

Chapter VII

Public Sector Programme, Financing and Implementation Machinery

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I. INTRODUCTION

During the Fourth Malaysia Plan period, public sector programmes were implemented for the achievement of the New Economic Policy (NEP) objectives through growth. Other objectives included the expansion of the productive capacity of the economy through investments in infrastructural facilities and education and training. Programmes such as health, water supply, housing, and other social services were also implemented to improve the quality of life.

With resource constraints during the Fifth Malaysia Plan period, public sector programmes will focus on growth with stability and the improvement in the quality of life through the provision of basic amenities as well as strengthening the economic base. With regard to growth, the private sector is anticipated to take the leading role.

II. PUBLIC SECTOR PROGRAMME AND FINANCING, 1981-85

Concept and coverage

Traditionally, the public sector comprised the Federal Government, State Governments, and 14 public authorities. The latter consisted of the three electricity boards, the three main port authorities, the four largest municipalities¹, the Malayan Railway, the Telecommunications Department, the Federal Land Development Authority (FELDA), and the Rubber Industry Smallholders Development Authority (RISDA).

¹ The four largest municipalities refer to the city councils of Penang and Kuala Lumpur, and the municipalities of Ipoh and Malacca.

In recent years, however, due to the increasing involvement of the public sector in national economic activities, there was an expansion in the number of public authorities engaged in commercial as well as socio-economic activities. These public authorities contributed towards economic growth and the NEP objectives. In terms of their roles and functions, the public authorities were divided into three categories, namely, socio-economic, commercial and industrial, and public utilities. Public authorities belonging to the socio-economic category included RISDA, FELDA, the Federal Land Consolidation and Rehabilitation Authority (FELCRA), and the Malaysian Rubber Development Corporation (MARDEC). The commercial and industrial public authorities included the National Oil Corporation (PETRONAS), the Malaysian Airline System (MAS), and the Heavy Industries Corporation of Malaysia (HICOM). Those belonging to the public utilities category included the electricity boards and port authorities. These public authorities, which were previously referred to in general as off-budget agencies (OBAs) are now classified as non-financial public enterprises (NFPEs). The NFPEs, however, do not include municipalities which are now treated as local governments.

In the planning and monitoring of public sector expenditure, only the large NFPEs with Government equity ownership exceeding 50 per cent and an annual revenue exceeding \$5 million are included in the operational definition of the public sector. The public sector under the Fifth Plan, therefore, comprises the Federal Government, State Governments, and such NFPEs, of which 35 are shown in Table 7-1. The list of NFPEs will, however, be modified to take into account changes in public equity ownership, revenue, and new authorities.

The development expenditure of a majority of these NFPEs constituted a sizeable outlay of the public sector expenditure. The expenditure of these NFPEs had far-reaching implications and impact on the balance of payments and the external debt position of the country. This situation was largely attributed to the fact that their development expenditure had high foreign exchange content. In order to finance their expenditure, the NFPEs relied on loans in both the domestic and international markets, which in most cases required the Federal Government guarantee. Excluding the NFPEs, the size of the public sector in total investment² was estimated at 30 per cent during the Fourth Plan period. With the inclusion of the 35 NFPEs, it rose to 48 per cent.

The public sector development expenditure for the Fourth Plan period, as shown in Table 7-2, amounted to \$80,331 million. Of this amount, the Federal Government expenditure accounted for 57.7 per cent, the State Governments 7.8 per cent, and the NFPEs 34.5 per cent. Expenditure by the Federal Government and the NFPEs for agriculture and rural development as well as commerce and

² Investment is part of the development expenditure which is incurred on gross additions to fixed assets and increases in stocks.

TABLE 7-1
MALAYSIA: COMPOSITION OF THE PUBLIC SECTOR

General Government
Federal Government
13 State Governments
4 Local Governments
Penang
Ipoh
Kuala Lumpur
Malacca
Non-Financial Public Enterprises
National Oil Corporation (PETRONAS)
National Corporation (PERNAS)
Telecommunications Department
Urban Development Authority (UDA)
Malaysian Airline System (MAS)
Malayan Railway
Malaysian Highway Authority (LLM)
Malaysian International Shipping Corporation (MISC)
Perbadanan Nasional Shipping Line (PNSL)
Malaysia Shipyard and Engineering (MSE)
Sabah Shipyard
Penang Port Commission (PPC)
Kelang Port Authority
Kuching Port Authority
Bintulu Port Authority
Johor Port Authority
Rajang Port Authority
Sabah Port Authority
National Electricity Board (NEB)
Sabah Electricity Board (SEB)
Sarawak Electricity Supply Corporation (SESCO)
Sabah Energy Corporation
Sabah Gas Industries
Heavy Industries Corporation of Malaysia (HICOM)
Cement Industries of Malaysia (CIMA)
Perak Hanjoong Cement
Kedah Cement
Cement Manufacturers (Sabah)
Cement Manufacturers (Sarawak)
Federal Land Development Authority (FELDA)
Rubber Industry Smallholders Development Authority (RISDA)
Federal Land Consolidation and Rehabilitation Authority (FELCRA)
Malaysian Rubber Development Corporation (MARDEC)
Sabah Forest Industries
Food Industries of Malaysia (FIMA)

industry amounted to \$28,926.1 million or 39.1 per cent, while that of transport and communications as well as energy and public utilities \$26,643.1 million or 36 per cent of the total. The expenditure for the social sector amounted to \$9,980.2 million or 13.5 per cent and that of security \$7,494.6 million or 10.1 per cent.

Development expenditure by sector

Table 7-2 shows the distribution of the Federal Government and NFPEs expenditure by sector. The economic and social programmes accounted for a major portion of the development expenditure followed by security and admini-

TABLE 7-2

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE, 1981-85
(\$ million)

Sector	Federal Government Fourth Plan allocation		Estimated expenditure			
	\$ million	%	Federal Government	NFPEs	Total	%
Economic	30,103.81	61.40	28,042.13	27,735.50	55,777.63	75.31
Agriculture and rural development	7,991.72	16.30	7,540.90	1,173.53	8,714.43	11.76
Mineral resources development	28.59	.06	27.79	—	27.79	.04
Commerce and industry	6,594.83	13.45	6,308.78	13,902.84	20,211.62	27.29
Transport	7,276.17	14.84	6,989.69	5,975.84	12,965.53	17.51
Communications	3,001.80	6.12	2,422.54	2,610.62	5,033.16	6.80
Energy and public utilities	5,001.07	10.20	4,571.78	4,072.67	8,644.45	11.67
Feasibility study	85.30	.17	64.85	—	64.85	.09
Research and development	124.33	.25	115.80	—	115.80	.16
Social	10,340.99	21.09	9,972.69	7.50	9,980.19	13.48
Education and training	4,840.09	9.87	4,687.59	—	4,687.59	6.33
Health and population	762.74	1.56	736.51	—	736.51	1.00
Information and broadcasting	91.11	.19	83.39	—	83.39	.11

Housing ¹	4,094.63	8.35	3,934.89	8.49	—	—	3,934.89	5.31
Culture, youth and sports	133.87	.27	129.72	.28	—	—	129.72	.18
Local and town council, welfare and community services	220.58	.45	213.08	.46	7.50	.03	220.58	.30
Village and community development	188.69	.39	178.23	.38	—	—	178.23	.24
Purchase of land	9.28	.02	9.28	.02	—	—	9.28	.01
Security	7,741.78	15.79	7,494.58	16.18	—	—	7,494.58	10.12
Defence	6,024.08	12.29	5,836.32	12.60	—	—	5,836.32	7.88
Internal security	1,717.70	3.50	1,658.26	3.58	—	—	1,658.26	2.24
Administration	838.84	1.71	810.60	1.75	—	—	810.60	1.09
General services	838.84	1.71	810.60	1.75	—	—	810.60	1.09
Upgrading and renovation	—	—	—	—	—	—	—	—
Federal Government and NFPs	49,025.42	100.00	46,320.00 ²	100.00	27,743.00	100.00	74,063.00	100.00
State Governments	—	—	—	—	—	—	6,268.00	—
Public sector	—	—	—	—	—	—	80,331.00	—

Note:

¹ Includes Government Officers Housing Loan Scheme.

² The total figure is the latest as revised downwards by \$657 million on 22nd February, 1986 and as such the sum of the expenditure in the sectoral chapter do not add up to this new total.

stration. Of the total expenditure amounting to \$74,063 million, the economic sector accounted for 75.3 per cent, social sector 13.5 per cent, security 10.1 per cent, and administration 1.1 per cent.

The agricultural and rural development programmes accounted for about \$8,714.4 million or 11.8 per cent of the total expenditure. The programmes undertaken were mainly aimed at poverty eradication. These included the opening up of 360,600 hectares of new land which amounted to about 83.9 per cent of the Fourth Plan target; replanting of 103,500 hectares of rubber or 61 per cent of the Fourth Plan target; the implementation of several drainage and irrigation projects for both single and double cropping of *padi*, resulting in meeting about 70 per cent of domestic requirements in rice; and the Integrated Agricultural Development Projects (IADPs) which provided the necessary agricultural infrastructure, inputs, and services to the farmers in an integrated manner.

