

CHAPTER XII

The Public Sector Programme and its Financing

I. INTRODUCTION

695. The public sector development programme of the Third Malaysia Plan (TMP) will be an important vehicle through which the Government will implement its commitments under the New Economic Policy (NEP). The programme is designed to enable the Government to implement new projects and consolidate efforts initiated under the Second Malaysia Plan (SMP) to expand employment opportunities and improve the productivity and incomes of the poor; increase the pace of restructuring Malaysian society as envisaged under the NEP; and stimulate more rapid development in the relatively less developed regions of the country. By contributing towards the enlargement of the productive and infrastructural base of the economy, the public sector programmes will also stimulate private sector activity throughout the economy, especially in manufacturing.

696. Total allocations of public sector development expenditure amount to \$18.6 billion under the TMP compared with \$9.8 billion expended under the SMP. A sum of \$2.2 billion is for defence and internal security expenditures while the allocations for socio-economic development amount to \$16.4 billion. The financing of this substantially enlarged expenditure programme under the TMP will require prudent fiscal and monetary policies in order to manage the national economy with a minimum of domestic price inflation and to maintain the credit worthiness of the country.

II. DEVELOPMENT EXPENDITURE, 1971-75

697. Public development expenditure under the SMP amounting to \$9.8 billion was 34.2% greater than the original target of \$7.3 billion which was revised to \$10.3 billion in the course of the SMP. Of the total amount expended, \$8.4 billion was for capital formation by the public sector with the remainder constituting, in the main, transfers to the private sector. As a result, public investment grew by 29.0% per annum in current prices. As prices of capital goods and costs of construction rose rapidly during

the period, public investment in real terms grew by 17.6% per annum between 1970 and 1975, raising its share in total investment from 32.2% in 1970 to 43.1% in 1975. This contributed in a major way to the acceleration of economic growth in the country despite adverse economic conditions.

698. Accounting for 74.5% of total development expenditure in the public sector, development expenditure by the Federal Government grew by 22.3% per annum, with the year to year growth varying with the anti-cyclical efforts of the Government. In view of depressed economic conditions in 1972 and 1975, development expenditures were expanded substantially during those years. In contrast, development expenditures in 1973 and 1974 were controlled due to inflationary conditions. At the same time, projects essential for employment creation and domestic food production were emphasized. With the major economic problem in 1975 being recession, the Federal development expenditure programme gave emphasis to the implementation of projects aimed at stimulating economic growth.

699. The State Governments and Public Authorities accounted for 13.4% and 12.1% of total development expenditures and expanded by 17.4% and 41.8% per annum respectively. The faster rate of expansion registered by the Public Authorities reflected the growing role they played in the implementation of the NEP.

700. A major portion of total development expenditure was for economic and social programmes with the former taking up 72.3% and the latter 13.7% of the total. Expenditures for defence and internal security and general administration made up the remainder. Though small in relative terms, the growth of expenditure for these programmes was rapid.

701. The largest allocations were for agriculture and land development which constituted 21.7% of the total expenditure programme. They enabled about 412,000 acres of new land to be developed by the Federal Land Development Authority (FELDA) compared with the target of 403,000 under the Mid-Term Review of the SMP. Together with the efforts of the Rubber Industry Smallholders Development Authority (RISDA) in the replanting and newplanting of smallholder rubber and those of the Ministry of Agriculture for the provision of drainage and irrigation facilities to enable the double-cropping of rice, these programmes had a significant and positive impact in raising the productivity of rubber smallholders and padi planters—two of the largest groups in poverty in the country.

702. In contrast to past development plans, the most distinctive feature of the public sector development programme was the sizeable increase in the amounts expended for commerce and industry, the major objective being to enable public enterprises including the *Perbadanan Nasional* (PERNAS), the Urban Development Authority (UDA), the *Majlis Amanah*

Rakyat (MARA) and the State Economic Development Corporations (SEDCs) to expand their activities in support of greater involvement of the Malays and other indigenous people in commerce and industry. Expenditures in this regard amounted to about \$758 million and accounted for 46.8% of the total for commerce and industry. This enabled PERNAS, the SEDCs, UDA and MARA to establish new enterprises, enter into joint-ventures with the private sector and acquire equity participation to be held in trust for the Malays and other indigenous people in various fields of private sector activity. The remaining expenditures for commerce and industry went towards the expansion of the activities of such national enterprises as the Malaysian Airline System, the Malaysian International Shipping Corporation and the Malaysia Shipyard and Engineering Sdn. Bhd. As a result of the funds channelled by the Federal Government to these and other agencies by way of loans, equity investment and grants, the direct involvement of the public sector in the production of goods and services in the country expanded dramatically.

