Economic Management and Outlook

ECONOMIC REPORT

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Overview

Malaysia's economy stronger, driven by private sector activity...

The Malaysian economy accelerated its growth momentum in the first half of 2004, after a strong take-off in 2003, and is expected to surpass earlier expectations with higher growth of 7% for the whole year. Positive signs of a firm economic recovery at the global front, particularly in the first six months as well as higher commodity prices, reinforced the 'feel-good' factor that contributed to further improvement in consumer and business sentiments. Growth has become more broad based with all sectors registering positive growth. Domestic demand, particularly private consumption, continued to sustain growth for five consecutive years, while private investment, which picked up in 2003, became more entrenched, resulting in a private sector-led growth.

The broad-based growth is evident of the effective measures implemented by the Government to develop new sources of growth to reduce the nation's vulnerability to the external environment. Expanding at 10.5%, the manufacturing sector, which has become more diversified with higher-end, value-added and new emerging industries and products, remains a major contributor to growth. New growth areas in information and communication technology (ICT), strong expansion in financial services and revival in tourism activities supported growth in the services sector, enabling it to maintain its premier position in terms of share to gross domestic product (GDP) at 57%. Meanwhile, the Government's commitment to revitalise the agriculture sector as the third engine of economic growth, particularly in food production, has resulted in the expansion in output of fruits, aquaculture and livestock.

The synchronised upswing in the global economy and upsurge in electronics demand, as well as high prices for palm oil and crude oil, continued to propel export volume and earnings. Import growth was strong, particularly for intermediate and capital goods, reflecting robust domestic economic activities, fuelled by recovery in private investment and higher disposable income. The trade balance in July 2004 remained in surplus for 81 consecutive months since November 1997. Better export earnings and inflow of foreign funds increased the international reserves to USD54.4 billion as at 14 August 2004, sufficient to finance 7.2 months of retained imports and five times the short-term external debt. The national resource position remains strong with gross national savings at 36.5% of gross national product (GNP), providing ample liquidity to finance both public and private sector initiatives.

The banking system continues to strengthen along with improvements in loan repayments amidst higher disbursements. The risk-weighted capital ratio (RWCR) increased further, while the net non-performing loans (NPLs) ratio improved in tandem with higher corporate earnings and productivity. In the equity market, Bursa Malaysia was more active in the first half of the year and is expected to sustain its performance for the remainder of the year. Inflation remains low at 1.5% despite strong domestic demand and higher commodity prices. Labour market conditions continue to be stable with the unemployment rate remaining low at 3.5%. With stronger growth in the economy, per capita national income is expected to increase to RM16,098 while purchasing power parity (PPP), is higher at USD10,163 in 2004. Concomitantly, socio-economic indicators improved further. Reflecting the better standard of living and quality of life of the population, the overall poverty rate declined to 5.1% while average life expectancy and the literacy rate improved to 73 years and 94.1%, respectively.

Managing the Economy

Public policies focussed on strengthening public finance management, improving the delivery system to enhance competitiveness ...

Economic policies in 2004 continue to focus on achieving sustainable growth with long-term resilience and competitiveness. Budget 2004, therefore, emphasises on improving the enabling environment for business activity to enhance the contribution of the private sector in spearheading and promoting new sources of growth. During the year, the Government expended time, efforts and money to ensure a more efficient public sector delivery system in line with pro-business and investor-friendly policies and ensure private investment growth.

Among the improvements made to the public sector delivery system are the simplification of existing rules and regulations as well as work procedures. To facilitate business activities, approval for licences and permits for trade, investment and other commercial activities were expedited. To a large extent, these measures contributed to lowering the cost of doing business, increasing efficiency and enhancing the nation's competitiveness.

At the same time, fiscal policy is geared towards a gradual and progressive reduction of Federal Government deficit without constraining overall economic growth. This is made possible through the rebound in private investment, signalling the resurgence of the private sector as the engine of economic growth. A number of positive developments facilitated the management of the economy during the year and contributed to the high growth, stronger macroeconomic fundamentals as well as more resilient banking and corporate sectors. Firstly, GDP growth at 7% is higher than expected due to the strong growth momentum experienced since the second half of 2003, reinforced by an improved external environment. Secondly, firm commodity prices and robust manufacturing activities as well as higher corporate earnings further enhanced consumer and business sentiments, which ultimately helped to sustain private sector expenditure to drive the economy. Monetary policy stance, which has remained accommodative, continues to support business activities and expansion on the back of growing demand.

The underlying principles of integrity, accountability, transparency, good governance and positive values were brought to the fore in developing a performance-based culture among Malaysians. In this regard, the Government launched the National Integrity Plan (NIP) to inculcate noble values and create a strong society with high morals and ethics in accordance with the fourth challenge embodied in Vision 2020. The all-encompassing NIP seeks to effectively reduce corruption, abuse of power and bureaucratic red tape as well as improve the public sector delivery system. Concurrently, the Malaysian Integrity Institute (IIM) was established to oversee and monitor the implementation of NIP apart from conducting research, education and training as well as providing advice to the Government on matters pertaining to integrity and ethics. Along the lines adopted to check and deter corruption among civil servants, political appointees in the Government are also required to declare their assets at the onset of their tenure.

Through deliberate measures, the calibre of business entities, particularly public-listed companies, improved as a result of increased awareness and compliance with corporate governance and industry best practices. In addition, a management review and revamp exercise among government-linked companies (GLCs) was undertaken, which included the appointment of high-calibre personnel to head these organisations. Additional requirements to comply with key performance indicators (KPIs), aimed at further enhancing corporate efficiency and effectiveness, were also introduced. These measures boosted public confidence, which further enhanced the environment for business in the country.

Fiscal Policy

A gradual declining trend in fiscal deficit...

Amidst better global economic outlook and stronger domestic demand, the 2004 Budget was formulated with the objective of generating stronger private investment flows and the revival of the private sector as the engine of economic growth. The focus of fiscal policy is aimed at improving the financial position of the Government as well as strengthening macroeconomic fundamentals to ensure longer-term sustainable growth. In the course of the year, private investment is expected to rebound by 14.8%, enabling the private sector to resume its role as the key driver of growth. With this positive development, the Government seized the opportunity to strengthen its financial position by adopting a tight fiscal policy stance to gradually rein in its fiscal deficit so as not to disrupt the growth momentum. Measures adopted for consolidation include restraining expenditure and enhancing revenue whilst optimising the utilisation of existing resources and capacity.