The expenditure for commerce and industry amounted to \$20,211.6 million or 27.3 per cent of the total expenditure. This expenditure was largely for restructuring programmes undertaken by agencies such as the National Equity Corporation (PNB), the Council of Trust for Indigenous People (MARA), and the state economic development corporations (SEDCs). The main function of PNB was to evaluate, select, and purchase shares in limited companies with growth potentials. PNB group purchased a total of \$6,160 million of share capital in 159 companies, as of December, 1985. The programmes undertaken by MARA included the provision of entrepreneurial training to 80,700 Bumiputera trainees, the provision of advisory and consultancy services and loans to Bumiputera businessmen, and the construction of shops and stalls for sale or rent to Bumiputera entrepreneurs. The expenditure by agencies such as PETRONAS and HICOM was also for commercial and industrial programmes aimed at growth. These included the exploration and development of the oil-fields in Terengganu and Sabah by PETRONAS and the cement plant in Kedah, the steel billet plant in Terengganu, and the Malaysian car project by HICOM.

The transport and communications as well as energy and public utilities sectors continued to provide the foundation for the development of the other sectors in the economy. The expenditure for the transport sector amounted to \$12,965.5 million or 17.5 per cent of the total expenditure. A large portion of the expenditure was for the construction of roads and bridges. Major programmes undertaken

included the Penang Bridge, trunk roads such as the Kuala Krai-Gua Musang, Kuantan-Segamat, and the East-West Highway, interurban toll highways, and road improvement programmes such as Tamparuli-Ranau road and Miri-Bintulu road. In addition, rural road development programmes and the upgrading of the existing *kampung* roads to sealed standard roads were also undertaken. The expenditure for the railway included the rehabilitation of 358 kilometres of tracks and the purchase of 25 locomotives and 50 passenger coaches. The capacity of the national shipping lines was expanded with the purchase of 14 new vessels, thus, increasing the tonnage capacity from 817,050 dead weight tons (dwt) in 1980 to 1,483,900 dwt. in 1985.

The expenditure for communications amounted to about \$5,033.2 million or 6.8 per cent of the total expenditure. With the implementation of telecommunications programmes, the telephone exchange line capacity increased from 65,000 lines in 1980 to 1.9 million lines in 1985, achieving 65.9 per cent of the Fourth Plan target. International direct dialling services expanded from four countries in 1980 to 65 countries by the end of 1985.

The expenditure for the development of energy and public utilities amounted to \$8,644.5 million or 11.7 per cent of the total, the bulk of which was for electricity and water supply. The major energy programmes undertaken included the Prai Power Station, Tenom Pangi and Batang Ai Hydroelectric Projects as well as the gas-fired Paka Power Station. The rural electrification programme was also implemented. During the Fourth Plan period, a total of 21 minihydro projects was undertaken. With the completion of these programmes, 42 per cent of the rural population were supplied with electricity by 1985 compared with 28 per cent in 1980. With regard to water supply, the major programmes undertaken included several urban water supply projects and 4,350 rural water supply schemes, the latter benefitting 3.2 million people.

The social sector, comprising education and training, health, housing, and other social services accounted for \$9,980.2 million or 13.5 per cent of the total expenditure. The bulk of the expenditure was for education and training, health, and housing. The education and training programmes implemented included the provision of 11,000 units of classrooms for primary education and 5,800 units for secondary education compared with the Fourth Plan targets of 17,000 units and 10,700 units, respectively. In order to improve the acute bed-population ratio, nine new hospitals were completed during the Fourth Plan period, thereby

increasing the number of acute beds from 21,400 in 1981 to 26,200 in 1985. With regard to housing, 201,900 units of houses were built compared with the target of 398,600 units.

Expenditure for the security sector, aimed at safeguarding the sovereignty of the country and the maintenance of law and order, amounted to \$7,494.6 million or 10.1 per cent of total expenditure. The major share of the expenditure for this sector was on defence, amounting to \$5,836.3 million, while the balance was for internal security. The defence programmes that were implemented included the acquisition of modern equipment, the expansion of the existing bases and camps as well as the establishment of new ones such as the Royal Malaysian Naval Base at Lumut and the Royal Malaysian Air Force Base at Subang. Programmes for internal security included the acquisition of modern equipment, the establishment of new police stations and police field force camps, and the expansion of existing ones as well as the establishment of treatment and rehabilitation centres for dadah abusers. Training facilities for the police were expanded and upgraded to increase their efficiency.

Federal development expenditure for NEP programmes

A sum of \$18,284.3 million or 37.3 per cent of the Federal Government allocation was for NEP programmes. Of this amount, \$17,905.1 million was spent during the Fourth Plan period. A total of \$11,238.5 million, as shown in Table 7-3, was spent on programmes directed towards the eradication of poverty, while the balance was for programmes designed to restructure society. Programmes aimed at the eradication of poverty included assistance to farmers, land development, and low-cost housing, while those for restructuring of society included the purchase of share capital in limited companies and generation of employment opportunities in the commercial and industrial sectors of the economy.

Federal development expenditure by state³

The high income states of Selangor and the Federal Territory of Kuala Lumpur, as shown in Table 7-4, spent \$8,564.6 million or 18.5 per cent of the total Federal Government expenditure. This was for the completion of continuation projects such as Phase I of gas-fired Port Klang Power Station, Connaught Bridge Gas Turbine Project, Kuala Lumpur-Petaling Jaya Traffic Dispersal Scheme, Dayabumi Complex, the expansion of the Kuala Lumpur International Airport, and the construction of the Royal Malaysian Air Force Base at Subang.

³ States are classified into high, middle, and low-income categories based on their respective *per capita* Gross Domestic Product (GDP) in relation to that of the national average.

TABLE 7-3

**MALAYSIA: FEDERAL GOVERNMENT DEVELOPMENT EXPENDITURE
DIRECTED TOWARDS ERADICATION OF POVERTY
AND RESTRUCTURING
OF SOCIETY, 1981-85**

<i>Programme</i>	<i>Fourth Plan allocation</i>		<i>Estimated Fourth Plan expenditure</i>		<i>Achievement</i>
	<i>\$ million</i>	<i>%</i>	<i>\$ million</i>	<i>%</i>	
Eradication of poverty ¹	11,617.66	63.54	11,238.53	62.77	96.74
Restructuring of society ²	6,666.59	36.46	6,666.59	37.23	100.00
Total	18,284.25	100.00	17,905.12	100.00	97.93

Notes:

¹ Programmes aimed at increasing the income and improving the quality of life of the poor such as assistance to farmers, land development, extension services, rural roads and low-cost housing.

² Programmes aimed at reducing economic imbalances.

TABLE 7-4

**MALAYSIA: FEDERAL GOVERNMENT DEVELOPMENT EXPENDITURE
BY STATE, 1981-85**

<i>State</i>	<i>Fourth Plan allocation</i>		<i>Estimated Fourth Plan expenditure</i>	
	<i>\$ million</i>	<i>%</i>	<i>\$ million</i>	<i>%</i>
High-income				
Selangor	3,924.28	8.00	3,538.85	7.64
Federal Territory	5,263.91	10.74	5,025.72	10.85
Middle-income				
Johor	3,357.31	6.85	3,098.81	6.69
Malacca	652.71	1.33	592.90	1.28
Negeri Sembilan	1,296.92	2.65	1,222.85	2.64
Pahang	3,090.55	6.30	2,871.84	6.20
Perak	3,676.36	7.50	3,478.63	7.51
Perlis	626.56	1.28	579.00	1.25
Penang	1,468.62	3.00	1,380.34	2.98
Sabah	2,585.13	5.27	2,580.02	5.57
Sarawak	3,285.59	6.70	3,112.70	6.72
Terengganu	2,543.95	5.19	2,343.79	5.06
Low-income				
Kedah	2,620.63	5.35	2,408.64	5.20
Kelantan	2,617.74	5.34	2,473.49	5.34
Multistate ¹	12,015.16	24.51	11,612.42	25.07
Total	49,025.42	100.00	46,320.00	100.00

Note:

¹ Multistate projects are those whose beneficiaries extend beyond the boundary of the state in which they are located such as universities and ports.

The middle-income group, comprising 10 states, expended a sum of \$21,260.9 million or 45.9 per cent of the total. The expenditure ranged from \$579 million for Perlis to \$3,478.6 million for Perak. Total expenditure for the low-income states of Kedah and Kelantan amounted to \$4,882.1 million or 10.5 per cent of the Federal Government development expenditure. The bulk of the expenditure in these states was for transport and communications as well as agriculture and rural development.

Federal development expenditure for multistate projects

Projects whose beneficiaries extend beyond the boundary of the state in which they are located are classified as multistate projects. During the Fourth Plan period, these projects included the purchase of equipment for the armed forces and police, scholarships, housing loan fund for Government employees, and the allocation to PNB for the purchase of shares in limited companies. The Federal Government expenditure for these multistate projects amounted to \$11,612.4 million or 25.1 per cent of the total expenditure.

Current expenditure

Current expenditure of the Federal Government, comprising mainly wages and salaries, debt service payments, supplies and services, and subsidies, rose by 9.4 per cent per annum during the Fourth Plan period. Expenditure on wages and salaries, accounting for about 36 per cent of total current expenditure, expanded by about 10 per cent per annum during the period. The increase took into account the salary revisions for employees within categories C and D of the Government service, implemented since July, 1985, and the filling in of vacant posts. Debt service payments increased by 28.8 per cent per annum, augmenting its share in total current expenditure from 11.6 per cent in 1980 to 25.7 per cent in 1985. This rapid increase was on account of the larger size of loan commitments of the Federal Government to finance its large investment programmes, particularly during the early years of the Fourth Plan period. Greater recourse to market loans as well as the relatively higher interest rates in the capital market also contributed to the larger debt service payments.

