police. The main emphasis of the sector was to strengthen and enhance the capability of the armed forces and police through the training of manpower and use of modern equipment.

6.17 During the Plan period, the emphasis of the *general administration sector* was to build and upgrade government office premises and staff accommodations, particularly the construction of the new Federal Government Administrative Centre at Putrajaya. During the Plan period, most of the agencies under the Prime Minister's Department shifted to Putrajaya, thus becoming the pioneer group to work in an environment with modern facilities. In addition, a total of 20 Road Transport Department offices, 16 Customs offices, 16 court buildings, 32 common use, land and district office buildings, as well as five foreign missions were completed. Expenditure for the general administration sector amounted to RM8.9 billion or 9.0 per cent of the total expenditure.

Expenditure for Rural Development

6.18 Rural development programmes involved an expenditure totalling RM12.6 billion, of which RM2.8 billion was spent for rural education, health and housing and RM3.8 billion for new land and *in-situ* development. Another RM2.8 billion was expended for the implementation of various agricultural programmes such as the development of *Orang Asli*, fishery development, support services, irrigation, primary commodities and forestry. In order to increase the standard of living, measures were undertaken to provide the rural population with basic infrastructure, particularly village roads, electricity, water supply and other village development programmes. A total of RM3.2 billion was expended to implement these programmes.

6.19 In line with the implementation of the *Gerakan Desa Wawasan*, aimed at upgrading the village leadership skills and strengthening the capabilities of the Village Development and Security Committee (JKKK) in planning, organizing and proposing village development projects, various short-term courses and counselling classes were conducted. In addition, the rural population was also provided with credit facilities to encourage them to participate in income generating activities in their respective villages. During the Plan period, a total of RM115.9 million was spent for this programme.

Development Expenditure for Poverty Eradication

6.20 During the Seventh Plan period, poverty eradication programme continued to be given special emphasis. The *Program Pembangunan Rakyat Termiskin (PPRT)* was instrumental in uplifting the standard of living of the hardcore poor. In this respect, the Government increased the allocation for the construction of houses for the hardcore poor from RM6,000 to RM10,370 per house in Peninsular Malaysia and from RM6,900 to RM11,930 for Sabah and Sarawak. This was to enable the houses to be more spacious and comfortable and installed with the minimum facilities such as piped water and electricity. Allocation for the rehabilitation of dilapidated houses was also increased from RM3,000 to RM5,190 per unit in Peninsular Malaysia and from RM3,450 to RM5,970 for Sabah and Sarawak.

Development Expenditure by State

6.21 The Federal Government development expenditure in the *more developed states*, namely Selangor, Wilayah Persekutuan, Johor, Perak, Pulau Pinang, Negeri Sembilan and Melaka amounted to RM33.0 billion or 33.3 per cent of the total development expenditure, as shown in *Table 6-4*. Among the major projects were rail links to the West Port of Port Klang and to Segamat Inland Port in Johor, the construction and realignment of Road B15 from Cyberjaya to Dengkil in Selangor as well as the construction of the Teluk Bahang Dam in Pulau Pinang.

6.22 Development expenditure for the *less developed states*, namely Sabah, Sarawak, Kedah, Pahang, Terengganu, Kelantan and Perlis amounted to RM25.6 billion or 25.9 per cent. A large proportion of the expenditure was on the construction of higher educational institutions such as *Universiti Malaysia Sabah* (UMS) and Faculty of Medicine of the International Islamic University (UIA) in Pahang, Langkawi International Airport, Kuala Perlis-Changloon Highway and water supply in Sabah.

TABLE 6-4

FEDERAL GOVERNMENT DEVELOPMENT ALLOCATION AND EXPENDITURE BY STATE, 1996-2005
(RM million)