III. THE SIZE AND STRATEGY OF THE PUBLIC SECTOR DEVELOPMENT EXPENDITURE PROGRAMME, 1976-80

703. As shown in Table 12-1, the total allocation of development expenditure for the public sector for the period 1976-80 is \$18.6 billion, 89.0% higher than the amount expended under the SMP. The amount of public development expenditure required to achieve the public investment target of \$17.4 billion in current prices (\$9.2 billion in real terms) discussed in Chapter VI is \$20 billion. The allocation which has been made for development expenditure is therefore a minimum, yielding an investment of about \$15.8 billion, which in real terms amounts to \$8.3 billion or 36.0% greater than in the SMP. It will be the Government's strategy to ensure that as more resources become available, the size of the development expenditure programme is increased so that the investment target is fully realized.

TABLE 12-1

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80 (\$ million)

	<i>Cumulative total,</i>	
	<i>1971-75</i>	<i>1976-80</i>
Federal	7,320	13,797
State	1,313	1,406
Public Authorities	1,187	3,352
TOTAL	9,820	18,555

704. Out of the total development expenditure in the public sector of \$18.6 billion, the allocation for development expenditure by the Federal Government is \$13.8 billion with the State Governments and Public Authorities each accounting for \$1.4 billion and \$3.4 billion respectively. In the case of the Public Authorities, the bulk of the allocation is for the National Electricity Board (NEB) and the Telecommunications Department totalling over \$2.3 billion, while RISDA and the Malaysian Rubber Development Corporation together are expected to spend \$807.8 million.

705. The total allocation of development expenditure implies an average annual rate of growth of 10.8%. In the light of the rapid growth of development expenditure under the SMP, the targets for the TMP have been formulated taking into account the need to ensure effective consolidation of programmes begun in the last five years and efficient utilization of capacity already developed.

706. The primary consideration underlying the public sector development expenditure programme under the TMP is to reduce the wide economic and social imbalances currently existing in the country by according emphasis to the advancement of the less developed States, reducing the incidence of poverty irrespective of race and restructuring Malaysian society. Towards this end, project priorities were determined on the basis of their contributions to these objectives.

707. The distribution of development expenditure by States has been based on the need, as discussed in Chapter X, to redirect development expenditure to the poorer States as well as the depressed areas in the other States. The priority States are Kedah, Perlis, Kelantan, Trengganu and Malacca as they are the lowest income States in the country with income levels well below those of other States. The design of a strong public sector programme to narrow this gap took several factors into consideration. These included the development potential of the various States, including land and forestry areas available for development, the pace by which project identification and preparation could be accelerated and the measures needed to expand implementation capacity to cope with the large volume of development activity entailed. Within the more developed States, the allocations of development expenditure took account of the need to deal more effectively with depressed areas within these States themselves.

708. Table 12-2 shows the optimal targets and the allocations which have been made by States under the TMP. The optimal targets were determined as broad guidelines of the investments required in each State if current differences in *per capita* incomes between them are to be progressively narrowed. It is to be noted that the allocations for the States of Kedah, Perlis, Kelantan, Negri Sembilan and Malacca fall short of the optimal expenditure required though they represent a considerably enlarged effort as compared to previous Plans. Even then, it will be the objective of the Government to further bridge these gaps in the course of the TMP as and

when financial resources become available. To this end, immediate and priority attention will be given to the preparation of projects with direct poverty redressal effects as well as the need to build up capacity for the effective implementation of these projects.

TABLE 12-2

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE
BY STATE, 1976-80
(\$ million)

	<i>Optimal target (%)</i>	<i>Target value</i>	<i>Allocation</i>
<i>Low income States</i>			
Kedah	6.3	1,037.6	854.1
Perlis	1.0	164.7	156.5
Kelantan	7.6	1,251.7	1,018.8
Trengganu	5.4	889.3	911.2
Malacca	3.0	494.1	327.7
<i>Higher income States</i>			
Penang	6.2	1,021.1	894.3
Perak	12.5	2,058.7	1,791.9
Selangor	13.2 ¹	2,173.9	1,413.1
Federal Territory of Kuala Lumpur			1,490.0
Pahang	9.0	1,482.2	2,054.1
Negri Sembilan	5.1	839.9	616.6
Johor	11.8	1,943.4	1,831.7
Sabah	8.4	1,383.4	1,452.3
Sarawak	10.5	1,729.3	1,657.0
	<u>100.0</u>	<u>16,469.3</u>	<u>16,469.3</u>
<i>Multi-state</i> ²			2,085.6
TOTAL			<u>18,554.9</u>

¹ The optimal targets for Selangor and the Federal Territory of Kuala Lumpur cannot be shown separately as the GDP on which the calculation is based is for the State as a whole.

² Multi-state projects are those which have not been assigned to any particular State and include equipment for defence and internal security.