Expenditure on supplies and services, comprising mainly the purchase of supplies and equipment, as well as payments on other items including travelling, utilities, maintenance and repairs, and professional services, also expanded at a high rate of about 15 per cent per annum and accounted for about 13 per cent of current expenditure during the Fourth Plan period. Expenditure on subsidies registered a decline of 15.8 per cent per annum during the period. The decline resulted from the removal of Government subsidies on diesel and kerosene since 1984.

The countercyclical measures of the public sector during the early years of the 1980s, which involved large increases in its capital expenditure, resulted in the unprecedented increases in the overall public sector deficits. At the same time, the

tax cuts initiated as part of the countercyclical stance as well as falling commodity export taxes contributed to a significant slowdown in the growth of revenue. In spite of large increases in oil and oil-related revenues, these were not sufficient to prevent the overall public sector deficit as a percentage of the Gross National Product (GNP) to rise from 12.0 per cent in 1980 to 20.5 per cent in 1981, although it declined slightly to 19.0 per cent in 1982. The deceleration in public spending, following the consolidation efforts initiated since 1983, as well as some improvements in commodity prices, reduced the deficit further to 9.7 per cent in 1985.

Sources of revenue

Total revenue of the Federal Government expanded by 9.4 per cent per annum during the Fourth Plan period from \$13,926 million in 1980 to \$21,861 million in 1985, as shown in Table 7-5. Its share as a percentage of GNP rose from 27.0 per cent to 29.9 per cent. The share of tax in total revenue, however, declined from 91.9 per cent to 85.4 per cent, reflecting in part, the significant increases in non-tax revenue, mainly from petroleum dividend. The decline was also due to the provision of large tax cuts, exemptions, and allowances as well as a deceleration in export tax receipts during the period. Nevertheless, the high percentage of tax revenue which prevailed signified a major effort on the part of the Government to mobilize domestic resources from fiscal revenue without resulting in price instability. Within tax revenue, earnings from direct taxes expanded rapidly by 11.5 per cent per annum and accounted for 70.1 per cent of the overall increase in tax revenue earnings. Indirect tax revenue rose relatively slower by 4.5 per cent per annum. The contribution of revenue from oil and oil-related activities in total revenue of the Federal Government rose significantly from 19.8 per cent in 1980 to 29.3 per cent in 1985.

Direct taxes, comprising mainly income tax on companies and individuals, expanded by about 12 per cent per annum and accounted for 41.8 per cent of total revenue during the Fourth Plan period. The growth in revenue from corporate tax of 8.7 per cent per annum was somewhat moderated by the downturn in commodity prices which subsequently affected corporate earnings. Revenue from personal income tax rose by 13.5 per cent per annum, reflecting rising income base, increasing number of income tax payers as well as improvements in the revenue collecting machinery.

Revenue from indirect taxes, consisting mainly of export and import duties and which traditionally accounted for a large component of fiscal revenue, grew relatively slower. Its share in total revenue fell significantly from 51.2 per cent in 1980 to 40.7 per cent in 1985, due largely to lower export earnings. Revenue from export duties declined by 7.2 per cent per annum from \$2,567 million in 1980 to \$1,760 million in 1985, brought about by absolute declines in receipts from tin and palm oil. In the case of rubber, the decision of the Government to reduce the incidence of taxation on rubber smallholders by increasing the minimum taxable

TABLE 7-5
MALAYSIA: FEDERAL GOVERNMENT REVENUE, 1980-85
(\$ million)

Sources	1980-1985						Cumulative, 1981-85	Average annual growth rate, 1981-85 (%)
	1980	1981	1982	1983	1984	1985		
Direct taxes	5,664	6,328	6,582	7,865	8,655	9,777	39,207	11.5
Income tax	5,240	5,819	6,048	7,262	7,977	9,027	36,133	11.5
Company	2,521	2,754	2,613	3,450	3,432	3,824	16,073	8.7
Individual	983	1,087	1,360	1,814	1,975	1,855	8,091	13.5
Petroleum	1,736	1,978	2,075	1,998	2,570	3,348	11,969	14.0
Royalties on petroleum	345	417	425	480	581	566	2,469	10.4
Royalties on gas	-	-	-	11	-	21	32	-
Others	79	92	109	112	97	163	573	15.7
Indirect taxes	7,131	7,091	6,893	8,434	8,993	8,887	40,298	4.5
Export duties	2,567	2,225	1,720	1,892	2,090	1,760	9,687	-7.2
Petroleum	677	1,241	1,354	1,477	1,629	1,547	7,248	17.9
Rubber	1,098	514	110	273	161	3	1,061	-69.2
Palm oil	166	148	75	49	193	96	561	-10.4
Tin	575	298	159	56	35	33	581	-43.5
Others	51	24	22	37	72	81	236	9.7
Import duty and surtax	2,061	2,245	2,315	2,591	2,697	3,080	12,928	8.4
Excise duty	973	967	1,024	1,361	1,459	1,378	6,189	7.2
Sales tax	696	730	788	1,284	1,319	1,280	5,401	12.9
Road tax	390	408	460	545	593	630	2,636	10.1
Service tax	30	34	42	108	114	118	416	31.5
Stamp duty	182	206	248	338	372	328	1,492	12.5
Others	232	276	296	315	349	313	1,549	6.2
Non-tax revenue	1,131	2,029	2,644	1,976	2,644	2,805	12,069	19.9
Petroleum dividend	-	950	1,450	500	980	930	4,810	-
Other non-tax revenue	1,131	1,079	1,194	1,476	1,635	1,875	7,259	10.6
Non-revenue receipts	-	358	571	333	542	392	2,196	-
Total	13,926	15,806	16,690	18,608	20,805	21,861	93,770	9.4

Source: Ministry of Finance.

price of rubber from 180 cents per kilogramme to 210 cents per kilogramme in 1985, resulted in almost zero tax collection from rubber export duties in 1985 compared with \$1,098 million in 1980. With these absolute declines, the share of export duties in total indirect taxes fell substantially from 36.0 per cent in 1980 to 19.8 per cent in 1985.

Earnings from import duties expanded by 8.4 per cent per annum as a consequence of an upward revision in import duties imposed on passenger cars, liquor, cigarettes, and tobacco. Its share in indirect tax revenue increased from 28.9 per cent in 1980 to 34.7 per cent in 1985. The period also saw rapid increases in the receipts from sales and services taxes due to revisions in their rates from 5 per cent to 10 per cent in 1983.

Revenue contributions from oil and oil-related sources increased by more than 18 per cent per annum during the period, reflecting increasing reliance on oil in the revenue base of the Federal Government. Its share in total revenue earned rose from 19.8 per cent in 1980 to 29.3 per cent in 1985. The increase more than offset the slower growth from other sources, particularly tax revenue from trade. An expanding contribution from petroleum dividend resulted in its significant share in total non-tax revenue of 39.9 per cent during the period, while increases from export duties on petroleum partly offset the larger declines from other major export commodities. Apart from these, income tax revenue from the petroleum sector expanded strongly by about 15 per cent per annum during the period, on account of higher corporate earnings from petroleum activities.

Sources of financing

The current surplus of the Federal Government rose from \$309 million in 1980 to \$508 million in 1985, giving a cumulative total of \$1,880 million, as shown in Table 7-6. The rapid increase in its development expenditure, however, widened the overall deficit of the Federal Government budgetary account. Its overall deficit as a percentage of GNP rose substantially from 13.6 per cent in 1980 to 19.7 per cent in 1981 and 18.7 per cent in 1982. Nevertheless, consequential upon the reduction in Government spending since 1983, the deficit was reduced to 8.2 per cent in 1985.

The cumulative deficit for the Fourth Plan period amounted to \$44,440 million. Of this deficit, 49.1 per cent was financed through domestic resources. The Employees Provident Fund (EPF), which continued to be the main subscriber to Government securities and Treasury Bills, accounted for about 49 per cent of resources raised in the domestic market. Loans from commercial banks and the Central Bank of Malaysia contributed 19 per cent and 15 per cent, respectively, of the Federal Government domestic borrowing. The greater reliance on non-inflationary sources of financing, such as the EPF, was made with a view to avoiding substantial crowding-out effect on private sector activities.

TABLE 7-6
MALAYSIA: FEDERAL GOVERNMENT EXPENDITURE AND FINANCING
1980-85
(\$ million)

Items	1980	1981	1982	1983	1984	1985	Cumulative, 1981-85
Total revenue	13,926	15,806	16,690	18,608	20,805	21,861	93,770
Direct taxes	5,664	6,328	6,582	7,865	8,655	9,777	39,207
Indirect taxes	7,131	7,091	6,893	8,434	8,993	8,887	40,298
Non-tax revenue ¹	1,131	2,029	2,644	1,976	2,615	2,805	12,069
Non-revenue receipts	-	358	571	333	542	392	2,196
- Current expenditure ²	13,617	15,686	16,671	18,374	19,806	21,353	91,890
= Current surplus	309	120	19	234	999	508	1,880
- Net development expenditure	7,331	11,135	11,189	9,416	8,074	6,506	46,320
= Overall deficit	7,022	11,015	11,170	9,182	7,075	5,998	44,440
(% of GNP)	(13.6)	(19.7)	(18.7)	(14.0)	(9.5)	(8.2)	(13.6)
Sources of financing:							
Net foreign borrowing	310	2,909	4,773	4,403	3,218	1,163	16,466
Net domestic borrowing	2,331	4,091	5,909	4,315	3,925	3,591	21,831
Use of accumulated assets and special receipts ³	+ 4,381	+ 4,015	+ 488	+ 464	-68	+ 1,244	+ 6,143

Source: Ministry of Finance.