State	7MP				8MP	
	Revised Allocation	*(%)*	*Expenditure*	*(%)*	*Allocation*	*(%)*
Johor	5,628.7	*5.4*	5,556.1	*5.6*	5,937.3	*5.4*
Kedah	3,891.3	*3.8*	3,781.8	*3.8*	5,179.5	*4.7*
Kelantan	2,306.5	*2.2*	2,284.2	*2.3*	2,905.4	*2.6*
Melaka	1,628.1	*1.6*	1,566.2	*1.6*	2,464.7	*2.2*
Negeri Sembilan	2,268.8	*2.2*	2,118.9	*2.1*	5,221.2	*4.7*
Pahang	3,091.1	*3.0*	2,983.6	*3.0*	3,820.7	*3.5*
Perak	3,298.1	*3.2*	3,237.9	*3.3*	4,848.9	*4.4*
Perlis	1,275.8	*1.2*	1,259.7	*1.3*	1,581.0	*1.4*
Pulau Pinang	2,746.0	*2.7*	2,641.9	*2.7*	4,040.2	*3.7*
Sabah	6,970.2	*6.7*	6,933.0	*7.0*	7,989.7	*7.3*
Sarawak	5,951.0	*5.7*	5,928.0	*6.0*	8,676.3	*7.9*
Selangor	11,244.6	*10.9*	11,022.8	*11.1*	7,847.8	*7.1*
Terengganu	2,558.7	*2.5*	2,467.6	*2.5*	2,443.3	*2.2*
Wilayah Persekutuan	6,864.9	*6.6*	6,821.1	*6.9*	9,868.2	*9.0*
Multi-state[1]	43,841.1	*42.3*	40,434.2	*40.8*	37,175.8	*33.8*
Total	**103,564.9**	***100.0***	**99,037.0**	***100.0***	**110,000.0**	***100.0***

Note: [1] Multi-state projects are projects that benefit several states or nation as a whole.

6.23 A total of RM40.4 billion or 40.8 per cent was spent on *multi-state* projects, which are projects that benefit several states or the nation as a whole. Some of the major projects implemented were the new Federal Government Administrative Centre in Putrajaya, the Middle Ring Road II in Klang Valley, Eastern Access to KL International Airport and the road from Simpang Pulai, Perak to Kuala Berang, Terengganu via Lojing and Gua Musang in Kelantan.

Current Expenditure

6.24 During the Seventh Plan period, the Federal Government's current expenditure increased at an average rate of 9.1 per cent, amounting to RM236.4 billion, as shown in *Table 6-5*. Expenditure on wages and salaries, increased moderately by 3.6 per cent per annum. The share of debt service payments to total current expenditure declined from 17.8 per cent in 1995 to 17.0 per cent of total expenditure in 2000. Expenditure on supplies and services, comprising mainly the purchase of supplies and equipment, including the leasing of computers

TABLE 6-5

FEDERAL GOVERNMENT EXPENDITURE AND FINANCING, 1995-2005

Item	*RM million*					*% of GNP*			*Average Annual Growth Rate (%)*	
				Cumulative						
	1995	*2000*	*2005*	*7MP*	*8MP*	*1995*	*2000*	*2005*	*7MP*	*8MP*
Total Revenue	50,953	61,864	90,023	301,267	396,748	*24.0*	*19.9*	*19.4*	*4.0*	*7.8*
Direct Taxes	22,699	29,156	37,166	142,702	171,669	*10.7*	*9.4*	*8.0*	*5.1*	*5.0*
Indirect Taxes	18,972	18,017	36,201	96,053	144,938	*8.9*	*5.8*	*7.8*	*-1.0*	*15.0*
Non-Tax Revenue	8,467	14,097	15,659	59,406	75,873	*4.0*	*4.5*	*3.4*	*10.7*	*2.1*
Non-Revenue Receipts	814	594	996	3,107	4,269	*0.4*	*0.2*	*0.2*	*-6.1*	*10.9*
Current Expenditure	36,573	56,547	68,243	236,361	322,375	*17.2*	*18.2*	*14.7*	*9.1*	*3.8*
Current Surplus	14,381	5,317	21,780	64,906	74,373	*6.8*	*1.7*	*4.7*	*-18.0*	*32.6*
Development Expenditure[1]	14,051	27,941	18,200	99,037	110,000	*6.6*	*9.0*	*3.9*	*14.7*	*-8.2*
Repayment[2]	1,531	2,908	1,000	8,368	5,800					
Overall Surplus/Deficit	1,861	-19,717	4,580	-25,763	-29,827					
(% of GNP)	*0.9*	*-6.3*	*1.0*	*-1.9*	*-1.5*					
Sources of Financing										
Net Foreign Borrowing[3]	-1,635	844	0	1,703	8,229	*-0.8*	*0.3*	*0.0*		
Net Domestic Borrowing	0	12,714	0	28,420	26,859	*0.0*	*4.1*	*0.0*		
Change in Assets & Special Receipts[4]	-226	6,158	-4,580	-4,361	-5,261	*-0.1*	*2.0*	*-1.0*		

Notes:

1 Includes transfer to Development Fund for 2000-2005.

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

3 (-) Indicates net repayment.