Federal Government total expenditure is estimated to increase by 7.1% with operating expenditure rising by 21.7%. Development expenditure, on the other hand, will decline by 20.9%. Consequently, Federal Government fiscal deficit will narrow to 4.5% of GDP in 2004, about one percentage point lower than a year ago.

For operating expenditure, a large sum is for supplies and services including maintenance and repairs. The Government has re-emphasised the need to extend the economic life of physical assets and improve the working environment. In terms of development budget, the utilisation rate of the RM160 billion under Eighth Malaysia Plan (8MP) was higher in the first three years of the Plan period, following pro-growth and stabilisation measures undertaken to mitigate recessionary pressures arising from uncertainties in the external environment. Implementation of public sector programmes and projects, particularly in education and health, were brought forward and accelerated. Hence, concerned over the continuity of social projects and rural development programmes, RM10 billion was added to the 8MP ceiling. The higher ceiling will also reduce the impact of a sharp fall in public investment, which might otherwise impede the growth momentum. Despite the new ceiling of RM170 billion, the Federal Government, through prudent financial management, is still able to reduce its fiscal deficit. Expenditure will be more stringent and based on practical standards and specifications. Disbursement of allocated funds will also be subjected to cash flow requirements as well as the implementation capacity of respective agencies.

Within the available balance of the 8MP, priorities will be directed towards benefitting the rural and lower income groups. Hence, many small projects will be implemented, especially in rural areas as against the larger, more costly urban projects, thereby serving and benefitting a larger segment of the population. Among the agriculture and rural development projects implemented are rural electricity, water supply and roads, healthcare and low-cost housing programmes for the general populace. Streamlining of work procedures and reviewing tender and procurement processes are ongoing, aimed at ensuring value-for-money spent. The award of projects and purchase of supplies have reverted to the open tender system except under certain conditions, such as when there is only one supplier or because of specialised specifications or standards. The necessity for accelerated implementation of projects is reduced now that both economic growth and private investment are stronger.

Revenue-enhancing measures are being taken in parallel with improving spending effectiveness. Revenue collection and measures to ensure compliance with tax rules are being strengthened on specific businesses and professions to minimise tax leakages and evasions. For instance, scanning machines installed at the entry points of Kuala Lumpur International Airport (KLIA) to detect import of dutiable goods have enabled the Government to collect more than RM2 million tax revenue within two months of installation.

Monetary and Financial Developments

Higher private sector financing supported by a strengthened banking system and capital market…

The growing private sector financing needs, on the back of a steady pick-up in investment and robust consumption, continue to be supported by the more resilient banking system. Gross private sector financing expanded further by 5.1% to RM246,158 million in the first half of 2004 (January-June 2003: RM234,235 million), with the banking system contributing more than 90% of total financing. Loan disbursements were higher at double-digit growth rates to businesses, small- and medium-enterprises (SMEs) and households. The strong lending to SMEs is consistent with efforts made over the years to increase access to financing for SMEs to enable them to become the catalyst of growth. Higher household financing, particularly for the purchase of residential property, has been driven by historically low interest rates and the various incentives provided under the Package of New Strategies in May 2003.

The banking system has been strengthened following the merger programme and structural reforms undertaken since the financial crisis. In addition, higher capitalisation, declining non-performing loans and improving profitability have further enabled the banking system to better withstand shocks and support the financing needs of the economy. In meeting the growing demand for financing, the development financial institutions (DFIs) also play a significant role. The DFIs remain important niche providers of financial and advisory services to identified priority sectors, with loan growth of 7.9% to RM33,052 million as at end-June 2004. Amidst the strong economic and financial conditions as well as the more developed financial infrastructure, a new interest rate framework was introduced in April this year. The new framework, with the overnight policy rate (OPR) as the indicator of monetary policy stance, signalled a move to a more market-driven approach, as banking institutions will now determine their own base lending rates.

The nation has made great strides in the development of Islamic financial system to emerge as a prominent player in the global financial scene. Measures taken to promote Islamic banking have resulted in a growing market share of Islamic banking assets, deposits and financing of the total banking system and positioned Islamic banks on track to capture 20% of total market share by 2010. The earlier liberalisation in allowing a foreign player to establish an Islamic bank in Malaysia, together with the recent approval to two domestic banks to operate full-fledged Islamic banking operations, will further drive the growth of Islamic banking.

The capital market continues to support private sector initiatives with several measures taken in recent years to enhance liquidity and efficiency of fund raising. The more subdued issuance of private debt securities (PDS) in 2004 was, however, compensated by a more active equity market. Improved investor sentiments saw a higher number of firms raising funds from the equity market. The number of new listings and total funds raised in the equity market increased to 42 companies and RM3,574 million, respectively during the first seven months of 2004 (January-July 2003: 25 new listings; RM1,770 million). Recent capital market measures announced in 2004 augur well for the further broadening and deepening of the bond market. Of significance, are the issuance of bonds with longer tenure, the securitisation of government staff housing loans and the move to allow multilateral development banks and multilateral financial institutions to issue ringgit-denominated bonds in Malaysia.

Performance Review

Promoting Private Sector Investment

Investment increases with the private sector driving the economy…

Since the Asian financial crisis, the economy has been overly dependent on the public sector to drive growth. While the Government has been employing an expansionary budgetary stance, measures were taken simultaneously to revive private sector initiatives, including tax incentives, improving the delivery system, reducing cost of doing business and enhancing the business environment. In response to these measures private investment turned around in 2003 and picked up pace in 2004 amidst improving external demand, optimism and business confidence. Net inflows from portfolio investment are expected to be higher at RM17,575 million. The stock market also performed better in the first eight months of the year, with the KLCI peaking at 908.96 points on 22 Mac 2004. The better performance of the stock market attracted active foreign participation, with foreign trading accounting for nearly 30% of total turnover. As most industries are operating at 80% of their capacity utilisation, the higher import of capital and intermediate goods reflects an increase of investment in capacity expansion. In consonance, loans outstanding of the banking system increased with higher lending for transport, storage and communications (7.3%), agriculture (1.4%), utilities (6.3%) and manufacturing (3.7%). Malaysia also continues to remain an attractive investment destination to foreign investors with net direct investment inflows projected to increase by 14.4% in 2004. Foreign investment is expected to be broad based, with the major recipients being manufacturing, services as well as oil and gas sectors.