709. A primary factor explaining the large allocations, for example to Selangor, the Federal Territory and Pahang was the need to provide for continuation of work initiated under the SMP on a number of major infrastructure and regional projects with long-term significance for expanding the productive capacity of the entire economy. These are national in character and include the improvement of the country's main highway network, ports and telecommunications services. Large-scale integrated development schemes such as in Pahang Tenggara are also national in character in as far as they provide for the absorption of settlers from other States. The successful implementation of these projects is particularly vital for facilitating the modernization of the rural economy and the establishment of new growth centres, especially on the East Coast of Peninsular Malaysia.

710. Notwithstanding the basic importance of these projects to the country's future development, high priority was accorded to projects providing more immediate impact for alleviating poverty and reducing racial imbalances, particularly in the poorer States. The amounts allocated to Kedah, Kelantan, Trengganu and Malacca reflect in particular, the need to develop existing smallholder agriculture, improve infrastructure, expand facilities for marketing, credit and processing of agricultural produce and enhance the reach as well as the quality of social services in these States.

Allocations by State

711. The public development expenditure programmes by major sectors as allocated among the various States of Malaysia are shown in detail in Appendices I and II to this Plan document.

712. Kedah, Perlis, Kelantan, Trengganu and Malacca have been respectively allocated \$854.1 million, \$156.5 million, \$1,018.8 million, \$911.2 million and \$327.7 million for the 1976-80 period. The bulk of these expenditures will be financed by the Federal Government and its agencies as the State Governments concerned have limited resources for development.

713. About 36.3% of the total expenditure in Kedah, 28.0% in Perlis and 36.5% in Kelantan will be for agriculture and rural development, reflecting the agricultural-bias of their economies and the concentration of programmes on the problems of rural poverty especially among existing smallholders. In these States, drainage and irrigation and rubber replanting and newplanting are provided substantial allocations as these programmes are crucial for raising the incomes of the poverty groups. In comparison, the allocations for land development by FELDA amounting to \$29.4 million in Kelantan and \$21.7 million in Kedah are small, in view of the limitations of land resources for new land settlement schemes. The expenditures on education and health amounting to \$72.1 million and \$40.6 million respectively in Kelantan and \$93.2 million and \$26.1 million respectively in Kedah are large in relation to their population and if compared with some of the other States. About 50.2% of the total rural electricity programme is geared to Kedah, Perlis, Kelantan and Trengganu. Kedah has been allocated \$59.2 million for low-cost housing to provide for the growing size of towns such as Alor Star and Sungai Petani. Reflecting Kelantan's lower level of basic infrastructure development, a sum of \$86.5 million has been allocated for roads and bridges. Out of the allocation of \$25.3 million for education in Perlis, the major project will be the completion of a branch campus of the *Instititut Teknologi MARA* (ITM). In Malacca, the largest allocation is for agricultural and fisheries development amounting to \$66.7 million followed by commerce and industry for which the allocation is \$59.8 million. These allocations reflect the importance of *in situ* agricultural improvement programmes, industrial development and social services in the poor States.

714. The allocations for Selangor and the Federal Territory, Perak, Pahang, Johor, Sarawak and Sabah are greater than those provided for other States. The large allocations to these States arise from the need to complete work on major infrastructure projects initiated under the SMP and the availability of land for large-scale agricultural development and settlement. It should be noted that many of these projects, for example, the major highways, electricity generation and land development have benefits which extend beyond the boundary of the States in which they are located.

715. Selangor receives an allocation of \$1.4 billion, while that for the Federal Territory is \$1.5 billion. About \$2.2 billion is accounted for by Federal projects including Kuala Lumpur international airport (\$42.8 million), Port Klang (\$91.5 million), the Universities including the ITM (\$304.8 million) and the Kuala Lumpur-Petaling Jaya highway (\$24.3 million). They are continuation projects with large contractual commitments for which financial provisions have to be made over the Plan period.

716. The allocations to Penang provide for the consolidation of development effort initiated under the SMP. The major projects relate to continuation work on the expansion of the Prai Power Station (\$254.2 million) and development of the Port of Penang (\$120.6 million) as well as roads and bridges (\$26.9 million). Other major programmes are housing (\$39.4 million), education (\$86.4 million) and civil aviation (\$42.0 million). A number of these projects will generate benefits extending beyond Penang, while stimulating at the same time the development of the neighbouring States in Peninsular Malaysia.

717. The principal allocations for Perak will be for major infrastructure projects, the benefits of which also transcend State boundaries. These include the development of the Naval Base (\$325.0 million), electricity, mainly the Temenggor Hydro-electric Scheme (\$296.0 million), and road projects (\$142.7 million).