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

as well as payments for other items including travelling, utilities, maintenance and repairs, increased moderately by 5.9 per cent per annum.

Sources of Revenue

6.25 The Federal Government revenue registered a moderate increase of 4.0 per cent, amounting to RM301.3 billion, as shown in *Table 6-6*. This was attributed to the higher revenue collected from company and petroleum taxes, sales and service taxes and non-tax revenue, in tandem with the impressive economic performance during the first half of the Plan period and the recovery in aggregate demand in 1999-2000 from the severe contraction in 1998.

TABLE 6-6

FEDERAL GOVERNMENT REVENUE, 1995-2005

Source	*RM million*					*% of total*			*Average Annual Growth Rate (%)*	
				Cumulative						
	1995	*2000*	*2005*	*7MP*	*8MP*	*1995*	*2000*	*2005*	*7MP*	*8MP*
Direct Taxes	22,699	29,156	37,166	142,702	171,669	*44.5*	*47.1*	*41.3*	*5.1*	*5.0*
Income Taxes	20,095	27,016[1]	34,214	129,921[1]	158,861	*39.4*	*43.7*	*38.0*	*6.1*	*4.8*
Company	11,707	13,905	19,577	77,795	87,909	*23.0*	*22.5*	*21.7*	*3.5*	*7.1*
Individual	6,203	7,015	9,737	32,935	42,744	*12.2*	*11.3*	*10.8*	*2.5*	*6.8*
Petroleum	2,185	6,010	4,900	18,976	28,049	*4.3*	*9.7*	*5.4*	*22.4*	*-4.0*
Other Direct Taxes	2,604	2,140	2,952	12,781	12,807	*5.1*	*3.5*	*3.3*	*-3.8*	*6.6*
Indirect Taxes	18,972	18,017	36,201	96,053	144,938	*37.2*	*29.1*	*40.2*	*-1.0*	*15.0*
Export Duties	853	1,032	908	4,419	5,003	*1.7*	*1.7*	*1.0*	*3.9*	*-2.5*
Petroleum	751	999	807	4,193	4,614	*1.5*	*1.6*	*0.9*	*5.9*	*-4.2*
Palm Oil	75	4	0	66	6	*0.1*	*0.0*	*0.0*	*-44.1*	*-100.0*
Others	27	29	101	160	384	*0.1*	*0.0*	*0.1*	*1.2*	*28.6*
Import Duties	5,622	3,599	4,411	24,843	20,985	*11.0*	*5.8*	*4.9*	*-8.5*	*4.2*
Excise Duties	5,280	3,803	6,018	23,956	25,622	*10.4*	*6.1*	*6.7*	*-6.4*	*9.6*
Sales Tax	4,869	5,968	17,637	25,941	64,988	*9.6*	*9.6*	*19.6*	*4.2*	*24.2*
Service Tax	1,016	1,701	3,807	7,313	14,371	*2.0*	*2.7*	*4.2*	*10.9*	*17.5*
Other Indirect Taxes	1,332	1,914	3,421	9,580	13,969	*2.6*	*3.1*	*3.8*	*7.5*	*12.3*
Non-Tax Revenue	8,467	14,097	15,659	59,406	75,873	*16.6*	*22.8*	*17.4*	*10.7*	*2.1*
Petroleum[2]	3,810	6,384	7,175	23,699	35,447	*7.5*	*10.3*	*8.0*	*10.9*	*2.4*
Other Non-Tax Revenue[3]	4,658	7,713	8,484	35,707	40,426	*9.1*	*12.5*	*9.4*	*10.6*	*1.9*
Non-Revenue Receipts[4]	814	594	996	3,107	4,269	*1.6*	*1.0*	*1.1*	*-6.1*	*10.9*
Total	**50,953**	**61,864**	**90,023**	**301,267**	**396,748**	***100.0***	***100.0***	***100.0***	***4.0***	***7.8***

Notes:

1 Includes income tax from cooperatives.

2 Includes petroleum dividends and royalties on petroleum and gas.

3 Includes items such as Government commercial undertakings, interest and returns on investment, licences and service fees.