Notes:

¹ include dividends from PETRONAS.

² include transfers to Development Fund.

³ + indicates draw down in reserves.

- indicates build-up in reserves.

The balance of the deficit was financed from external sources, which accounted for 37.1 per cent of total financing required. The Federal Government net foreign borrowing increased significantly from \$310 million in 1980 to \$1,163 million in 1985. Throughout the Fourth Plan period, the cumulative net external borrowing amounted to \$16,466 million, with gross borrowing amounting to \$24,354 million. Total outstanding loans of the Federal Government stood at \$22,900 million at the end of 1985 compared with \$4,847 million in 1980. In terms of sources, external borrowing from market loans rose significantly rising more than six times from \$2,184 million in 1980 to \$16,300 million in 1985. It accounted for about 71 per cent of total Federal loan outstanding in 1985 compared with 45.0 per cent in 1980. Conversely, the predominance of project loans from institutional sources in financing the Federal Government deficit declined during the period. Its share in total loan outstanding declined from 55.0 per cent in 1980 to 23.0 per cent in 1985.

The financing of the NFPEs expenditure depended largely on funds from the Federal Government as well as on external borrowing, as shown in Table 7-7. Although the operating surplus of NFPEs more than doubled during the period, rising from \$2,826 million in 1981 to \$5,955 million in 1985, a substantial proportion of the surplus was from PETRONAS. Excluding the earnings of PETRONAS, the operating surplus of NFPEs amounted to \$606 million in 1981 and \$155 million in 1985.

The development expenditure of NFPEs almost doubled, increasing from \$4,677 million in 1981 to \$9,174 million in 1985, reaching a cumulative total of about \$39,200 million. The funding of this expenditure came largely from the Federal Government which amounted to \$11,306 million during the period. Of this total, 27.9 per cent was in the form of grants and 72.1 per cent loans. External borrowing, in terms of guaranteed loans by the Federal Government, accounted for 19.0 per cent or \$7,600 million of the funding requirements, while borrowings from the domestic market, 6.3 per cent or \$2,513 million during the period.

The current surplus of the State Governments amounted to \$6,047 million during the Fourth Plan period. Sarawak, Sabah, and Selangor had larger surpluses, each exceeding \$1,000 million. In the case of Sarawak and Sabah, higher receipts from forestry and petroleum accounted for their large operating surpluses. The current surplus of Selangor was on account of the large compensation from the Federal Government for the loss of revenue arising from the creation of the Federal Territory of Kuala Lumpur. The states with current deficits were Perlis and Kedah.

Taking the public sector as a whole, that is, the Federal and State Governments as well as the NFPEs, the overall deficit as a percentage of GNP rose from 12.0 per cent in 1980 to 20.5 per cent in 1981 and fell slightly to 19.0 per cent in 1982. Following the consolidation efforts of the Federal Government coupled with large increases in the operating surplus of NFPEs, mainly PETRONAS, the overall deficit declined significantly to 9.7 per cent in 1985, as shown in Table 7-8.

TABLE 7-7
MALAYSIA: EXPENDITURE AND FINANCING OF NON-FINANCIAL
PUBLIC ENTERPRISES, 1981-85
(\$ million)

<i>Items</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>Cumulative, 1981-85</i>
Total revenue	10,216	11,064	12,836	15,408	18,808	68,332
- Current expenditure	7,390	7,641	8,530	10,403	12,853	46,817
= Current surplus	2,826	3,423	4,306	5,005	5,955	21,515
- Development expenditure	4,677	6,586	8,421	10,343	9,174	39,200
= Overall deficit	1,850	3,163	4,115	5,338	3,219	17,685
Sources of financing:						
Federal and State grants	1,189	704	411	490	367	3,161
Federal and State borrowings	851	1,876	1,883	2,091	1,595	8,296
Foreign borrowing	1,326	1,807	2,728	2,133	2,149	10,143
Domestic borrowing	169	588	883	389	484	2,513
Others ¹	661	692	1,217	1,485	1,518	5,573
Use of assets ²	-2,346	-2,504	-3,007	-1,250	-2,894	-12,001

Notes:

¹ include foreign equity, domestic equity and internally generated fund.

² indicates build-up in reserves.

TABLE 7-8
MALAYSIA: CONSOLIDATED PUBLIC SECTOR EXPENDITURE
AND FINANCING, 1980-85
(\$ million)

Items	1980	1981	1982	1983	1984	1985	Cumulative, 1981-85
Total Federal revenue	13,926	15,806	16,690	18,608	20,805	21,861	93,770
- Federal Current expenditure	13,617	15,686	16,671	18,374	19,806	21,353	91,890
= Federal current surplus	309	120	19	234	999	508	1,880
+ States current surplus	999	909	1,512	1,432	1,237	957	6,047
+ NFPs current surplus	2,504	2,826	3,423	4,306	5,005	5,955	21,515
= Public sector current surplus	3,812	3,855	4,954	5,972	7,241	7,420	29,442
- Net public sector development expenditure	10,022	15,284	16,315	17,048	17,172	14,512	80,331
= Overall deficit	6,210	11,429	11,361	11,076	9,931	7,092	50,889
(% of GNP)	(12.0)	(20.5)	(19.0)	(16.8)	(13.3)	(9.7)	(16.3)
Sources of financing:							
Net foreign borrowing	1,590	4,235	6,580	7,131	5,351	2,866	26,163
Net domestic borrowing	3,650	4,259	6,497	5,198	4,314	3,995	24,263
Use of accumulated assets and special receipts	+ 970	+ 2,935	- 1,716	- 1,253	+ 266	+ 231	+ 468

Source: Ministry of Finance.

Note:

+ indicates draw down in reserve.

- indicates build-up in reserves.

III. PUBLIC SECTOR PROGRAMME AND FINANCING, 1986-90

During the Fifth Plan period, the public sector will continue to emphasize the consolidation of its activities with a view to ensuring a sustainable resource gap and healthy budgetary position. Included in this exercise will be the careful evaluation of Government projects, including those of NFPEs. Towards this end, only projects which meet the established investment criteria will be considered for implementation. In addition, the financial performance of the public enterprises will also be monitored. The Central Information Collection Unit (CICU) was established to provide the necessary information on the operations of the NFPEs and the performance of their projects. Furthermore, the projects of the Federal Government and NFPEs will have to be referred to the Standards and Costs Sub-Committee of the National Development Planning Committee in order to ensure that the costs and standards are reduced and maintained at a reasonable level.

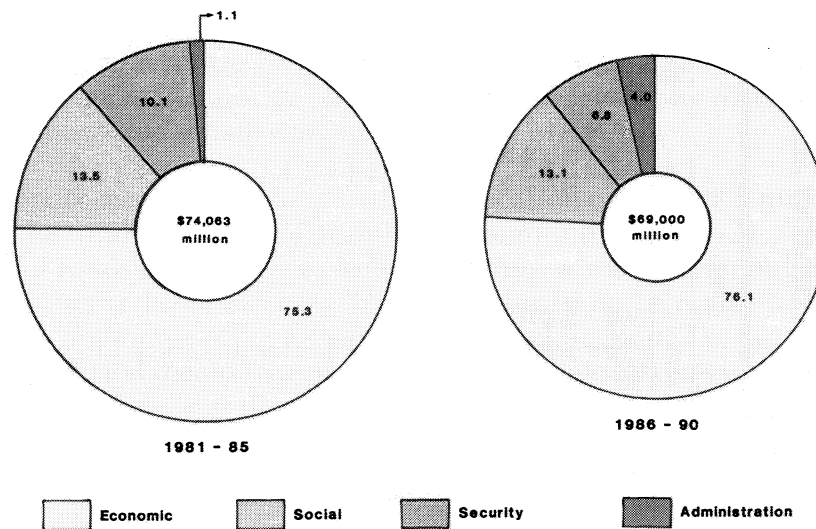
The total allocation for public sector development programmes during the Fifth Plan period amounts to \$74,000 million compared with the expenditure of \$80,331 million during the Fourth Plan period, as shown in Table 7-9. Of the \$74,000 million, the share of Federal Government is \$40,075 million, NFPEs \$28,925 million and State Governments \$5,000 million. Chart 7-1 shows the development expenditure and allocation by sector of the Federal Government and NFPEs for the Fourth and Fifth Plan periods.

Of the \$69,000 million for the Federal Government and NFPEs, \$56,047.9 million or 81.2 per cent are allocated for programmes and projects continued from the Fourth Plan period, leaving \$12,952.1 million or 18.8 per cent for new projects. With regard to the allocation for continuation projects, a substantial portion is for infrastructural development. The overall sectoral allocation for the public sector will continue to be geared towards the achievement of the objectives of growth, NEP, and the improvement of basic infrastructural facilities. During the first three years of the Fifth Plan period, land development and road construction will be intensified. In addition, housing development programme will continue to be emphasized to supplement that of the private sector. The aim is to stimulate activities within the domestic economy, thereby contributing to growth and employment.