718. Pahang, Johor and Trengganu are the three States in Peninsular Malaysia which have large potentials for new land development thus providing opportunities for settlement by the landless and the poor from all States in the country. About \$318.6 million has been provided for the Pahang Tenggara Development Authority to develop new land for settlement and to establish a complex of new growth centres based at Bukit Ridan. About \$200 million has been allocated for Kuantan Port in view of Kuantan's important role in the strategy to stimulate development in the East Coast. In Johor, some \$215 million will be spent to develop the Johor Tenggara region. In Trengganu, \$104.6 million has been allocated to the Trengganu Tengah Development Authority for land development and associated infrastructure expansion, including the Jerangau/Jabor road. The allocations to regional development authorities are additional to the substantial amounts

which have been provided to FELDA to undertake the planting of crops, mainly rubber and oil palm, especially in these regional development areas. The allocations for such land development, to FELDA mainly, amount to \$455.1 million for Pahang, \$244.1 million for Johor and \$56.6 million for Trengganu.

719. Sabah and Sarawak have been provided with allocations amounting to \$1.5 billion and \$1.7 billion, respectively. As in the other States, the major expenditure will be on agriculture and rural development with land development undertaken mainly by the land development agencies in these States constituting the largest programme in the agricultural sector. The bulk of the allocation for both States will be for the development of the transport and communications system, particularly roads and bridges. Education and health programmes will also be expanded.

Allocations for anti-poverty projects

720. Some 38.2% of total development expenditure or \$7.1 billion will be directly for poverty redressal projects. The distribution of this expenditure among the States takes account of the relative incidence of poverty within each State. The major projects are for rubber smallholders, padi cultivators, fishermen, coconut smallholders, mixed farmers, estate workers, residents of New Villages and the *Orang Asli*. Projects directed at the alleviation of urban poverty include low-cost housing, public transportation, sewerage and infrastructure facilities and financial assistance for petty traders.

721. Poverty redressal projects include programmes for the replanting and newplanting of rubber by RISDA; drainage and irrigation schemes; the rehabilitation and consolidation of existing holdings by the Federal Land Consolidation and Rehabilitation Authority (FELCRA); the promotion of inter-cropping, off-season cropping and crop diversification; fisheries and livestock development; credit and marketing services by *Bank Pertanian*, the co-operative movement and the Federal Agricultural Marketing Authority (FAMA); and the provision of extension and advisory services through Farmers' Development Centres established by the Farmers' Organisation Authority.

722. New land development has a major role to play in reducing poverty by providing productive employment to the landless and those with uneconomic holdings. With about \$1.1 billion provided to FELDA, this will enable it to open up 350,000 acres of land and settle about 20,500 families. Other land development agencies will account for 390,000 acres of the land to be opened up. In addition, efforts will be made to establish farm enterprise schemes involving a greater degree of settler participation in their development and management. In total, and including joint-venture projects with the private sector, the land development programme is estimated to settle about 60,000 families.

723. Other programmes will contribute to poverty redressal by improving the access of the poor to basic amenities. These include low-cost housing, public transport, rural electrification, water supply, health and education. The amount allocated for public low-cost housing is \$515.0 million or more than twice that spent under the SMP. Sites and Services projects to be implemented on the fringes of the urban areas will involve the provision of sites and basic services to enable the lowest income groups to build their own houses with Government assistance. Rural electrification will be expanded and a provision of \$174.6 million has been made for this purpose, the bulk of which is for the poor States. In the health programme, the establishment of additional rural clinics and district hospitals will enable health services to be extended to a greater part of the rural population.

Allocations for restructuring projects

724. The amount allocated for programmes designed to facilitate the restructuring of society, in particular by increasing the opportunities for the Malays and other indigenous people to participate in the modern sectors of the economy, is \$3.5 billion or 18.8% of the total. The main focus of these programmes will be to assist the Malays and other indigenous people to participate in commercial and industrial activity with the support of major public sector agencies—PERNAS (\$200.0 million), MARA (\$315.0 million), the SEDCs (\$425.8 million), UDA (\$200.0 million) and *Bank Pembangunan* (\$65.0 million) as well as the *Bumiputra Investment Fund* (\$200.0 million) to be established under the Plan. These agencies have been provided with \$1.4 billion to establish new enterprises and acquire corporate capital to be held in trust for the Malays and other indigenous people. They will also have the important function of providing credit and technical assistance. Education and training projects will be expanded. These will provide opportunities for the Malays and other indigenous people to acquire industrial and commercial skills for greater employment in commerce and industry. The main projects in this connection are the expansion of the ITM (\$66.0 million), the MARA vocational schools (\$22.6 million) and the establishment of special residential science schools at a cost of \$21.0 million. In respect of other Malaysians, the restructuring objectives of the NEP will be achieved *inter alia* through the implementation of policies designed to increase employment in agriculture and other sectors where their representation is currently low in relation to the NEP targets.