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

6.26 During the Plan period, revenue collected from *direct taxes* recorded an increase of 5.1 per cent, amounting to RM142.7 billion. The collection from direct taxes increased by 11.3 per cent per annum during the first two years of the Plan period, particularly from corporate taxes, as a result of increased profitability of the private sector arising from the rapid economic growth. Despite the reduction in the individual income tax rate in the 1996 Budget, revenue from individual income tax expanded by 5.7 per cent during the 1997-1998 period. However, as a result of the financial crisis, there was a reduction in revenue from all major categories of direct taxes, which fell by 9.2 per cent in 1999. In addition, the reduction in the collection of income taxes was attributed to the restructuring of tax payments, particularly for companies facing cash flow problems, and the provision of tax concessions and incentives to stimulate business activities and to strengthen the financial sector. Other fiscal measures introduced during the second half of the Plan period included an income tax waiver for income received in 1999, in line with the introduction of an assessment of income tax based on the current year income, tax exemption on interest income of unit trusts, and tax incentives to promote food production and tourism. Other direct taxes, comprising mainly stamp duties and receipts from estate duty, declined by 3.8 per cent, partly due to the reduction in the number of transactions, particularly in 1998.

6.27 *Indirect taxes* revenue registered a moderate decline of 1.0 per cent per annum during the Plan period. Sales and service taxes grew at an average rate of 4.2 per cent and 10.9 per cent per annum, respectively. Revenue from these taxes was especially substantial during the first two years of the Plan period, but suffered a decline in 1998 before rebounding to register an increase in 1999-2000, due to the expansion of consumer demand.

6.28 During the Plan period, revenue from export duties rose by 3.9 per cent per annum as a result of the higher volume of exports and the rise in the price of crude oil in 2000. Import duties, however, fell by 8.5 per cent per annum due to the reduction or abolition of import duties on about 3,500 raw materials, components and equipments as well as lower imports during the economic downturn. Excise duties also declined by 6.4 per cent as a result of lower demand for locally manufactured products due to the financial crisis and the removal of excise duties on petrol and petroleum products, effective from 2000.

6.29 *Non-tax revenue* increased at the rate of 10.7 per cent per annum during the Plan period. The growth was mainly attributed to revenue from PETRONAS's dividends, road tax, licences and permits and royalties on oil and gas.

Consolidated Public Sector Financing

6.30 During the Seventh Plan period, the public sector account recorded an overall surplus of RM20.5 billion or 1.5 per cent of GNP, as shown in *Table 6-7*. This was achieved despite a deficit amounting to RM7.3 billion recorded during 1998-2000. This deficit was due to the slower overall revenue growth in the public sector, increased development expenditure by the Federal Government to stimulate economic growth and increased capital expenditures by several NFPEs, especially PETRONAS and Putrajaya Holdings.

Table 6-7

CONSOLIDATED PUBLIC SECTOR EXPENDITURE AND FINANCING, 1995-2005

Item	*RM million*					*% of GNP*			*Average Annual Growth Rate (%)*	
				Cumulative						
	1995	*2000*	*2005*	*7MP*	*8MP*	*1995*	*2000*	*2005*	*7MP*	*8MP*
General Government[1]										
Revenue	62,270	73,587	104,017	364,457	464,071	*29.4*	*23.7*	*22.5*	*3.4*	*7.2*
Operating Expenditure	41,394	63,005	79,582	267,725	369,489	*19.5*	*20.2*	*17.2*	*8.8*	*4.8*
Current Surplus	20,876	10,582	24,435	96,731	94,582	*9.8*	*3.4*	*5.3*	*-12.7*	*18.2*
NFPEs Current Surplus	15,993	38,713	38,896	146,684	187,530	*7.5*	*12.5*	*8.4*	*19.3*	*0.1*
Public Sector Current Surplus	36,869	49,295	63,330	243,415	282,112	*17.4*	*15.9*	*13.7*	*6.0*	*5.1*
Development Expenditure	29,801	58,979	43,039	222,877	253,355	*14.1*	*19.0*	*9.3*	*14.6*	*-6.1*
General Government	16,171	29,794	26,712	103,409	144,017	*7.6*	*9.6*	*5.8*	*13.0*	*-2.2*
NFPEs[2]	13,630	29,185	16,327	119,468	109,337	*6.4*	*9.4*	*3.5*	*16.4*	*-11.0*
Public Sector Overall Surplus/ Deficit	7,068	-9,684	20,291	20,538	28,757					
(% of GNP)	*3.3*	*-3.1*	*4.4*	*1.5*	*1.5*					
Sources of Financing										
Net Foreign Borrowing[3]	6,529	-1,003	0	13,765	3,097	*3.1*	*-0.3*	*0.0*		
Net Domestic Borrowing	-10,786	10,099	0	-34,410	12,285	*-5.1*	*3.2*	*0.0*		
Change in Assets & Special Receipts[4]	-2,811	588	-20,291	107	-44,139	*-1.3*	*0.2*	*-4.4*		