The funds allocated under the Federal budget will be mainly utilized for programmes and projects which are socio-economic in nature, especially those related to the eradication of poverty and the provision of basic amenities to the rural areas. Funds allocated under the NFPEs will be concentrated on commercial programmes and projects which generate growth.

The selection of projects is based on certain criteria which include high value added, greater use of local inputs, shorter gestation period, employment creation, and foreign exchange earnings. High priority is, therefore, accorded to commer-

CHART 7-1
**MALAYSIA: FEDERAL GOVERNMENT AND NON-FINANCIAL PUBLIC ENTERPRISES
 EXPENDITURE (1981-85) AND ALLOCATION (1986-90) BY SECTOR
 (%)**



cial projects which not only meet these criteria but also having higher efficiency and productivity. In the selection of other projects, priority will be given to those that contribute to the eradication of poverty and the provision for basic needs.

Federal Government and NFPE development allocation by sector

During the Fifth Plan period, the economic and social programmes will continue to be the thrust of the development efforts. Of the total allocation for both the Federal Government and NFPEs, the economic sector accounts for 76.1 per cent of the total, as shown in Table 7-9. The social sector account for 13.1 per cent, the security sector 6.8 per cent, and the administration sector 4 per cent.

The allocation for agriculture and rural development amounts to \$11,828.1 million or 17.1 per cent of the public sector allocation. It is given a large share in view of the necessity to intensify the programmes on land development, IADPs as well as drainage and irrigation. These programmes will continue to raise the income of the farming community and contribute towards the objective of eradicating poverty. The allocation for land and regional development, amounting to \$5,705.9 million, is to be utilized for programmes under FELDA and the regional development authorities (RDAs). FELDA will develop 175,000 hectares of new land, an increase of 8.5 per cent over the Fourth Plan period, while the

TABLE 7-9
MALAYSIA: FEDERAL GOVERNMENT AND NFPE DEVELOPMENT ALLOCATION
BY SECTOR, 1986-90

Sector	Federal Government		NFPEs		Total	
	\$ million	%	\$ million	%	\$ million	%
Economic	23,548.40	58.76	28,924.59	100.00	52,472.99	76.05
Agriculture and rural development	10,560.62	26.35	1,267.46	4.38	11,828.08	17.14
Mineral resources development	48.55	.12	—	—	48.55	.07
Commerce and industry	3,238.69	8.08	6,513.65	22.52	9,752.34	14.01
Transport	4,521.99	11.28	6,266.94	21.67	10,788.93	15.64
Communication	133.66	.33	9,572.38	33.09	9,706.04	14.07
Energy and public utilities	4,591.24	11.46	5,304.16	18.34	9,895.40	14.34
Feasibility study	53.65	.13	—	—	53.65	.08
Research and development	400.00	1.00	—	—	400.00	.58
Social	9,034.77	22.54	—	—	9,034.77	13.09
Education and training	5,582.78	13.93	—	—	5,582.78	8.09
Health and population	714.98	1.78	—	—	714.98	1.04
Information and broadcasting	51.99	.13	—	—	51.99	.08
Housing	1,979.64	4.94	—	—	1,979.64	2.87
Culture, youth and sports	216.62	.54	—	—	216.62	.31
Local and town council, welfare and community services	237.00	.59	—	—	237.00	.34
Village and community development	251.76	.63	—	—	251.76	.36
Purchase of land	—	—	—	—	—	—
Security	4,704.44	11.74	—	—	4,704.44	6.82
Defence	2,803.65	7.00	—	—	2,803.65	4.06
Internal security	1,900.79	4.74	—	—	1,900.79	2.75
Administration	2,787.80	6.96	—	—	2,787.80	4.04
General services	787.80	1.97	—	—	787.80	1.14
Upgrading and renovation	2,000.00	4.99	—	—	2,000.00	2.90
Federal Government and NFPEs	40,075.41	100.00	28,924.59	100.00	69,000.00	100.00
State Governments	—	—	—	—	5,000.00	—
Public sector	—	—	—	—	74,000.00	—

Note:
As in Table 7-2

RDAs will develop a total of 41,100 hectares of land, SEDCs 14,000 hectares, and State Agricultural Development Corporations 29,000 hectares. The IADP programmes will be geared to complete both the continuation and new projects. Apart from completing existing IADP projects, new ones will be introduced.

The allocation for commerce and industry amounts to \$9,752.3 million or 14.1 per cent of the total allocation. The major programmes include exploration and development of oil-fields by PETRONAS and the engineering complex by HICOM. The restructuring programmes include urban renewal projects by the Urban Development Authority (UDA), industrial estates by SEDCs as well as business premises and small-scale industries by MARA.

The transport sector is provided with an allocation of \$10,788.9 million or 15.6 per cent of the total allocation. The bulk of it, amounting to \$8,721.5 million, will be utilized for roads and bridges as well as railways, while the remainder will be for ports and marine and civil aviation. The communications sector is provided with a sum of \$9,706 million or 14.1 per cent of the total allocation. The programmes for the Fifth Plan period include the provision of telephone services which will benefit 3.4 million subscribers and the improvement of the external services programme. Telecommunications services will also be further extended in rural areas.

The allocation for the development of energy and public utilities programmes amounts to \$9,895.4 million or 14.3 per cent of the total allocation. The bulk of it is utilized for the generation of electricity, amounting to \$6,385.3 million, and water supply, amounting to \$3,130.5 million. The remainder will be utilized for sewerage and urban drainage. With regard to the rural water supply programme, it is targetted that by 1990, 72.8 per cent of the total rural population will be served with potable water. The allocation for the social sector, comprising education and training, health, housing, culture, youth and sports, and other social services amounts to \$9,034.8 million or 13.1 per cent of the total allocation. The bulk of it is for education and training, amounting to \$5,582.8 million and housing, \$1,979.6 million.

The security sector is allocated a sum of \$4,704.4 million or 6.8 per cent of the public sector development allocation. Of this, \$2,803.7 million will be utilized to strengthen the capacity of the armed forces and the remainder mainly for the police force. New treatment and rehabilitation centres and follow-up care centres will be constructed to provide counselling and after-care services for ex-dadah abusers.

The allocation for the administration sector amounts to \$2,787.8 million or 4 per cent of the total allocation. The bulk of it, amounting to \$2,000 million, will be utilized for the upgrading and renovation of existing Government buildings, hospitals, schools, and Federal roads. This programme will provide adequate allocation to existing buildings and roads so that their economic life could be lengthened and their services improved.

Federal Government and NFPE development allocation for NEP programmes

The allocation for the eradication of poverty and restructuring of society is shown in Table 7-10. The allocation for poverty eradication programmes is \$15,445.7 million. It includes \$4,392 million for land and regional development, \$5,084.9 million for *in situ* development, and \$2,921.1 million for basic amenities in the rural areas. The allocation for the restructuring of society amounts to \$5,076.1 million. This includes \$2,394.3 million for business loan and premises and \$1,137.7 million for education and training.

Federal Government and NFPE development allocation by state

The development allocation of the Federal Government and NFPEs by state and sector is shown in Table 7-11. About \$7,399.7 million or 10.7 per cent of the allocation is for the states of Kedah and Kelantan, and \$10,467.7 million or 15.2 per cent for Selangor and the Federal Territories of Kuala Lumpur and Labuan.

TABLE 7-10
MALAYSIA: FEDERAL GOVERNMENT AND NFPE DEVELOPMENT
ALLOCATION
DIRECTED TOWARDS ERADICATION OF POVERTY AND RESTRUCTURING
OF SOCIETY, 1986-90

<i>Programme</i>	<i>\$ million</i>	<i>%</i>
Eradication of poverty	15,445.65	75.26
Land and regional development	4,392.02	
In situ development	5,084.94	
Support services ¹	1,273.35	
Basic amenities ²	2,921.12	
Others ³	1,774.22	
Restructuring of society	5,076.13	24.74
Business loan and premises	2,394.33	
Education and training	1,137.72	
Equity	623.84	
Others	920.24	
Total	20,521.78	100.00

Notes:

¹ This programme comprises Government assistance in the form of input subsidy for padi, agriculture credit, processing and marketing, as well as extension and other services.

² These are roads, electrification, water supply and health in rural areas.

³ Include fisheries, livestock, applied food and nutrition programmes, community development (KEMAS), low-cost housing and regrouping of villages.

The bulk of the allocation for the states of Kedah and Kelantan will be utilized for agriculture and rural development as well as transport programmes, and that of Selangor and the Federal Territories of Kuala Lumpur and Labuan for transport and communications as well as public utilities. Appendix A shows the Federal Government allocation by state and sector.

Federal Government and NFPE development allocation for multistate projects

The allocation for multistate projects amounts to \$17,097.3 million or 24.8 per cent of the total allocation. These include projects such as the purchase of equipment for the armed forces and police, aircrafts for MAS, and ships for the Malaysian International Shipping Corporation (MISC).

Current expenditure

The current expenditure of the Federal Government is expected to expand by 7.1 per cent per annum, slower than the 9.4 per cent achieved during the Fourth Plan period, in line with the objective of the Government to further consolidate its expenditure. Payments for salaries and wages will continue to account for the largest proportion and are projected to increase by 6.0 per cent annum. Interest payments, although large, will increase at a slower rate of 9.2 per cent per annum compared with 28.8 per cent per annum during the previous Plan period, reflecting lower borrowing commitments of the Federal Government. Expenditure on supplies and services is projected to rise by 13.0 per cent per annum.