IV. HIGHLIGHTS OF SECTORAL ALLOCATIONS

725. Table 12-3 shows that the allocation of \$12.7 billion for the economic sector accounts for 68.3% of the total expenditure programme of \$18.6 billion. Expenditure for agriculture and rural development amounts to \$4.7 billion, with land development by FELDA, FELCRA and other agencies absorbing \$2 billion. Other agricultural programmes take up \$2.7 billion for the development of *in situ* agriculture. The proposed allocations reflect the importance to be given to programmes dealing with factors which inhibit

TABLE 12-3

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1971-80
(\$ million)

Sector	Revised SMP allocation, 1971-75			Estimated expenditure 1971-75			TMP allocation, 1976-80			%	
	SMP allocation, 1971-75	Estimated expenditure 1971-75		SMP allocation, 1971-75	Estimated expenditure 1971-75		SMP allocation, 1976-80	TMP allocation, 1976-80			
		Peninsular Malaysia	Sarawak		Total	Peninsular Malaysia		Sarawak	Total		Peninsular Malaysia
ECONOMIC	7,349.72	5,771.95	732.53	595.83	7,100.31	72.3	10,475.540	1,006.312	1,183.304	12,665.156	68.3
(a) AGRICULTURE AND RURAL DEVELOPMENT	2,368.96	1,747.02	221.96	160.11	2,129.09	21.7	3,901.897	389.034	444.605	4,735.536	25.5
Agriculture	202.49	115.77	37.90	58.56	212.23	2.2	345.221	49.023	102.500	496.744	2.7
Rubber Replanting	190.16	116.28	16.97	25.16	158.41	1.6	620.899	27.600	26.438	674.937	3.6
Land Development (FELDA, FELCRA, DARA, LKJT, LKTT)	1,252.73	992.31	103.13	43.74	1,139.18	11.6	1,603.689	170.000	236.000	2,009.689	10.8
Drainage and Irrigation	314.21	240.07	15.08	15.94	271.09	2.8	565.756	24.000	31.275	621.031	3.3
Forestry	40.18	21.09	7.65	2.03	30.77	0.3	46.449	2.640	6.378	55.467	0.3
Animal Husbandry	81.14	59.27	6.61	3.84	69.72	0.7	132.645	32.653	13.711	179.009	1.0
Fisheries	42.01	24.04	1.88	6.06	31.98	0.3	253.844	6.350	15.540	275.734	1.5
Agriculture Credit and Marketing (Bank Pertanian, FAMA, Co-operatives, Padi Board and Rural Credit)	179.52	104.83	27.14	0.10	132.07	1.3	224.407	65.996	4.413	294.816	1.6
Agricultural Research (MARDI and Division of Food Technology)	37.92	28.60	5.60	4.68	28.60	0.3	60.583	—	—	60.583	0.3
Others	0.69	0.44	0.14	—	0.58	—	48.404	10.772	8.350	67.526	0.4
(b) MINERAL RESOURCES DEVELOPMENT	0.69	0.44	0.14	—	0.58	—	2.039	1.350	1.648	5.037	—
Mines Department	—	—	—	—	—	—	0.560	—	—	0.560	—
Geological Survey	0.69	0.44	0.14	—	0.58	—	1.479	1.350	1.648	4.477	—
(c) COMMERCE AND INDUSTRY	1,608.14	1,542.34	38.45	37.41	1,618.20	16.5	1,600.818	32.500	101.200	1,734.518	9.5
National Corporation (PERNAS)	150.00	150.00	—	—	150.00	1.5	200.000	—	—	200.000	1.1
Malis Amanah Rakyat (MARA)	215.27	205.27	—	—	205.27	2.1	315.000	—	—	315.000	1.7
State Economic Development Corporations (SEDCs)	192.93	190.49	25.57	11.47	227.53	2.3	368.800	32.500	22.500	423.800	2.3
Industrial Estates	35.26	18.01	0.40	7.00	25.41	0.3	200.000	—	17.000	217.000	1.2
Urban Development Authority (UDA)	175.00	182.10	—	12.36	194.46	2.0	200.000	—	—	200.000	1.1
Contribution to Bumiputra Investment Fund	—	—	—	—	—	—	—	—	—	—	—
Malaysian Industrial Development Finance Bid (MIDF)	100.00	100.00	—	—	100.00	1.0	—	—	—	—	—
Mekansia Rubber Development Corporation (MARDEC)	76.71	60.59	—	—	60.59	0.6	132.862	—	—	132.862	0.7
Malaysian International Shipping Corporation (MISC)	107.04	113.01	—	—	113.01	1.2	11.000	—	—	11.000	—
Other investment in economic enterprises (including Bank Perbadaguan)	225.78	223.74	7.44	4.33	235.51	2.4	120.887	—	61.700	182.587	1.0
Others—(NISIR, SIM, NPC, TOURISM, FIDA etc.)	60.15	29.13	5.04	2.25	36.42	0.4	51.969	—	—	51.969	0.3
Selangor Government	260.00	260.00	—	—	260.00	2.6	—	—	—	—	—
PETRONAS	10.00	10.00	—	—	10.00	0.1	—	—	—	—	—
Others	—	—	—	—	—	—	0.300	—	—	0.300	—
(d) FEASIBILITY STUDIES	43.68	28.94	1.62	5.33	35.89	0.4	25.000	5.000	6.000	36.000	0.2
(e) TRANSPORT	1,687.67	1,215.58	327.97	237.76	1,781.31	18.1	2,071.364	351.749	395.914	2,819.027	15.2
Roads and Bridges	858.51	620.44	191.46	107.28	919.18	9.4	1,196.214	208.900	210.000	1,615.114	8.7
Railways	97.71	95.10	9.39	—	104.49	1.1	200.000	—	—	200.000	1.1