Notes:

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

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

3 (-) Indicates net repayments.

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

6.31 The current surplus of the Government sector, comprising the Federal and state governments, local authorities and statutory bodies, increased from RM20.9 billion in 1995 to RM29.6 billion in 1997, due to the collection of a higher revenue. However, the surplus declined to RM10.6 billion in 2000, mainly due to the slower revenue growth of the Federal and state governments, local authorities and statutory bodies. With additional development expenditure, the overall balance of the Federal Government account registered a deficit of RM25.8 billion or 1.9

per cent of GNP during the Plan period. The fiscal deficit was largely financed by non-inflationary domestic borrowing and loans from bilateral lenders and multilateral institutions. The increased reliance on foreign sources of financing was to avoid the crowding-out of private sector activities. The total net borrowing for the period amounted to RM30.1 billion.

6.32 During the Plan period, the current balance of NFPEs as a group grew at 19.3 per cent per annum and registered a surplus of about RM146.7 billion. This was mainly attributed to better turnover, especially during the 1996-1997 and 1999-2000 period. Development expenditure of NFPEs grew at the rate of 16.4 per cent per annum and amounted to RM119.5 billion. The capital outlays of the NFPEs were financed by internally generated funds as well as domestic and external borrowings. Most of the loans were utilized to fund productive investments, including investment overseas that generated foreign exchange revenue to service the debt.

III. PROGRAMMES AND FINANCING, 2001-2005

6.33 As the economy progresses along a sustainable growth path, the Government will revert to its role as a facilitator to private sector initiatives, particularly in spearheading the development of a knowledge-based economy. As such, the Government will continue to maintain prudent fiscal management by consolidating public sector finance. The public sector programme will focus on strengthening the resilience and competitiveness of the economy and further improving the quality of life of all Malaysians.

Development Allocation

6.34 For the Eighth Plan period, the total public sector development allocation will amount to RM253.4 billion, as shown in *Table 6-7*. Of this total, the Federal Government's share will constitute 43.4 per cent or RM110 billion. The NFPEs' development expenditures will constitute 43.2 per cent and the remaining 13.4 per cent will be from state governments, local authorities and statutory bodies**.** The total development allocation will be 13.7 per cent higher than the Seventh Plan development expenditure. Although this amount is significant, its share to GNP is, however, lower at 12.9 per cent compared with 16.3 per cent achieved during the Seventh Plan period.

Development Allocation by Sector

6.35 During the Eighth Plan period, emphasis will be given to further improve inter-sectoral linkages and promote complementarities among sectors. In this regard, the economic sector will be given the largest allocation, amounting to RM50.5 billion or 45.9 per cent of the total, as shown in *Table 6-3*. The social sector will receive RM37.5 billion or 34.1 per cent, the security sector RM10.8 billion or 9.8 per cent and the general administration sector RM11.2 billion or 10.2 per cent.

6.36 In line with the continuous effort to strengthen the economy, the allocation for the *economic sector* will focus on the development of agriculture, industrial, transport and communications as well as utility subsectors. The agriculture subsector will be provided with RM7.9 billion or 7.1 per cent of the total development allocation in the Eighth Plan. A major portion of this allocation will be given to *in-situ* development as well as for irrigation and flood mitigation. The implementation of these programmes is expected to increase food production, enhance the supply of raw materials as well as improve foreign exchange earnings.