In Budget 2004, the Government provided an additional sum of RM300 million to Malaysian Venture Capital Management Berhad (MAVCAP), increasing its total available funds to RM800 million to further develop the venture capital industry. As at end-June 2004, MAVCAP approved 65 applications worth RM166.2 million or 20.8% of total funds, mainly for ICT and biotechnology projects. Two of the companies that benefitted from the funds are now listed on the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) market, while several others are in the process of being listed. The Malaysia Debt Ventures (MDV) was established with a fund of RM1.6 billion to assist the development of high growth industries. By July 2004, MDV had approved loan applications worth RM826 million, out of which RM667 million or 89% has been disbursed. In total, MDV approved 38 applications and disbursed loans to 35 companies for projects in ICT, oil and gas and transportation. With regard to venture capital for the non-ICT sector, Malaysian Technology Development Corporation (MTDC) was provided with a fund of RM1 billion. A total of 26 loan applications is being processed by MTDC while two applications in the biotechnology industry, amounting to RM8.5 million, were approved and disbursed.

SME Development

SMEs more competitive and creative, moving towards world branding...

SMEs represent an important component in the economy. They not only provide a vital link in the business supply chain and complement multinational corporations but also have the potential to grow and evolve into global players. The multitude of SMEs, totalling about 613,700 involving the full spectrum of sectors and services, underscores their role and potential in the economy. The Government continues to support the development of SMEs through facilitating access to adequate and cost-effective financing. Over the years, several incentives and assistance have been given to SMEs, including access to financing, attractive interest rates and advisory services such as technical, marketing and promotion. In order to coordinate and oversee the development of SMEs, the National SME Development Council was established in May 2004, with the objective of developing a framework for the coordinated and comprehensive strengthening of SMEs.

During the first six months of 2004, investments by SMEs have shown an upward trend. Loan disbursements to SMEs from the banking sector grew strongly by 20.5%. As for the five special SMEs funds under Bank Negara Malaysia (BNM), out of the total allocation of RM6.9 billion, a sum of RM6.3 billion had been approved to 17,000 borrowers. Collaborative efforts between the Government and the private sector, contributed to the higher uptake of SMEs special funds. In addition, SMEs also have access to the recently established Fund for the Development and Promotion of Malaysian Brands with an initial allocation of RM200 million, designed to assist SMEs develop world-class brands for local products. Government initiatives to promote local branding have brought about the birth of a number of Malaysian global brands.

The Government also assisted SMEs facing financial difficulties in their operations. A Small Debt Resolution Committee (SDRC) was set up in November 2003 to facilitate the restructuring of NPLs of SMEs with viable businesses as well as assist their financing requirements. Through

PROJECT FOR *BUMIPUTERA* ENTERPRENEURS IN RETAIL SECTOR (PROSPER)

Introduction

Projek Usahawan Bumiputera Dalam Bidang Peruncitan or the Project for Bumiputera Entrepreneurs in Retail Sector (PROSPER) was launched on 2 August 2000. Its goal is to increase the number and quality of *Bumiputera* entrepreneurs in the retail sector as well as to position them in the strategic value-chain of the sector. Perbadanan Usahawan Nasional Berhad (PUNB), as the secretariat for PROSPER, together with Tabung Pemulihan Perumahan Tertangguh Sdn. Bhd. (TPPT) a subsidiary of Bank Negara Malaysia (BNM), Credit Guarantee Corporation Berhad (CGC) and Maybank Berhad, have been entrusted to develop, co-ordinate and monitor *Bumiputera* entrepreneurs participating in the scheme.

Facilities and Services

PROSPER provides an integrated package including equity financing, loan facilities as well as advisory services in identifying strategic retail premises. Support services for entrepreneurs in the form of business monitoring, nurturing as well as training to enhance entrepreneurial skills are also available. The integrated entrepreneurial package is offered through the Business Partnership Package and Loan and Services Package.

Business Partnership Package

The Business Partnership Package is available to potential entrepreneurs with financing requirements between RM200,000 to RM1.0 million as follows:

- **Equity financing** of up to 30% of the total project cost based on the Islamic-financing profit sharing concept of *Musyarakah Mutanaqisah*, which means partnership with decreasing equity.
- **Loan Facility** of up to 60% of the remaining project cost based on Islamic Principles provided by an appointed financial institution and fully guaranteed by CGC.

Loan and Services Package

The Loan and Services Package consists of the following:

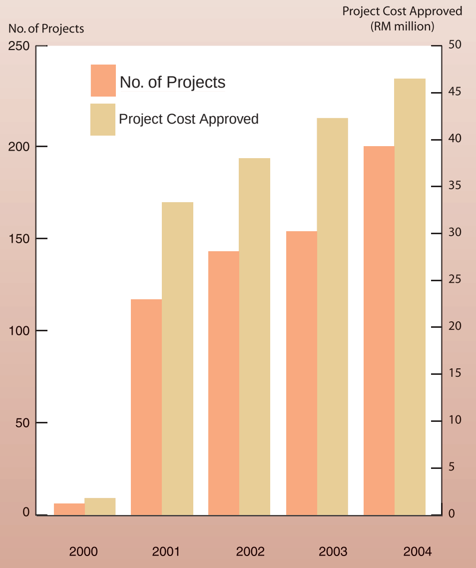
- **Loan facility** of up to RM200,000 or a maximum of 90% of total project cost, whichever is lower based on the *Syariah*-principle of *Qard al-Hassan*. The borrower is required to repay the entire principal sum, based on an agreed schedule of payment.
- **Business advisory services** provided by PUNB which include pre-operation services such as advisory on business premise selection and monitoring of accounts, business advisory services and training to enhance entrepreneurial skills.

Programme Achievements

Since PROSPER was launched in 2000, the average number of **projects approved** monthly has increased from six projects to 17 in 2004. As at 17 August 2004, a total of 558 projects with total value of RM150.6 million has been approved. The breakdown of projects approved annually and total project cost approved is shown in ***Chart 1***.