Civil Aviation	253.59	140.78	32.46	28.78	202.02	118.400	46.700	45.900	211.000	1.1
Ports and Marine	366.15	290.71	91.04	69.21	441.96	475.250	55.049	100.014	630.313	3.4
P.W.D. Plant and Equipment	111.71	68.55	3.62	41.49	113.66	81.500	41.100	40.000	162.600	0.9
(f) COMMUNICATIONS	640.97	467.42	65.00	71.54	603.96	1,051,253	64,986	75,789	1,192,028	6.4
Telecommunications	515.55	392.79	47.07	55.05	494.91	957,390	60,610	62,000	1,080,000	5.8
Broadcasting	100.89	55.91	16.66	14.60	87.17	56,415	2,660	8,425	67,500	0.4
Postal	20.49	15.23	1.26	1.68	18.17	30,790	0,916	4,294	36,000	0.2
Meteorological Services	4.04	3.49	0.01	0.21	3.71	6,658	0,800	1,070	8,528	—
(g) UTILITIES	999.61	770.21	77.39	83.68	931.28	1,823,169	161,693	158,148	2,143,010	11.5
Electricity	579.26	456.02	49.26	59.01	564.29	1,197,735	115,193	92,042	1,404,970	7.6
Rural Electrification	70.03	60.34	3.31	6.17	69.82	158,000	10,500	6,099	174,599	0.9
Water	350.26	253.85	24.82	18.40	297.07	467,434	36,000	59,740	563,174	3.0
Gas	0.06	—	—	0.10	0.10	—	—	0.267	0.267	—
II. SOCIAL	1,431.03	1,132.60	107.57	107.50	1,347.67	2,511,266	273,377	307,510	3,092,153	16.6
(a) EDUCATION AND TRAINING	763.63	575.78	44.89	55.18	675.85	1,282,493	201,827	186,900	1,671,320	9.0
Ministry of Education	558.42	381.80	44.89	55.18	481.87	1,068,100	195,000	186,900	1,450,000	7.8
Industrial Training	4.98	4.20	—	—	4.20	14,493	6,827	—	21,320	0.1
MARA (ITM, Scholarships and Training)	200.23	189.78	—	—	189.78	200,000	—	—	200,000	1.1
(b) HEALTH AND FAMILY PLANNING	226.79	144.34	12.78	16.80	173.92	327,150	23,000	27,000	377,150	2.0
(c) SOCIAL AND COMMUNITY SERVICES	440.61	412.48	49.90	55.52	497.90	901,523	48,550	93,610	1,043,683	5.6
Housing	239.97	185.94	21.29	27.58	234.81	606,045	22,900	81,200	710,145	3.8
Sewerage	22.53	19.94	0.52	0.65	21.11	134,500	—	4,000	138,500	0.7
Culture, Youth and Sports	24.29	23.27	2.01	1.08	26.36	25,600	1,000	5,900	32,500	0.2
Community Services	83.49	95.57	23.59	2.99	122.15	79,088	18,650	—	98,238	0.5
Welfare	13.90	14.83	1.29	0.22	16.34	8,990	1,000	2,010	12,000	0.1
Orang Asli	7.50	7.26	—	—	7.26	22,000	—	—	22,000	0.1
Land	48.93	65.67	1.20	3.00	69.87	25,300	5,000	—	30,300	0.2
III. GENERAL ADMINISTRATION	369.86	227.34	31.88	89.45	348.67	418,891	92,582	86,205	597,678	3.2
IV. SECURITY	1,104.84	943.94	31.35	48.91	1,024.20	2,040,000	80,000	80,000	2,200,000	11.9
(a) DEFENCE	810.00	764.89	—	—	764.89	1,470,000	40,000	40,000	1,550,000	8.4
Accommodation	430.00	389.00	—	—	389.00	711,000	40,000	40,000	791,000	4.3
Equipment	380.00	375.89	—	—	375.89	759,000	—	—	759,000	4.1
(b) INTERNAL SECURITY	294.84	179.05	31.35	48.91	259.31	570,000	40,000	40,000	650,000	3.5
Accommodation	243.52	135.30	31.35	48.91	215.56	320,000	40,000	40,000	400,000	2.2
Equipment	51.32	43.75	—	—	43.75	250,000	—	—	250,000	1.3
V. TOTAL	10,255.45	8,075.83	903.33	841.69	9,820.85	15,445,697	1,452,271	1,657,019	18,554,987	100.0