6.37 The allocation for the commerce and industry subsector will amount to RM10.3 billion or 9.4 per cent of total development allocation. This allocation will continue to focus on supporting private sector initiatives, to intensify their contribution to the economy. Priority will be given to capacity-building, particularly with respect to skill development in support of the development of high technology industries. The implementation of the second phase of the Advanced Materials Research Centre at the Kulim Hi-Tech Park in Kedah will intensify R&D on new materials for the high technology industries. To further enhance the development of skilled manpower and technopreneurs, a centre for Computer Numerical Control (CNC) machines and machine tooling will be set up to provide training in the fabrication of CNC machines and parts as well as machine tooling. In addition, financial and infrastructure support for strategic industries and activities such as in R&D, information technology (IT) and technology acquisition, will be emphasized. Towards this end, a sum of RM1.6 billion will be allocated to promote R&D activities and technology advancement, particularly increasing indigenous technology capability and commercialization of R&D output.

6.38 To accelerate the momentum of the development and utilization of ICT, the first wave of the MSC flagship application projects will be rolled out. The second wave applications projects will also be introduced focusing on e-business and e-services as well as providing the catalyst for the development of a critical mass of SMEs involved in ICT. The development of the tourism subsector will be further supported by intensifying the implementation of eco-tourism development programmes. In addition, the preservation and conservation of historical buildings, sites and monuments, provision of affordable accommodation as well as beautification and cleanliness programmes will be undertaken.

6.39 The transport and communications subsector will be allocated a sum of RM22.0 billion or 20 per cent of the total development allocation mainly to increase capacity and accessibility of these services in the less developed areas as well as increase their quality, efficiency and reliability in urban areas. Among the major projects to be implemented are the Kuala Kangsar-Grik Road in Perak, upgrading of Federal Route 50 from Batu Pahat to Kluang, Johor, electrified double track railway from Rawang, Selangor to Ipoh, Perak, the Ranca-Ranca Port in Labuan and the new Bintulu Airport in Sarawak.

6.40 A total of RM2.6 billion will be allocated to the energy subsector, of which RM926 million will be for the revival of the Bakun Hydroelectric project in Sarawak as well as RM450 million for strengthening the transmission system and RM230 million for upgrading the distribution networks in Sabah. In addition, RM856.7 million will be allocated for improving the rural electricity coverage, mainly in Sabah and Sarawak. Water resources subsector will be allocated a sum of RM6.0 billion or 5.4 per cent of the total development allocation. To meet increasing water demand in water-stressed areas, especially the Klang Valley, the Pahang-Selangor Raw Water Transfer Scheme will be implemented.

6.41 The *social sector* will be allocated a sum of RM37.5 billion or 34.1 per cent of the total development allocation. Social programmes will continue to focus on education and training, health and housing. Education and training programmes will be allocated RM22.7 billion, aimed at producing students with broad-based knowledge, thinking skills and innovativeness to contribute to the knowledge-based economy. Towards this end, the delivery system will be strengthened to create a pool of trained, skilled and knowledge manpower. Additional facilities will be provided, while existing ones will be upgraded to meet the demand for places at all levels. This will include the construction of about 20,000 classrooms, four new universities and 15 training institutes. Computer laboratories will be built in about 8,000 schools. To nurture the cooperative spirit, tolerance and understanding among Malaysians as well as to further strengthen national unity, the Vision School Concept will be implemented. The private sector is expected to complement the public sector efforts, especially in the provision of places at the tertiary levels and in skill training.

6.42 The health subsector will be provided an allocation of RM5.5 billion or 5.0 per cent of the total development allocation. This will support the on-going expansion programme of the medical services, promotive health and prevention of diseases, rural health services and manpower training. The construction of 31 hospitals and upgrading of 11 existing hospitals and 300 clinics will be continued, while 172 new health clinics will also be built. Existing institutions for the training of allied health professionals will be upgraded and five new ones built, while training will be continued to be outsourced with the cooperation of the private sector. With regard to housing development, emphasis will continue to be given to the supply of low- and low-medium-cost houses, while 62,000 houses for public sector employees will be built during the Plan period. Housing development in rural areas through Traditional Village Regrouping, Rehabilitation of Dilapidated Houses as well as Site and Services Programmes will be improved to ensure the effectiveness of its delivery. An allocation of RM4.2 billion or 3.8 per cent of the total development allocation will be provided for housing development.