CHART 1

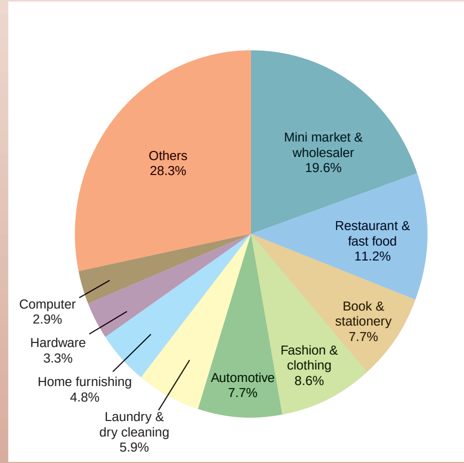
Number of Projects and Project Cost Approved



Source : PUNB

CHART 2

Participation by Sector



Source : PUNB

PROSPER has successfully **developed 1,417 entrepreneurs**, of whom 70% are new. A total of 258 **business training programmes**, incorporating theory and practice, were conducted for the 7,300 entrepreneurs registered with PROSPER.

Franchise development has been identified as one of the most suitable approaches to accelerate the induction of *Bumiputera* entrepreneurs in the retail industry. In relation to this development, PUNB has taken the initiative to create the **Concept Shop** programme such as *Kedai Leaderpac* Tyre and Service. To date, PUNB has developed 12 concept shops with 80 retail outlets under the PROSPER scheme.

A strategic business location is one of the critical success factors in retail business. In this regard, PUNB has been successful in assisting *Bumiputera* entrepreneurs to acquire premises at **strategic business location** in established shopping complexes, which is expected to enhance their success. Among the established shopping complexes are One Utama, Mid-Valley Mega Mall, Ampang Park, Bangsar Shopping Centre, Lot 10 and Giant in Kuala Lumpur; Plaza Angsana in Johor Bahru; Terminal One Shopping Complex in Seremban and Tesco in Melaka. PROSPER also purchased 73 shop lots for rent to *Bumiputera* entrepreneurs with the option to purchase through the involvement of TPPT.

PROSPER provides opportunities for *Bumiputera* entrepreneurs to venture into the retail business, especially in sectors that have limited Bumiputera involvement. Among the **new sectors ventured** by *Bumiputera* entrepreneurs under PROSPER are systematic workshops in the automotive industry, laundry and dry cleaning, hardware as well as books and stationery. The top 10 sectors with the highest PROSPER participation are as shown in ***Chart 2***.

PROSPER also plays an active role in expanding existing retail businesses to a higher level or category. Among these are expansions and upgrading of sundry shops to mini markets, conversions of basic auto service workshops into fully equipped automotive centres, expansion of single outlets into additional branches and a shift from retail to wholesale trade.

Future Programmes

Going forward, PROSPER will continue its assistance to *Bumiputera* entrepreneurs to make further inroads into the traditional retail and wholesale trade. In this regard, while PROSPER will continue its existing programmes and services to assist new *Bumiputera* entrepreneurs, future programmes will focus on new sectors and value-added services in tandem with the increasing number of *Bumiputera* professionals and the growing sophistication of the nation as it approaches developed status. PROSPER will continue to implement the following programmes:

- developing new retail areas in collaboration with *Bumiputera* companies;
- increasing participation by *Bumiputera* in existing retail areas in shopping complexes and new townships or existing town areas that *Bumiputera* retailers have not ventured into;
- providing financing and supporting more viable franchise businesses;
- widening the scope of coverage to include professional services such as medical, dental, pharmacy, architecture and engineering; and
- involving in retail supply chain.

Prospects

The retail and wholesale industry contributed 12.3% or RM28.6 billion (at constant price) to GDP and 26.4% to the services sector in 2003. The contribution of the retail and wholesale sub-sector to the economy is expected to increase with the fast-pace growth and development of the tourism industry as well as higher incomes. Retail and wholesale trade thus provide a viable avenue for *Bumiputera* to build their enterprises and raise their involvement in the business and commercial sectors.

With its integrated range of facilities and services, PROSPER will continue to play an important role to help spearhead the expansion of *Bumiputera* entrepreneurs in the retail and wholesale sub-sector. For 2005, PUNB aims to assist another 200 new *Bumiputera* entrepreneurs enter the retail trade while continuing its support to further develop existing entrepreneurs, especially those businesses that are viable and have potential for expansion. As for locations, PROSPER will continue to assist by obtaining strategic locations including Bintang Walk in Bukit Bintang, *Sistem Transit Aliran Ringan* (STAR) and Light Rail Transit (LRT) stations in Kuala Lumpur and Alamanda in Putrajaya.

this avenue, SMEs are able to strengthen their financial positions. Until June 2004, SDRC has received 129 applications with NPLs totalling RM113.7 million, of which applications from 50 companies worth RM40.6 million have been resolved.

Development financial institutions (DFIs) have always been an integral part of SME development. Apart from extending loans at lower interest rates, DFIs also provide advisory services, training, information and assistance for SME start-ups, assistance in commercialisation of R&D efforts as well as support in IT infrastructure, systems and processes. In a recent development, DFIs will also provide assistance to SMEs to tap the capital market through the provision of guarantees to raise commercial papers. In addition, DFIs will also seek strategic partnerships with commercial banks to co-finance SMEs.

The food and beverages industry is one of the key drivers of SMEs performance. In developing SMEs to become global suppliers for resource-based products, the Small and Medium Industries Development Corporation (SMIDEC) through the Industrial Linkage Programme has collaborated with foreign-based hypermarket chains operating in Malaysia to enable SMEs to supply their products to these hypermarkets as well as their outlets worldwide. As at June 2004, these hypermarkets have appointed 22 SMEs as suppliers, six of which supply household products such as cooking oil, processed food and detergents for hypermarket in-house brands. SMEs, therefore, have the potential to become global suppliers to their outlets worldwide. Continuing the efforts to help SMEs penetrate the global market, SMIDEC is implementing the Headstart 500 Programme that aims to develop 500 SMEs with high growth potential to become global suppliers. As at July 2004, 66 companies with total sales of RM303 million have been selected to participate under this Programme.

Small businesses and micro enterprises play an important role in generating economic activity. Essentially, the development of small businesses will not only address the issue of poverty but their continued success will further enhance their role and contribution to the economy. Bank Pertanian Malaysia (BPM) and Bank Simpanan Nasional (BSN) were appointed to manage the micro credit scheme for small business enterprises. Until end-July 2004, BPM has approved 17,388 loan applications amounting to RM200.5 million, of which the bulk was for trading activities, followed by marketing and livestock projects. BSN manages a fund totalling RM800 million and up to end-July 2004, has approved about 85,000 applications worth RM708.9 million for businesses dealing in import and export; wholesale and retail trade, restaurants and hotels; finance and insurance services as well as the property sector. Apart from micro credit financing, small retail business ventures are also supported by special funds under the Project for Bumiputera Entrepreneurs in Retail Sector (PROSPER). This scheme provides an integrated package of assistance covering equity financing, loan facilities as well as advisory services.