Sources of revenue

Total revenue of the Federal Government is projected to grow at a slower rate during the Fifth Plan period compared with the previous Plan period, as shown in Table 7-12. The growth in earnings from income taxes is estimated to be about one third of the rate achieved during the Fourth Plan period, on account of the sharp decline in the growth of petroleum income tax. This arises mainly from the projected slower expansion in petroleum output as well as in new exploration activities. Income tax payments from companies are also expected to grow at a slower rate than the previous Plan, due to the reduction in income tax rates introduced in 1985. Royalties from petroleum are expected to decline, while those from gas are expected to increase significantly by about 47 per cent per annum. Royalties from gas, however, will not contribute significantly to the growth of direct taxes because of its small share in total direct taxes.

Revenue from indirect taxes is projected to expand at a faster rate than in the Fourth Plan period, rising from \$8,887 million in 1985 to \$14,243 million in 1990, largely due to increases in export duty for palm oil as well as from excise duty. Earnings from export duties as a whole are projected to decline marginally by about 2 per cent per annum, while earnings from import duties are expected to rise

TABLE
MALAYSIA: FEDERAL GOVERNMENT AND NFPE
1986-90

Sector	Total		Johor	Kedah	Kelantan	Malacca	Negeri Sembilan		Pahang
	allocation	%							
Economic	52,472.99	76.05	4,292.78	2,845.45	3,077.08	685.00	1,340.61	3,423.23	
Agriculture and rural development	11,828.08	17.14	1,378.42	1,169.36	1,555.18	176.41	379.54	1,829.57	
Mineral resources development	48.55	.07	—	.78	—	—	—	.46	
Commerce and industry	9,752.34	14.13	287.13	154.61	182.83	54.97	74.34	250.71	
Transport	10,788.93	15.64	1,031.86	726.20	440.79	145.70	197.90	287.67	
Communications	9,706.04	14.07	1,049.77	344.95	233.03	251.70	423.50	416.54	
Energy and public utilities	9,895.40	14.34	543.70	447.55	664.85	55.62	265.33	636.68	
Feasibility study	53.65	.08	1.90	—	.40	.60	—	1.60	
Research and development	400.00	.58	—	2.00	—	—	—	—	
Social	9,034.77	13.09	1,158.50	514.58	570.30	139.41	351.51	878.73	
Education and training	5,582.78	8.09	958.64	418.36	402.33	105.44	269.31	474.86	
Health and population	714.98	1.04	26.31	39.39	35.79	4.64	8.06	180.92	
Information and broadcasting	51.99	.08	1.35	10.40	—	—	.90	—	
Housing ¹	1,979.64	2.87	144.48	19.43	103.59	14.60	40.92	176.35	
Culture, youth and sports	216.62	.31	10.55	14.34	6.75	8.15	24.92	17.21	
Local and town council, welfare and community services	237.00	.34	11.31	5.30	15.47	3.14	4.44	21.81	
Village and community development	251.76	.36	5.86	7.36	6.37	3.44	2.96	7.58	
Purchase of land	—	—	—	—	—	—	—	—	
Security	4,704.44	6.82	428.03	163.13	155.18	37.33	154.10	205.87	
Defence	2,803.65	4.06	356.00	51.69	82.20	25.23	44.45	95.19	
Internal security	1,900.79	2.75	72.03	111.44	72.98	12.10	109.65	110.68	
Administration	2,787.80	4.04	57.65	25.72	48.26	19.88	8.91	21.95	
General services	787.80	1.14	57.65	25.72	48.26	19.88	8.91	21.95	
Upgrading and renovation	2,000.00	2.90	—	—	—	—	—	—	
Total	69,000.00	100.00	5,936.96	3,548.88	3,850.82	881.62	1,855.13	4,529.78	
%			8.60	5.14	5.58	1.28	2.69	6.56	

Note:

¹ As in Table 7-2

² Refers to the Federal Territories of Kuala Lumpur and Labuan.

7-11

DEVELOPMENT ALLOCATION BY STATE AND SECTOR,
(\$ million)

<i>Perak</i>	<i>Perlis</i>	<i>Penang</i>	<i>Sabah</i>	<i>Sarawak</i>	<i>Selangor</i>	<i>Terengganu</i>	<i>Federal Territory²</i>	<i>Multi state</i>
4,156.65	451.20	2,071.92	3,982.32	3,403.12	5,445.63	3,668.16	2,911.11	10,718.73
936.38	198.79	347.58	992.78	587.32	454.57	716.93	94.01	1,011.24
10.01	—	—	2.31	9.92	—	2.52	—	22.55
110.46	64.73	393.96	531.62	270.12	978.46	1,954.83	335.56	4,108.01
1,505.10	93.72	425.12	600.61	694.17	1,049.79	96.67	824.99	2,668.64
905.26	48.51	748.69	599.57	535.24	1,319.27	263.50	1,371.57	1,194.94
687.09	45.45	116.57	1,225.34	1,289.55	1,557.58	633.71	202.77	1,523.61
2.35	—	—	.30	3.70	1.50	—	—	41.30
—	—	40.00	29.79	13.10	84.46	—	82.21	148.44
613.76	92.08	282.73	404.36	482.28	635.41	244.59	530.81	2,135.72
349.65	72.97	216.71	300.84	290.71	512.80	146.19	223.58	840.39
159.69	3.82	21.46	45.51	107.29	21.71	40.45	19.94	—
.47	—	—	.72	.66	2.09	—	—	35.40
53.95	5.39	26.54	45.24	75.16	54.50	46.93	155.56	1,017.00
4.42	4.81	2.86	1.98	2.96	12.28	3.31	72.59	29.49
39.93	3.09	11.50	5.00	.50	15.05	2.57	57.79	40.10
5.65	2.00	3.66	5.07	5.00	16.98	5.14	1.35	173.34
—	—	—	—	—	—	—	—	—
291.12	55.83	63.83	63.71	177.46	302.48	104.60	407.16	2,094.61
129.74	3.37	41.74	.41	53.96	129.29	7.90	313.30	1,469.18
161.38	52.46	22.09	63.30	123.50	173.19	96.70	93.86	625.43
36.61	9.20	25.20	56.58	63.75	106.14	30.74	128.94	2,148.27
36.61	9.20	25.20	56.58	63.75	106.14	30.74	128.94	148.27
—	—	—	—	—	—	—	—	2,000.00
5,098.14	608.31	2,443.68	4,506.97	4,126.61	6,489.66	4,048.09	3,978.02	17,097.33
7.39	.88	3.54	6.53	5.98	9.41	5.87	5.77	24.78

by 2.9 per cent per annum. In addition, with rubber price projected to remain below 210 cents per kilogramme, rubber will continue to be exempted from export duty. Import duties are expected to contribute 26.3 per cent of the earnings from indirect taxes. The increase in receipts is expected to be generated from higher import prices as well as higher duties on imported goods in consonance with the drive to promote the purchase of Malaysian goods.

TABLE 7-12
MALAYSIA: FEDERAL GOVERNMENT REVENUE, 1985-90
(\$ million)

<i>Source</i>	<i>1985</i>	<i>1990</i>	<i>Cumulative, 1986-90</i>	<i>Average annual growth rate, 1980-90 (%)</i>
Direct taxes	9,777	11,657	50,547	3.6
Income tax	9,027	10,801	46,621	3.7
Company	3,824	5,525	23,366	7.6
Individual	1,855	3,108	12,272	10.9
Petroleum	3,348	2,168	10,983	-8.3
Royalties on petroleum	566	477	2,328	-3.4
Royalties on gas	21	146	579	47.4
Others	163	233	1,019	7.4
Indirect taxes	8,887	14,243	57,467	9.9
Export duties	1,760	1,592	7,438	-2.0
Petroleum	1,547	1,315	6,461	-3.2
Rubber	3	-	-	-
Palm oil	96	152	477	9.6
Tin	33	-	-	-
Others	81	125	500	9.1
Import duty and surtax	3,080	3,555	15,493	2.9
Excise duty	1,378	3,569	13,290	21.0
Sales tax	1,280	2,359	9,187	13.0
Road tax	630	1,043	4,273	10.6
Service tax	118	481	1,488	32.5
Stamp duty	328	854	3,206	21.1
Others	313	790	3,092	20.3
Non-tax revenue	2,805	4,589	19,263	10.3
Petroleum dividend	930	1,000	5,000	1.5
Other non-tax revenue	1,875	3,589	14,263	13.9
Non-revenue receipts	392	745	3,147	13.7
Total	21,861	21,234	130,424	7.4

Earnings from oil and oil-related activities are projected to decline during the Fifth Plan period by 4.5 per cent per annum compared with the growth of about 18.4 per cent annum in the previous Plan, due to the slower rate of expansion in petroleum production. In absolute levels, these earnings will fall to a cumulative total of \$25,351 million during the Fifth Plan period from \$26,528 million during the previous Plan, decreasing its contribution to total revenue earnings to an average of 19.4 per cent from 28.3 per cent, respectively.