6.43 The *security sector* will be allocated a sum of RM10.8 billion or 9.8 per cent of the total allocation. A significant proportion of the allocation will be for strengthening the nation's defence capability and improving the capacity of the Royal Malaysian Police and other internal security agencies to maintain law and order. Several modern training facilities will be completed while existing ones will be upgraded to meet the training needs of the security forces.

6.44 Allocation for the *general administration sector* will amount to RM11.2 billion or 10.2 per cent of the total. Allocation for public amenities at Putrajaya will comprise a major part of the general administration sector allocation. Substantial allocation will also be given for the construction of court buildings and office premises for various Federal Government departments in line with the Government's aspiration to provide world-class administrative facilities and services. In addition, the construction of the embassy building in Beijing will be continued and new buildings constructed in Singapore, Vientiane and Moscow.

Allocation for Rural Development

6.45 During the Eighth Plan period, rural development programmes will be provided with an allocation of RM13.2 billion. A major portion of this allocation amounting to RM9.3 billion will be channelled to land development, human resource enhancement and the implementation of various physical and social infrastructure works including rural roads, electricity and water supply. In order to increase the participation of rural population in income-generating activities, the scope of credit facilities for rural industries will be expanded to include tourism, agriculture as well as the services sector. This programme is provided with an allocation of RM121 million.

6.46 Rural health services will be further expanded with the construction of more hospitals and health clinics as well as upgrading of existing facilities. Safe water supply will continue to be provided to areas where the incidence of water-borne diseases is high through the water supply and environmental health programme (BAKAS). An allocation of RM715 million is allocated for the expansion of rural health facilities and BAKAS.

6.47 To improve accessibility and provide better learning environment for rural students, more schools will be built in rural areas, replacing those that are dilapidated. In addition, hostels to accommodate students for remote areas and housing for teachers will also be built. Under the Computer Literacy Programme, about 2,240 rural schools will be supplied with computers. To undertake these programmes, an allocation of RM2.3 billion will be provided.

Development Allocation for Poverty Eradication

6.48 The poverty eradication programme will continue to be given special emphasis during the Plan period, particularly the eradication of poverty among the hardcore group including the *Orang Asli*. PPRT will be replaced with a new programme namely the *Skim Pembangunan Kesejahteraan Rakyat* (SPKR) which will cover both the hardcore poor and the other poverty groups. Among the major programmes are, human resource development, provision of infrastructure, income upgrading as well as social, welfare and poverty studies.

Development Allocation by State

6.49 The distribution of the Federal Government development allocation by state in the Eighth Plan, as shown in *Table 6-4*, reflects the Government's effort to promote a more balanced development among states. This allocation takes into account the current status of development, the need and potential for growth, resource availability and implementation capacity at the state level.

6.50 The *more developed states* will receive an allocation of RM40.2 billion or 36.6 per cent of the total development allocation, reflecting the demand for facilities due to faster development and the need to address the infrastructure constraints in these states. The bulk of this allocation is for upgrading the Johor Bahru Inner Ring Road Interchange and the Kota Tinggi-Pasir Gudang Highway in Johor, the construction of the Sungai Terip Phase III water treatment plant in Negeri Sembilan as well as the construction of a university in Melaka and a polytechnic in Balik Pulau, Pulau Pinang.

6.51 The allocation for the *less developed states* will amount to RM32.6 billion or 29.6 per cent of total development allocation. This allocation will be for the development of the transport subsector, energy projects, agricultural development as well as education and training. Among the projects to be implemented are the construction of the Greater Kuantan Water Supply in Pahang, hospitals in Alor Setar, Kedah and Temerloh, Pahang, universities in Perlis and Pahang as well as the upgrading of the road from Jitra, Kedah to Arau and Kangar, Perlis.

6.52 A total of RM37.2 billion or 33.8 per cent of the development allocation will be provided to *multi-state* projects. These projects will include the continued development of Putrajaya, *Program Perumahan Rakyat Bersepadu*, R&D programme, the Pahang-Selangor Raw Water Transfer Project, the dredging of river mouths in the smaller ports of Peninsular Malaysia as well as the upgrading and the refurbishment of the water distribution system.