Transforming the Agriculture Sector

Increasing contribution from food production…

Agriculture, through unlocking of its asset values, has vast potential, particularly in higher value-added downstream activities. As a strategy, transforming the agriculture sector into a modern and commercially viable sector of high returns, has been given a new focus. The development of a modern and commercial agriculture sector will be the vehicle to uplift the living standards of the rural population and the transformed agriculture sector with higher returns will no longer be associated with poverty. In terms of focus areas, agro-based food production, aquaculture, deep-sea fishing, ornamental fish breeding, livestock rearing, fruits and vegetable farming and floriculture have been identified as having potential for export markets. In addition, downstream activities from plantation commodities and crops such as the development of palm oil by-products as inputs for personal care products, or the processing of palm oil into health products such as vitamin E, also have much export potential. Supporting infrastructure, including distribution system, marketing and promotion as well as incentives and accessibility to financing have been enhanced to promote the development of these activities.

Concerted efforts of the Government in encouraging food production have been successful. The value-added of other agriculture sub-sector, including livestock, paddy, fruits, vegetables and fishing is expected to increase by 3.3% in 2004. Expansion in cultivated areas, optimum utilisation of land, provision of extension services as well as marketing, infrastructure and logistics support to improve productivity and efficiency, contributed to the higher output of fruits (13%), aquaculture (10%) and livestock (7%).

In addition to improving production processes and output levels, efforts are underway to ensure Malaysian agriculture produce are safe and of high quality for domestic consumption as well as enhance international acceptance. Farmers have been encouraged to adopt best methods and practices in farming, harvesting and processing. Farms that meet specifications and standards are awarded internationally recognised certification under the Malaysian Farm Accreditation Scheme (SALM), Livestock Farm Accreditation Scheme (SALT) and Malaysian Aquaculture Farm Certification Scheme (SPLAM). Under SALM, 102 farms have been certified while 58 farms were accredited under SALT.

The freshness of farm produce for both domestic and overseas market has been prolonged through strengthening the marketing and distribution channels. The Federal Agriculture Marketing Authority (FAMA) is currently improving its supply chain management by establishing another 27 farm collection centres and four food terminals in addition to the existing 53 centres. These designated market outlets will undertake the whole range of post-harvest activities, including collection, grading, certification, packaging and distribution. In addition, ongoing contract farming and strategic arrangements with major supermarkets are being carried out while back-up services, such as dissemination of market information through ICT services are being enhanced. Top quality agriculture produce accredited by the Agriculture and Agro-based Industry of Malaysia through 'Malaysia's Best' certification include papaya, pineapple, mango, starfruit and watermelon. These products are now available at 13 hypermarkets and supermarkets. Malaysia exported about RM400 million worth of fruits last year and is currently the biggest exporter of papayas and watermelons to Hong Kong and of starfruits to Europe.

Upgrading the drainage and irrigation system as well as farm and rural roads were undertaken to improve yields and facilitate the transportation of agricultural produce. A total of 4,303 kilometres of new farm and rural roads has been constructed or upgraded in 2004. The completion of the Beris Dam in Sik, Kedah in 2004, together with irrigation works in Naok, Reman and Jeniang have also improved the water supply and irrigation needs of farms in Perlis, Kedah and Seberang Prai, Penang.

Measures were also taken to consolidate smallholdings aimed at achieving economies of scale and higher productivity. As at end-2003, a total of 27,660 hectares has been consolidated and rehabilitated by land development agencies, mainly involving oil palm smallholdings, which have resulted in better yields and higher returns. In order to attract greater participation of the private sector as well as encourage large-scale farming, the Government launched a capital-intensive mixed farming project, comprising livestock rearing, aquaculture, fruit and vegetables farming on 8,650 acres of land in Kluang, Johor in partnership with the private sector.

The greater use of technology and mechanisation will increase productivity, improve output quality and lower the costs of production. R&D collaboration by the agro-based public sector research institutions like the Malaysian Palm Oil Board (MPOB), Malaysian Rubber Board (MRB) and Malaysian Agriculture Research and Development Institute (MARDI), universities and the private sector have enhanced agriculture productivity and resulted in the development of new products and higher yields. Among the achievements in R&D commercialisation include red palm oil, aluminum harvesting pole, mechanical loader (grabber), palm-based printing ink, healthful margarine and oil blends, goats-milk products and personal care products. Other research areas include biomass and bio-diesel as alternative source of fuel. Research activities on improving rubber clones have resulted in new clones such as RRIM 2026 and RRIM 2027 with higher latex yields and rubber wood clones to meet the demands of rubber-based and furniture industries, respectively. Other R&D on rubber products includes the development of rubberised asphalt for use on roads and rubber bearings. Research output on new seed varieties with commercial potential are MRQ 50 paddy, CM 19 ciku and Dendrobium Tuanku Fauziah Orchid.

Promoting the Services Sector

New sources of higher growth from ICT and tourism…

The services sector holds great promise, given its potential for growth and contribution to the economy. This sector represents the largest component of GDP with a share of 57% in 2004. Even so, there is still immense scope to further expand its share comparable to the developed economies, whereby the services sector accounts for more than 70% of GDP. As the services sector comprises a varied number of sub-sectors, which fall under the purview of various ministries and agencies, the Malaysian Industrial Development Authority (MIDA) has been tasked to coordinate the non-financial services sectors in addition to the manufacturing sector. In this regard, MIDA will also promote Malaysia as the preferred services hub in the region.

Within the services sector, ICT and tourism-related industries continue to generate significant growth, both in terms of output and foreign exchange earnings. In the ICT industry, the Multimedia Development Corporation (MDC) gained further ground in its endeavour to make the Multimedia Super Corridor (MSC) a global ICT hub. As at end-August 2004, there were 1,099 MSC status companies, comprising 768 Malaysian-owned, 302 foreign-owned and 29 joint-venture companies. The number of jobs created increased by 17.3%, from about 19,100 jobs in 2003 to 22,300 jobs in 2004, out of which 88% constitute knowledge workers in the fields of software development and programming as well as managerial and technical support in sales, finance and marketing. Currently, there are 65 international world-class companies operating in the MSC. In 2004, total sales from MSC activities is expected to reach RM6.8 billion, of which RM5.3 billion are exports while RM1.5 billion are local sales.