productivity improvement in existing agricultural holdings. The programmes to be stressed are rubber replanting and newplanting by RISDA and the extension of drainage and irrigation facilities, which have been allocated \$674.9 million and \$621.0 million respectively compared to \$212.2 million and \$271.1 million in the SMP. Agricultural credit and marketing programmes to be undertaken by *Bank Pertanian*, FAMA, the rural co-operatives and the National Padi and Rice Authority have been provided with \$294.8 million. Production-oriented, extension and research programmes in the fields of agriculture, fisheries and livestock development amount to \$1.0 billion, all of which are aimed at extending the scope of agricultural services to the poor.

726. An allocation of \$1.7 billion has been made for projects in the field of commerce and industry. This is mainly intended for agencies concerned with promoting the participation of the Malays and other indigenous people in commercial and industrial activity. PERNAS has been allocated \$200.0 million, MARA, \$315.0 million, the SEDCs, \$425.8 million, UDA, \$200.0 million and \$65.0 million for *Bank Pembangunan*.

727. The allocations to the transport, communications and utilities sectors, much larger than those provided under the SMP, amount to \$2.8 billion, \$1.2 billion and \$2.1 billion, respectively. These allocations are mainly for continuation as well as new projects for the development of feeder roads, ports, railways and airports in Peninsular Malaysia, Sabah and Sarawak. They include the design of the Penang Linkage, the development of a port at Tanjung Kidurong in Sarawak with liquefied natural gas (LNG) facilities and the improvement of public transportation in the Federal Territory. The largest allocations within the utilities sector are for the programmes of the NEB and the Telecommunications Department. They will help overcome current backlogs and enable a greater part of the country to be served by electricity, telephone and telex services.

728. The social services sector is allocated \$3.1 billion, primarily for education, training and health programmes. The needs of the rural areas in the poor States, in particular, will receive priority as past efforts have already brought about a relatively high standard of these services in the more developed urban areas.

729. The allocations for defence and internal security amount to \$2.2 billion. A sizeable part of the allocations will be for the provision of accommodation for members of the security forces and their families in the effort of the Government to ensure that service personnel and their families are properly housed and that their welfare is promoted.

V. THE FINANCING OF PUBLIC DEVELOPMENT EXPENDITURE

730. The financing of the public expenditure development programme under the TMP will, as in past Plans, continue to be a challenging one. With expansion in the range and complexity of Government operations, it

will be necessary to ensure that current expenditures are adequately funded by Government revenue while efforts are stepped up, at the same time, to mobilize domestic and external capital to finance the public development expenditure programme.

731. The revenue of the Federal and State Governments is estimated to rise from \$5.9 billion in 1975 to \$11.1 billion in 1980—an average growth of 13.3% per annum. Public current revenue is estimated to be \$43.3 billion for the period as a whole with \$37.0 billion being Federal revenue and the remainder State revenue.

732. Direct taxes are estimated to contribute 34.4% of the total with indirect taxes and non-tax revenue accounting for 65.6%. Revenue from direct taxes is projected to grow by 17.5% per annum following the growth of incomes and improvement in the tax collection machinery. A major new source will be revenue from income tax on petroleum production. Taxes on foreign trade and domestic indirect taxes are projected to grow by 11.1% per annum as a result of increases in the volume of domestic and foreign trade, accelerated growth of domestic production and increases in the prices of both export and import commodities.

733. As a proportion of GNP, total public revenue is expected to increase from 27.9% in 1975 to 29.3% in 1980. With taxation already high by international standards, the growth of revenue will come mainly from rising GNP and greater progressivity of the tax system rather than a significantly enlarged overall tax effort.

734. Public current expenditure is estimated to amount to about \$42.5 billion over the period 1976-80 with 87.0% representing Federal current expenditure and 13.0% being State expenditure. This will be double the amount spent in the SMP, a large part of which going towards the expansion of the personnel strength of the security forces. Apart from the wage and salary bill which accounts for over one-half of current expenditure, other major commitments include debt-service payments, supplies and Federal grants to State Governments. By sectors, social services, mainly education and health, are estimated to absorb about one-third of total operating expenditure. To provide for increased availability and quality of these services, especially in the rural areas, expenditure on social services is forecast to grow strongly.