Current Expenditure

6.53 During the Eighth Plan period, the current expenditure of the Federal Government is estimated to amount to RM322.4 billion or 16.4 per cent of GNP, as shown in *Table 6-5*. Emoluments will continue to account for the largest portion of the current expenditure, growing at an average rate of 2.8 per cent per annum, lower than the 3.6 per cent per annum of the Seventh Plan period. Expenditure on supplies and services is projected to rise by 12 per cent per annum, mainly for the maintenance and enhancement of the quality and efficiency of the public service. Debt service charges are anticipated to increase at a lower rate of 4.3 per cent per annum.

Sources of Revenue

6.54 The total Federal Government revenue is expected to register a faster growth of 7.8 per cent per annum during the Eighth Plan period, as shown in

Table 6-6. *Direct taxes* will continue to be the major contributor but its growth is expected to slow down in line with Government efforts to provide a competitive tax structure to further improve the environment for doing business in Malaysia. Its share to GNP is estimated to be 8.7 per cent, slightly lower than the 10.4 per cent achieved in the Seventh Malaysia Plan. Income taxes, comprising company, individual and petroleum taxes are expected to grow at an average rate of 4.8 per cent, lower than the 6.1 per cent achieved in the previous Plan. This is due to the anticipated lower revenue from petroleum tax, which is projected to decline by 4.0 per cent, while company and individual taxes are expected to register a growth of 7.1 per cent and 6.8 per cent per annum, respectively. Revenue from stamp duties is estimated to grow at 5.5 per cent per annum, in line with the expected increase in the number of transactions, while other direct taxes are expected to grow by 11.8 per cent per annum.

6.55 Even though revenue from *indirect taxes* is the second largest, its growth is anticipated to surpass that of direct taxes. Its share to total revenue will increase to 36.5 per cent, reflecting a gradual transformation of Malaysia's tax structure from income-base to consumption-base. This is in line with the Government's efforts to reduce dependency on direct taxes and broaden the revenue base. The major contribution is expected from sales and service taxes, which are projected to grow by 24.2 per cent and 17.5 per cent per annum, respectively, arising from the anticipated increase in the income of all Malaysians and the promotion of Malaysia as an attractive tourist destination. Import duty is estimated to register a moderate growth of 4.2 per cent per annum due to the reduction of tariffs in line with Malaysia's commitment to the ASEAN Free Trade Area (AFTA) and World Trade Organization (WTO). Excise duty is also expected to grow moderately at 9.6 per cent per annum, while other indirect taxes will grow at an average rate of 12.3 per cent per annum.

6.56 *Non-tax revenue* will contribute 19.1 per cent to the total Federal Government revenue during the Plan period. The contribution is mainly from the collection of dividends from Government's investments and payments for licences and permits.

Consolidated Public Sector Financing

6.57 For the Eighth Plan period, the public sector consolidated account is estimated to register a surplus of RM28.8 billion or 1.5 per cent of GNP, as shown in *Table 6-7*. The Federal Government current account is projected to record a surplus of 3.8 per cent of GNP amounting to RM74.4 billion. With this surplus, the Government will be able to finance part of its development expenditure. The Federal Government account is, thus expected to register an overall deficit of 1.5 per cent of GNP, as shown in *Table 6-5*. This deficit will be financed by domestic resources as well as external sources. However, the Government will ensure that it will not crowd-out private investment and exert pressure on prices.

6.58 The continued effort to improve productivity and efficiency will result in a higher current surplus for the NFPEs, amounting to RM187.5 billion. Together with the capital expenditure, estimated to be around RM109.3 billion for the Eighth Plan period, the overall account for the NFPEs is estimated to register a larger surplus. The account of state governments and local authorities as well as statutory bodies are also expected to record an overall surplus.

IV. CONCLUSION

6.59 Efforts undertaken during the Eighth Plan period are expected to accelerate Malaysia's development of a knowledge-based economy. As this development will be spearheaded by the private sector, the Government will have to ensure the emplacement of the necessary environment and supportive conditions. Towards this end, the public sector programme will focus on the provision of the required social and physical infrastructure in order to improve the competitiveness and efficiency of the private sector to drive economic growth. In undertaking this task, the Government will remain committed to maintaining fiscal discipline and will ensure that the budget deficit is at a level that will not put at risk long-term development.