Sources of financing

The growth in revenue and current expenditure will generate a cumulative current surplus of the Federal Government of \$1,406 million during the Fifth Plan period. Given that Federal development expenditure is targetted at \$40,075 million, the overall deficit is estimated to be \$38,669 million, as shown in Table 7-13.

In financing the overall deficit, the Government will place greater emphasis on the mobilization of non-inflationary domestic resources. External borrowing will be curtailed, in line with the objective to contain the national debt service ratio within a manageable level of the capability of the country to borrow. In the light of this, domestic borrowing is projected to finance 61.1 per cent of the overall deficit

TABLE 7-13
MALAYSIA: FEDERAL GOVERNMENT EXPENDITURE
AND FINANCING, 1986-90
(\$ million)

<i>Items</i>	<i>cumulative, 1986-90</i>
Total revenue	130,424
Direct taxes	50,547
Indirect taxes	57,467
Non-tax revenue ¹	19,263
Non-revenue receipts	3,147
- Current expenditure	129,018
= Current surplus	1,406
- Development expenditure	40,075
= Overall deficit	38,669
(as % of GNP)	(9.6)
Sources of financing:	
Net foreign borrowing	5,925
Net domestic borrowing	28,624
Use of accumulated assets and special receipts ²	+4,120

Notes:

¹ Includes dividend from PETRONAS

² + indicates draw-down in reserves.

in the public sector account compared with 47.7 per cent during the Fourth Plan period. External borrowing will account for 32.7 per cent of the financing requirements. The balance of the deficit will be financed by the use of assets and internally-generated funds.

Overall, the domestic market borrowing of the Federal Government will increase from \$3,591 million in 1985 to \$6,587 million in 1990 and is expected to account for 74.0 per cent of the financing requirements during the Fifth Plan period. EPF will continue to be the major source of non-inflationary financing. It will contribute 60.8 per cent of the domestic borrowing requirements, while the balance will be met from other financial institutions such as commercial banks, discount houses, Central Bank of Malaysia, and the Social Security Organization (SOCSO). With greater reliance placed on domestic borrowing, the net external borrowing of the Federal Government will be reduced significantly. Total net foreign borrowing will amount to \$5,925 million during the Fifth Plan compared with \$16,466 million during the previous plan.

The financing of NFPEs development expenditure, targetted at \$35,543 million during the Fifth Plan period, will continue to rely on external borrowing. Their operating surpluses are projected to amount to \$17,000 million, with PETRONAS continuing to account for the largest proportion. External borrowing requirements of the NFPEs will amount to \$10,743 million, while domestic borrowing, \$2,291 million. The Federal Government funding to the NFPEs, in terms of grants and loans, will be considerably reduced to \$6,618 million during the Fifth Plan period compared with \$11,306 million during the Fourth Plan period. The expenditure and financing of the NFPEs are shown in Table 7-14.

TABLE 7-14
MALAYSIA: FINANCING OF NFPEs DEVELOPMENT
EXPENDITURE, 1986-90
(\$ million)

<i>Items</i>	<i>cumulative, 1986-90</i>
Operating surplus	17,000
– Development expenditure ¹	35,543
= Overall deficit	18,543
Sources of financing:	
Domestic borrowing	2,291
Foreign borrowing	10,743
Federal grants & loans	6,618
Use of accumulated assets ²	–1,109

Note:

¹ Include transfers from Federal Government.

² – indicates build-up in reserves.

Taking the public sector as a whole, with the absolute decline in the development expenditure of the Federal Government and accompanied by marginal increases in the spending of the NFPEs, the overall deficit in the public sector account is projected to improve further during the Fifth Plan period. The deficit is projected to average 12.7 per cent of GNP during the Fifth Plan, as shown in Table 7-15. Total public sector net domestic borrowing will amount to \$30,916 million and account for 61.1 per cent of the financing requirements compared with \$24,263 million or 47.7 per cent during the Fourth Plan period. Net external borrowing will be substantially reduced to about \$16,667 million or 32.9 per cent of the financing requirements during the Fifth Plan compared with \$26,163 million or 51.4 per cent during the previous Plan period.

TABLE 7-15
MALAYSIA: CONSOLIDATED PUBLIC SECTOR EXPENDITURE
AND FINANCING, 1986-90
(\$ million)

<i>Items</i>	<i>cumulative, 1986-90</i>
Total Federal revenue	130,424
-Federal current expenditure	129,018
= Federal current surplus	1,406
+ States current surplus	5,000
+ NFPEs current surplus	17,000
= Public sector current surplus	23,406
-Net public sector development expenditure	74,000
= Overall deficit <i>(as % of GNP)</i>	50,594 <i>(12.7)</i>
Sources of financing:	
Net foreign borrowing	16,667
Net domestic borrowing	30,916
Use of accumulated assets and special receipts ¹	+3,011

Note: ¹ + Indicates draw down in reserve.

IV. DEVELOPMENT ASSISTANCE AND THE MALAYSIAN TECHNICAL CO-OPERATION PROGRAMME

Development assistance, both capital and technical, plays an important role in supplementing resources necessary for the rapid socio-economic development of Malaysia. Although the Fifth Plan period envisages a reduction in the external borrowing to Malaysia, efforts will be made to secure capital assistance or project loans required for implementing public sector programmes and projects. Capital assistance to Malaysia takes various forms, namely, project loans from multi-lateral sources, particularly the World Bank, the Asian Development Bank (ADB), and the Islamic Development Bank (IsDB) as well as bilateral loans under Government-to-Government arrangements.

Malaysia receives technical assistance in the form of services of experts or advisers and volunteers; fellowships and training; consultancy services for the purpose of carrying out surveys and feasibility studies; donation of equipment; and grants in cash or in kind. The technical assistance received has assisted Malaysia in its development efforts, particularly in strengthening the planning and implementation capabilities of the public sector. The main sources of technical assistance are bilateral governmental sources, specialized agencies of the United Nations, and other multilateral agencies and foundations.

While Malaysia will continue to receive technical assistance in a number of areas to assist in the acceleration of the development efforts under the Fifth Plan period, Malaysia will also share its development experience with other developing countries by providing technical co-operation under its Malaysian Technical Co-operation Programme (MTCP). Malaysia provides technical assistance on a modest scale to other developing countries under its MTCP launched in late 1980. These countries include the Association of Southeast Asian Nations (ASEAN) member countries, Commonwealth developing island countries in the Pacific region, and a number of Asian and African countries. This programme forms part of the strategy and commitment of the Government to the promotion of technical co-operation among developing countries, the strengthening of regional and subregional co-operation, and the nurturing of collective self-reliance among developing countries. The assistance extended under this programme is in the form of the provision of scholarships and study awards at various institutions in Malaysia; study visits and practical attachments at various Government agencies; provision of training facilities where participants are sponsored by third countries or organizations; and the provision of expert services.

Progress, 1981-85

During the period 1981-85, the total amount of project loans received from the various sources was \$5,203 million. A major portion of the loans and related assistance secured during the period was from multilateral sources, particularly the World Bank and ADB. The multilateral capital assistance to Malaysia emphasized mainly poverty eradication projects and those towards raising the standard of living of the rural poor. Other projects financed by these multilateral institutions were aimed at increasing productivity and creating employment opportunities. The sectors benefitting from multilateral project loans were agriculture and land development, education and health, infrastructure and utilities, and transport. In addition, a project loan to the industrial sector was provided by the World Bank towards the end of the Fourth Plan period for the promotion and development of small-scale industries. Project loans were also secured through bilateral sources during the period from friendly countries.

The quantum of technical assistance received during the period 1981-85 amounted to \$327.7 million. The major donors of technical assistance were the

Colombo Plan countries. A number of countries outside the Colombo Plan region also provided similar assistance. Other sources of technical assistance included specialized agencies of the United Nations and volunteer organizations.

Technical assistance was mainly channelled to four sectors, namely, rural and agricultural development, health and population, infrastructural development, and education and training. The emphasis given to these sectors reflected the need to build up infrastructural facilities and develop human resources through the transfer of knowledge and technology. Experts and volunteers despatched under the various technical assistance programmes had provided a valuable source of middle-level and professional and skilled manpower to supplement the needs during the Fourth Plan period. Malaysia also received scholarships and fellowships for training which significantly contributed towards the development of human resources and enhanced the development of institutional capabilities in the public sector. In addition, surveys and feasibility studies, carried out under technical assistance programmes, had assisted in the planning and implementation of projects. Technical assistance in the form of major donations of equipment and capital goods was phased out by most donor countries and organizations.

Under the MTCP, a total of about \$29 million was disbursed during the Fourth Plan period to sponsor 720 participants from 35 developing countries. Of these, 645 participants were awarded scholarship and training awards to attend courses at various training institutions in Malaysia, while 75 participants were sponsored to attend study visits and practical attachments at various Government agencies. The United Nations Development Programme (UNDP), Commonwealth Fund for Technical Co-operation (CFTC), and other organizations and governments as well as the recipient countries themselves sponsored another 321 participants for training, study visits, and practical attachments under the third country or organization arrangements during the period. In addition, services of experts were also made available.

Although the MTCP was relatively new, it had captured the interest of many developing countries. This was evident in the increasing number of requests for assistance received from developing countries, and subsequently, the increasing number of those in receipt of the assistance. The number of recipient countries rose from 12 in 1981 to 42 in 1985.