In terms of R&D, MSC companies have had significant success. R&D expenditure of MSC companies is anticipated to increase significantly by 21.2% to RM657 million in 2004 (2003: RM542 million). The research activities focussed on areas such as communications, software solutions, micro-systems and integrated circuit designs. Arising from the R&D efforts, a total of 151 patents, 41 industrial designs and 188 trademarks were registered, signifying the achievements of the 590 R&D personnel working in the MSC. Development of the local ICT industry, shared services and business process outsourcing has been identified as new sources of high growth. Specific measures have been implemented to facilitate the development of this sector, including attracting ICT talents through the brain-gain programme and enhancing ICT infostructure, especially in wider broadband connectivity. Concerted efforts are ongoing in promoting strategic alliances and synergistic partnerships in areas of business process outsourcing and shared services. Arising from these measures, homegrown IT companies, now provide services to one of the world's leading telecommunications companies in customer support operations and manage regional supply chain activities and logistics for a major electrical and electronics (E&E) company in the Asia Pacific region. As for business process outsourcing, the MSC has already pulled in Global 500 companies. Investments in business process outsourcing also increased with foreign affiliated companies in banking, insurance and courier services as well as automotive industries, have established centres in the MSC. Consequently, Malaysia has emerged as an attractive destination for shared services and outsourcing activities, third only behind India and China, as indicated in a survey by A.T. Kearney, released in March 2004. Outsourcing is expected to generate investment of over RM1 billion and create more than 8,000 jobs by the end of 2004.

Modelled after MIDA, the MDC is a one-stop agency for selected services, which among others, promotes ICT- related services to local and foreign multinational companies. These have spawned new activities in the MSC, such as the establishment of R&D centres for software applications for the E&E industry. In order to attract more multinational and foreign companies to set up their businesses in the MSC, MDC continues to deliver world-class technology infrastructure such as high-capacity digital fibre optics network, modern business centres and efficient transportation as well as comfortable living environment to attract ICT investors.

The tourism industry remains a significant contributor to the economy in terms of foreign exchange earnings. In 2003, the industry generated RM21.3 billion from 10.6 million tourists while in 2004, with an estimated 15 million tourist arrivals, revenue is expected to reach

RM30 billion. The spectacular rebound in tourist arrivals from a low of 0.5 million during the SARs outbreak in April last year to 1.4 million tourists in January 2004 is attributed, among others, to the intensive promotional efforts of the Malaysian Tourism Promotion Board (MTPB), particularly in regional markets of Asia. The high inbound tourists were mainly from ASEAN followed by China, Japan, United Kingdom and Australia. The sharp increase in the number of tourist arrivals from Kuwait, Saudi Arabia and United Arab Emirates by 150%, 120.7% and 121%, respectively during the first seven months of 2004, signified the growing potential of the Middle-East market. Apart from promotional activities undertaken by the Government, the more integrated and synergistic efforts of airlines as well as travel and tour agencies are expected to further boost tourist arrivals in the year.

Concerted efforts are ongoing to improve tourism infrastructure throughout the country to enhance accessibility to tourism products. These include, among others, the upgrading and beautification of the Melaka and Penang rivers and further developing the islands in Terengganu for eco-tourism. Entrepreneurs in the tourism industry have access to the RM400 million Special Tourism Fund for financing small projects and the RM700 million Tourism Infrastructure Fund for larger projects. As at June 2004, RM665 million was approved mainly for the development of hotels and resorts, transport and storage facilities, integrated tourism centres, theme parks and other tourism infrastructure.

The Government's efforts in promoting new sources of growth in health and education tourism have also shown impressive results. A total of 103,000 visitors sought medical treatment and generated RM59 million of revenue in 2003 and about 140,000 health tourists are expected in 2004. A majority of them are from the ASEAN countries, especially Indonesia. As for education tourism, there were 31,000 foreign students in private schools and institutions of higher learning in 2003, especially from China (35%) and Indonesia (17.2%). By end-2004, the number of foreign students is expected to reach 43,000.

Enhancing Competitiveness

Improving competitiveness through higher productivity, lower costs...

The rapidly changing global environment necessitates constant review of national strategies to remain competitive. Efforts are ongoing to create a conducive business and economic environment to further facilitate production, trade, investment and other commercial activities in the country.

In Budget 2004, various tax incentives were provided to the business community to further enhance and facilitate business and investment activities. These include full deduction on entertainment expenses incurred in sales promotions and a 50% deduction on other entertainment expenses. The exemption period for import duty and sales tax on spares and consumables for the manufacturing and services sectors were extended indefinitely. Deductions on incorporation expenses are extended to companies with authorised capital of up to RM2.5 million while import duties on selected goods were either reduced or abolished. Likewise, export duties on several agriculture produce and commodities and certain minerals were also abolished. Special attention was given to improve competitiveness and promote investment by SMEs. In this regard, SMEs that had previously enjoyed lower corporate tax rate of 20% for chargeable income up to RM100,000 will continue to benefit from a higher threshold of RM500,000.

The Government continues to ensure world-class infostructure for both consumers and businesses by expanding Internet connectivity and usage through greater accessibility to broadband services. Broadband charges were reduced by 30% for individual consumers and 50% for enterprises and corporate users, effective from January 2004. This contributed to a more than three-fold increase in the number of broadband subscriptions to 174,000 at end-June 2004 (end-June 2003: 54,000). Malaysia is expected to be fully equipped with broadband facilities and services in the next three years, as more licences to network providers are approved. Provision of

AN EFFICIENT PUBLIC SECTOR DELIVERY SYSTEM TOWARDS A HIGH PERFORMANCE CULTURE

Introduction

An efficient and effective public sector delivery system is critical to the nation's economic development as it provides the foundation and machinery for the provision of public goods and services. As the largest service provider, the Government is committed to providing a conducive business environment to support growth of the private sector while catering to the overall needs of the people more effectively and efficiently. For the delivery system to be effective, it needs to keep pace with technological advancements and the forces of globalisation. In cognisance of this, the Government constantly stressed the need for an efficient and transparent public administration and has taken various measures to enhance the effectiveness of its delivery system.