735. Total current expenditure in relation to GNP will be 27.1% in 1980, a ratio which is already high by international standards. Notwithstanding expansion in the demand for public services and the needs of modern Government, efforts will be directed to increase productivity and efficiency in the public service as an essential means for containing the future growth of current expenditure.

736. Federal and State Government revenue is estimated to exceed current expenditure by \$800.0 million, compared with \$900.0 million in the SMP. The current account of the Federal Government will be balanced for the period as a whole. The surplus of the State Governments is largely accounted for by Sabah and Sarawak reflecting their stronger financial position compared to other States in Peninsular Malaysia. Revenue from petroleum is the major factor explaining the favourable financial position of Sabah and Sarawak.

737. The operating surpluses of the Public Authorities are projected at \$900.0 million arising mainly from the NEB, the Telecommunications Department and the electricity boards of Sabah and Sarawak. In comparison, the surpluses of the Malayan Railway, Port Authorities and Municipalities are not likely to be significant.

TABLE 12-4

MALAYSIA: CONSOLIDATED PUBLIC SECTOR
EXPENDITURE AND FINANCING, 1971-80
(\$ million)

	Cumulative total	
	1971-75 (Estimated)	1976-80 (Estimates)
Government revenue	21,700	43,300
— Government current expenditure	20,800	42,500
= Current surplus	900	800
+ Public Authorities current surplus	800	900
= Public sector surplus	1,700	1,700
— Public sector development expenditure	9,820	18,555
= Overall deficit	8,120	16,855
<i>Sources of financing</i>		
Net foreign borrowing	2,300	5,800
Net domestic borrowing	4,650	11,000
Use of accumulated assets and special receipts	1,170	100

738. Taken together, the current surpluses of the Federal and State Governments and the Public Authorities amount to \$1.7 billion for the 1976-80 period. As development and defence expenditure is targetted at \$18.6 billion, there is a deficit of \$16.9 billion. This deficit is more than two times larger than in the SMP and gives rise to the need for a substantially higher level of borrowing to be effected. The mobilization of the required resources without creating inflationary pressure on the economy is nevertheless a feasible objective given the investible resources to be generated by the forecasted growth of GNP.

739. Loans to be raised on the domestic market are projected at about \$11 billion for the five-year period, the bulk of which will continue to be raised from the non-bank private sector. The principal sources will be the national social security organizations, including the Employees Provident Fund, the insurance companies, the finance companies especially those licensed as borrowing companies, discount houses and the merchant banks. The National Savings Bank will also remain an important source of domestic resources for the financing of the national development effort over the TMP period. Other non-bank financial institutions can be expected to continue to raise their holdings of Government securities significantly.

740. Financial policy aimed at mobilizing institutional surplus funds in particular should enable the total domestic borrowing target of \$11 billion to be met. This level of resource mobilization implies a rate of monetary expansion consistent with the growth of nominal GNP over the next five years. The financial strategy underlying these projections takes account of the necessity to ensure that the financing of the public sector programme under the TMP will continue to be undertaken within an environment of financial stability, thereby enabling economic development to take place in the context of reasonable domestic price stability.

741. The amount projected for external borrowing, in the form of both market and project loans, is about \$5.8 billion with the bulk coming from institutional sources, principally the World Bank, the Asian Development Bank and the Islamic Development Bank. Bilateral arrangements with foreign Governments indicate that the amounts that can be expected from these sources will be significant. Borrowing from international markets would also be stepped up substantially during the TMP period. Although this is a potentially significant source of external capital given Malaysia's dynamic growth prospects and high credit standing in the international financial community, the amounts to be raised will of necessity depend on market conditions.

742. On the basis of a domestic borrowing target of a net amount of \$11 billion and external borrowing of \$5.8 billion, total public sector borrowing will amount to \$16.8 billion. As the public sector deficit amounts to \$16.9 billion, the projected levels of borrowing will be sufficient to finance almost the entire public sector development programme with the remaining amount of resources coming from a minor use of the accumulated assets in the public sector as well as special receipts.

743. The country has substantial capacity to undertake the proposed levels of borrowing for the TMP. The external debt service ratio was less than 4% of export earnings in 1975. By 1980, this ratio will increase to about 7%. These levels of debt service are about the lowest among countries at similar levels of development. Even so, the ratio is only a crude indicator of a country's capacity for external borrowing. Factors including the growing diversity of Malaysia's export structure, the prospects of growth of the national economy, the level of its international reserves and its debt service record are equally important considerations in determining the country's credit worthiness.

744. In the final analysis, the realization of the targets for external project borrowing will hinge on the capacity of individual Ministries, Departments and Public Authorities to prepare projects which attract external financing. The Government will give every priority to ensure that the planning, administrative and implementation machinery for this purpose is effectively geared to the preparation of extended pipelines of projects suitable for external capital assistance.