Prospects, 1986-90

The requirement for project loans during the Fifth Plan period is based on the analysis of the resources that can be mobilized in the capital market during the period. On the basis of this consideration, Malaysia will require significant project loans to complement the resources that can be raised in the market. In this regard, a total of \$6,248 million will be secured during the period from both multilateral and bilateral sources. The multilateral sources, particularly the World Bank, ADB, and IsDB, will provide a significant portion of the project loans secured.

during the period. While the multilateral institutions will form the mainstay of capital assistance to Malaysia, this does not preclude financing from bilateral sources to meet the substantial financing requirements for roads, power, and communications projects.

Although technical assistance will continue to be extended to Malaysia, the sources and quantum are expected to vary. While Malaysia has built up its pool of skilled manpower under its various development plans, it is anticipated that the country will still require professional and skilled manpower to meet the varied and changing needs of the Fifth Plan. In addition, Malaysia will continue to require fellowships and scholarships for training to upgrade the managerial and technical skills of its manpower resources.

The main focus of technical assistance during the Fifth Plan period will continue to be in technology transfer, development of indigenous technologies, development of human resources, and strengthening the institutional capabilities of the public sector. In line with this focus, technical assistance will be sought not only with a view to consolidating and strengthening existing programmes and activities, but also to assisting in the development of new programmes in accordance with priorities of the Fifth Plan.

The initiative to provide technical assistance is taken by donor countries and organizations in line with their current development assistance policy. Malaysia, on its part, will continue to match its requirements for technical assistance based on these aid policies as well as its own evaluation of such assistance required in public sector programmes and projects during the Fifth Plan period.

Malaysia will continue its technical assistance programme during the Fifth Plan period in view of the positive response from other developing countries and international organizations. This reflects the continued importance that Malaysia places on co-operation in the spirit of equality and partnership for the mutual benefit of developing countries. In addition to the efforts to improve the existing activities, new activities will be implemented and other forms of assistance, such as the conduct of feasibility studies and provision of teachers, will be introduced. These activities will be implemented not only on a bilateral basis but also through third country or organization arrangements. In order to accommodate the expected increase in the number of participants and recipient countries, the number of participating government agencies in the programme will also increase during the Fifth Plan period.

V. PLANNING AND IMPLEMENTATION MACHINERY

The responsibilities of the planning and implementation machinery have grown significantly with development. There are, however, a number of constraints which will need to be overcome.

Progress, 1981-85

During the period 1981-85, efforts towards enhancing the capacities of the planning and implementation machinery were given emphasis in order to ensure a more accelerated and effective implementation of development programmes and projects. These efforts were also aimed at the effective utilization of available resources to obtain maximum returns in view of the financial and resource constraints.

A number of administrative and financial procedures were modified as a result of the findings and recommendations of the Cabinet Committee which was formed to formulate measures to accelerate the implementation of programmes and projects. These modifications included the delegation of financial responsibility to ministries and departments at both the Federal and State levels in order to allow greater flexibility for implementation. Amendments were made to certain provisions to consultancy agreements and new systems for project implementation, such as turnkey and cost-plus, were introduced with the aim of minimizing delays and shortfalls. Amendments were also made to the National Land Code and the Land Acquisition Act in order to eliminate certain ambiguities in the provisions and interpretations, thus, further improving the efficiency in land administration and expediting land acquisition for project implementation.

With regard to manpower utilization, the *Isi Penuh* exercise was reviewed and steps were undertaken to curb the growth of the public service, which by the end of 1984, comprised 1,021,300 established posts, of which 876,400 were filled. Efforts towards optimum utilization of existing personnel were made through reassignment, redeployment, and training.

The use of computer technology facilitated to a significant extent the planning and implementation process. During the period 1981-85, computer facilities were widely utilized. An integrated management information system, the Integrated Project Management Information System (SETIA), was launched. The data gathered on 19,000 current projects formed the basis for assessing the physical and financial performance of projects implemented and reduced the duplication of data collection on the part of the central agencies. In addition, the system assisted in the identification of problems and the formulation of remedial measures with a view to accelerating the implementation of projects. Access to computer facilities for data collection, processing, storage, and transmission purposes were extended to the states. Four state development offices, namely in Johor, Kelantan, Kedah, and Pahang, were linked with the main computer installation in the Implementation Co-ordination Unit (ICU).

Besides SETIA, other management information systems, such as the Management Information System for Chief Executives (SMPKE) which gathered and processed data to assist the Prime Minister, other Ministers, and Heads of Departments in decision making, were implemented. Another system was the

Public Enterprises Management and Evaluation System (PEMANES) which was set up for the effective monitoring of public enterprises through the enhancement of the Early Warning System Project jointly undertaken by ICU, the Ministry of Public Enterprises, and the National Equity Corporation. PEMANES gathered data on more than 900 companies having Government equity, analyzed their performance, and provided feedback on possible solutions for improvement.

Two new ministries at the Federal level and 46 departments, agencies, and branch offices were set up. The new ministries were the Ministry of National and Rural Development and the Ministry of Justice. In addition, a total of 48 ministries, departments, and agencies were reorganized at the Federal and State levels.

Several agencies and district offices were abolished. These were the National Livestock Development Authority (MAJUTERNAK), Kelantan State Land Development Authority (TAKDIR), Sabah Padi Board, and the District Offices in Sandakan, Tawau, and Kota Kinabalu in Sabah and Labuan in the Federal Territory.

A number of policies, such as Look East, Privatization, and Malaysia Incorporated, were implemented during the period 1981-85. The Look East policy is the framework for learning the experiences of successful countries in the East. In addition, it seeks to encourage the citizens in general and members of the public service in particular, to inculcate values of hard work, thrift, self reliance, initiative, and perseverance, which are very essential for progress. Under the Look East policy which was adopted widely from 1983, a greater awareness was created among members of the public service of the work ethics, attitudes, and values of their counterparts in economically progressive countries. This was facilitated by organized visits to and attending courses and seminars in these countries as well as engaging their consultants and experts in relevant fields. In line with the Privatization policy, among others, MAS was privatized in 1985, while steps were taken to initiate the privatization of the container terminal of Port Klang and the Telecommunications Department.

Under the Malaysia Incorporated concept, government officials and prominent industrialists, professionals, and businessmen met in numerous forums, dialogue sessions, and seminars organized by Government agencies as well as by private sector organizations during the period. These meetings were held to discuss the needs, problems, and aspirations of the private sector and the implications of Government policies and regulations governing the development of industries and businesses in the country. Government officers were also given the opportunity to undergo practical training in business management and operations for a period of about one year in private companies.

Clean, efficient, and trustworthy values were encouraged to be practised by all those holding public office in particular, in performing official duties and responsibilities, and the public in general in their daily life. Attitudes of incorruptibility, dedication, and full responsibility in performing all functions as well as universal values found in Islam, such as moderation, fairness, justice, and respect for all, irrespective of race or religion, were inculcated.

In addition to policies and values, several new administrative measures to promote an efficient and highly productive Government machinery were introduced. These measures were an administrative code of ethics, leadership by example, quality control circles, manual of office procedures and desk files, one-stop bill payment and service counters, open office concept, punch card, name tag, suggestion box, management through meetings, and a standard nation-wide postal code.

Prospects, 1986-90

During the period 1986 - 90, the planning and implementation machinery of the Government will face more challenges in the light of increasing complexities emanating from a less favourable economic situation. In this connection, there will be a need to promote greater all round austerity, higher productivity and a more effective utilization of existing manpower and other resources.

Continuous reviewing of functions, programmes, and activities of Government ministries and agencies will be carried out in order to reduce duplication of work and redundant activities, thus, minimizing wastage and underutilization of personnel. Appropriate studies on various aspects of performance and productivity will continue to be undertaken by agencies such as the National Institute of Public Administration (INTAN) and the Malaysian Administrative Modernization and Manpower Planning Unit (MAMPU). In addition, more attention will continue to be given to efforts towards upgrading the professional and technical skills and increasing the stock of such skills.

Current policies and administrative measures will be implemented and new ones introduced. Various systems for project implementation, especially those recently introduced, and the conventional systems as well as modified ones with the introduction of such methods as the fast-track, will be used. The implementation of the Privatization policy will be continued. The lessons learnt from the privatization of some services, especially MAS and the container terminal of Port-Klang, will facilitate other similar efforts. Other services of the Government, such as the provision of water and electricity supply, transportation, health and medical care, and project management, will be reviewed in order to identify areas suitable for privatization. The private sector will be encouraged to identify and put forward proposals for the privatization of certain Government services.

The use of computer and other electronic technology in the planning and implementation process will be further intensified. The use of these facilities will allow for the reduction of costs and delays through the setting up and use of common data collection, processing, and dissemination centres. On-line facilities of ICU will be linked with all the Federal ministries and state development offices.

VI. CONCLUSION

Public sector programmes during the Fifth Plan period will be constrained by the availability of resources. A very large proportion of the available resources will be allocated for continuation projects. The overall thrust of public sector development programmes during the Fifth Plan period, therefore, will be the consolidation of existing programmes. Available resources for new programmes, however, will be utilized for projects which generate higher value added, save foreign exchange, have short gestation periods, create employment opportunities, and stimulate the development of domestic economic activities. In the spirit of co-operation among developing countries, the Government will continue to extend technical assistance to these countries in areas where Malaysia has the experience and expertise. Efforts will also be intensified to improve the efficiency of the planning and implementation machinery and to further increase productivity.