Government Initiatives to Enhance the Delivery System

Various initiatives have been introduced to further improve the quality of public sector delivery system by reviewing, strengthening and simplifying existing rules and regulations. Greater emphasis has also been accorded to reducing bureaucratic red tape by simplifying complex, cumbersome and time-consuming procedures. The Government has also stressed the need to enhance work ethics and transparency in the public service delivery system and urged civil servants to enhance professionalism, responsiveness and accountability in providing public services. These initiatives are expected to contribute to lowering the cost of doing business and improve the nation's competitiveness. A better functioning public service delivery system will promote good governance and higher integrity, particularly within the public sector.

Public Services Portal

In line with the advancement of information and communications technology (ICT) and web-based technology, the Government developed *myGovernment* portal as the single gateway to public services. The portal can be accessed at http://www.gov.my. Developed on the intention-based approach with information and services categorised according to life stages and subject matter, the portal facilitates easy access for citizens and the business community to information and various application forms, and selected online transactions. At full implementation, a comprehensive range of prioritised end-to-end online services will be made accessible to the public.

Task-Force on Reducing Bureaucratic Red Tape

All ministries have been tasked with establishing a Ministerial Task Force on Reducing Bureaucratic Red Tape to spearhead efforts in enhancing service delivery. The respective ministers head the Task Force which meets at least once a month and focuses on the following:

- improving existing systems and work procedures to ensure efficiency as well as to prevent abuse of power and corruption;
- identifying, reviewing and amending rules and regulations that may hinder the effectiveness and smooth delivery of services;
- reviewing and recommending enhancements to service standards as pledged in the Client's Charter and act upon feedback received through the "Customer Satisfaction Feedback Form"; and
- studying and determining the resource requirements to enhance the delivery of services to customers.

In the first half of 2004, the respective Task Forces have successfully reviewed a total of 104 systems and work procedures. These involved re-engineering and reducing work processes, decentralising the approval process from headquarters to branch offices, reviewing and updating approval criteria as well as introducing ICT. Service standards in 70 Client Charters were also reviewed to improve service level to customers. In addition, 20 sets of relevant laws, rules and regulations were identified for appropriate amendments.

Counter Service

In line with the pro-business Government policies, concrete steps have been taken to improve counter services of ministries and agencies to be more customer-oriented and business-friendly. These include the following:

- ensuring adequate number of counters and manpower;
- transforming counters into multi-service counters;
- providing more one-stop service counters;
- extending counter services beyond normal working hours, including weekends;
- providing customer service counters;
- installing electronic queue management systems to manage, monitor and optimise distribution of customers; and
- administering and evaluating ‘Customer Satisfaction Feedback Forms’.

The implementation of these measures will be constantly monitored by the Task Force at the respective ministries as well as through inspections by special inspectorate teams. To date, special inspectorate teams have carried out inspection at 14 selected agencies involving 64 site visits at the headquarters and branch office levels.

Licences and Permits

All government departments were directed to streamline procedures related to the issuance of licences and permits through the following steps:

- reviewing the need for business licences and permits that are found no longer appropriate or relevant to the current environment;
- introducing standard composite application forms and licences; and
- giving customers, where relevant, the choice on the duration of the validity period of licences and permits.

Licensing in the Hotel Industry

The Government has streamlined the licensing procedures for the hotel industry through the following improvements:

- establishing a hotel rating system to determine the various licensing requirements for hotel services;
- integrating 14 different licences currently issued by local authorities (LAs) into a single composite hotel licence;

- providing standard application forms and composite hotel licence;
- extending the validity period of licences from the current 1-3 years to 1-5 five years; and
- empowering LAs to act as one-stop centres (OSCs) for processing applications of licences for hotel services.

Hand-holding Investors

In encouraging investors to choose Malaysia as the preferred investment destination, the Government introduced the “hand-holding” facility for investors in the manufacturing sector. The Malaysian Industrial Development Authority (MIDA) has appointed 30 Special Project Officers (SPOs) to hand-hold and assist investors in obtaining all the necessary approvals for manufacturing projects from the initial contact until the commencement of operations. Currently, 747 projects at various stages of implementation are being monitored by SPOs in MIDA. In ICT related services, the Multimedia Development Corporation (MDC) acts as a one-stop agency, modelled after MIDA to hand-hold and guide investors as well as facilitate approvals from various authorities to expedite project implementation.

Land Administration

The Government launched the New Strategies for Land Administration Package on 2 March 2004, particularly aimed at expediting the resolution of land cases. This strategic package contains 43 measures to improve land administration, including the re-engineering of existing work systems and processes, as well as the enhancement of related support services.

As an immediate measure, 26 *Flying Squads* were established as at end-2003 to resolve the backlog in land cases pertaining to the registration of dealings and non-dealings, land alienation, registration of strata titles and conversion from Qualified Title (QT) to Final Title (FT). As at end-July 2004, a total of 238,177 outstanding cases or 73.1% of the backlog in the registration of dealings and non-dealings in 12 states were resolved. In the case of strata titles, 117 out of 3,948 development schemes have been cleared, while 32,225 cases of backlog in conversion of land titles from QT to FT were resolved.

Several other measures to improve land administration were also introduced, including the following:

- provision that all technical agencies submit comments and recommendations on land applications within a maximum period of two weeks;
- delegation by the respective State Government Executive Councils of its powers in selected areas of land administration;
- filling of vacancies for critical posts in Land Offices; and
- improving competency in land administration through courses in land law and administration, land survey, Global Positioning System (GPS) and AutoCAD provided by the National Land and Survey Institute (INSTUN).

e-Tanah

The Government has embarked on the *e-Tanah* Project as an integrated and comprehensive approach utilising ICT to modernise land office administration and its core processes. The project will involve business process re-engineering of land administration where ICT applications will be developed for 24 core land application processes. The *e-Tanah* Project will be implemented on a pilot basis in Pulau Pinang by end-2004 before rolling out to other states in 2006.

To fast track the implementation of *e-Tanah*, ICT systems and applications that are already operational in various state administrations are being reviewed for incorporation into the *e-Tanah* Project with appropriate enhancements. For example, the Computerised Land Application System (SPTB), already implemented in Perak has proven to be an effective system for registering and tracking land applications in the state. The SPTB will be implemented in all other states through a smart partnership approach before final incorporation into the *e-Tanah*.

Services by Local Authorities

Various strategies were introduced to accelerate the processing and approval of building plans and the issuance of Certificates of Fitness for Occupation (CFOs). These strategies include the following:

- establishing one-stop centres (OSCs) at the LAs and state administration level to process and expedite the approval for building plans and CFOs. To date, all 97 LAs in Peninsular Malaysia have established OSCs;
- approving building plans within 12 weeks and issue CFOs within four weeks;
- reducing the number of technical agencies providing comments in the CFOs approval process from seven agencies to only one agency, namely the Department of Sewerage Services; and
- accelerating the supply and connection of utilities to housing projects. In this regard, the supply and connection of electricity to new housing projects will be undertaken through the enforcement of a Service Level Agreement between housing developers and the electricity utility companies.

The Government will continue its efforts on improving the delivery system of LAs through short-, medium- and long-term measures, which include:

- developing Key Performance Indicators (KPIs) to ensure services provided are in accordance with the objectives of LAs and customer expectations;
- expanding the implementation and use of composite licences;
- enhancing enforcement and monitoring of business premises to ensure cleanliness and proper maintenance;
- improving the collection of property assessment tax through more strategic and effective approaches with discounts for prompt and regular tax-payers;
- expanding the functions of OSCs in LAs to cover all aspects of licensing and permits, payments and fines;
- establishing Local Authority Incorporated Panels to obtain feedback and provide information to the business community on policies, programmes and decisions made by LAs; and
- developing a comprehensive ICT system for various transactions, including electronic submission of applications for CFOs, building plans, business licences and OSCs.

National Integrity Plan (NIP)

The Government launched the National Integrity Plan (NIP) on 23 April 2004. NIP is an action plan to improve the nation's integrity through a comprehensive and integrated approach. The Plan is targetted primarily at reducing corruption, providing greater transparency and accountability as well as to enhancing efficiency at all levels of the community. As NIP provides the strategic direction for all sectors of the community to enhance integrity, it paves the way for collaboration towards building a strong ethical foundation which in turn will help enhance the nation's competitiveness and economic resilience.

As a vehicle to implement NIP, the Government has established the Malaysian Institute of Integrity (IIM). Currently, IIM has embarked on a series of educational and awareness programmes on NIP through the Management Integrity Committees established at all government agencies. In addition, joint programmes with other entities, such as the National Institute of Public Administration (INTAN), Business Ethics Institute of Malaysia, Tun Hussien Onn Foundation, Asia-Pacific Forum on Families Malaysia and United States Office of Government Ethics were also initiated to promote and implement NIP.

IIM has identified six agencies to spearhead the implementation of the agenda and strategies under NIP. These are the Public Service Department (PSD), Ministry of Domestic Trade and Consumer Affairs, Ministry of Women, Family and Community Development, Ministry of Housing and Local Government, Ministry of Higher Education and Ministry of Education. In this regard, PSD is the lead agency for implementing the integrity agenda and strategies for institutions in the public sector comprising ministries, departments and statutory authorities.

Performance Measurement

The Government is finalising guidelines for the implementation of performance measurement and the development of KPIs in public sector organisations. The implementation of KPIs will consolidate the performance measurement elements under existing initiatives and programmes, such as Total Quality Management (TQM) and MS ISO 9000 standard.

Implementation of KPIs and performance measurement has begun in August 2004 at six pilot agencies, namely the Immigration Department, National Registration Department, Melaka Historical City Municipal Council, Petaling District and Land Office, Selangor, Shah Alam Police Station and Kota Bharu Hospital. Its full implementation is expected in early 2005.

Conclusion

A competent public service that provides an efficient and effective delivery system is crucial to the nation's continued competitiveness and economic development. Globalisation and technological advancements have heightened global competition and demand a revamp of obsolete public sector processes and procedures. In this regard, the Government is committed to continuously upgrade the public service delivery system through new strategic approaches and best practices in meeting these challenges. These include reviewing and strengthening existing rules and regulations, simplifying complex, cumbersome and time-consuming procedures, enhancing work ethics, accountability and transparency, promoting professionalism and greater responsiveness towards public demands as well as improving public sector organisation and administration.

broadband Internet services in schools, including 10,000 schools in rural areas, is anticipated to reduce the rural-urban digital divide.

Significant progress has been made towards improving the public sector delivery system. Much of the progress is centred on shortening the time taken to set up businesses and reducing bureaucratic red tape. A pivotal focus is on a more open and transparent public sector to reduce the incidence of corruption as part of the measures to reduce the cost of doing business. Another measure that received significant interest is the introduction of KPIs in the public sector. KPIs have been imposed on public-listed GLCs to enhance greater accountability, corporate responsibility and performance. As GLCs are key players in the economy, accounting for about one-third of total market capitalisation of Bursa Malaysia, the use of KPIs to monitor the GLCs' performance is expected not only to improve their efficiency and profitability to compete in the global environment but also set the benchmark for other companies to follow. In addition, the use of KPIs is also aimed at promoting a performance-oriented culture, both in the public and private sectors. Recently, Malaysia Airlines and Malaysia Airports Holding Berhad introduced the use of KPIs and a productivity-linked wage system (PLWS), setting the pace for others to emulate.

Malaysia's relentless drive to enhance competitiveness through its pragmatic policies and strategies has enabled the nation to effectively compete internationally. This achievement is recognised by the International Institute for Management Development (IMD) World Competitiveness Yearbook 2004, which ranks Malaysia as the 5th most competitive nation among 30 countries with a population of more than 20 million, improving from its 7th position a year ago. During the period 1998-2003, Malaysia's average productivity growth at 2.3% per annum surpassed that of major Organisation for Economic Cooperation and Development (OECD) economies as well as selected Asian countries, namely the US (2.2%), UK (1.3%), Japan (1.2%), Singapore (1.1%) and Thailand (1.1%). In 2003, Malaysia registered a productivity growth of 2.7%.

Strengthening the Social Agenda

Public sector programmes for the disadvantaged groups have reduced the incidence of poverty…

Poverty eradication, equitable distribution of wealth and rural development have been the cornerstones of the nation's social agenda as a strategy to achieve the overriding objective of national unity. Malaysia is one of the nations that have been highly successful in alleviating poverty and sustaining racial harmony. The incidence of poverty now stands at only 5.1%, affecting 267,000 households. Rural poverty is higher at 11.4%, while 2% of the urban population is living below the poverty line. A total of 12,600 urban households are hardcore poor, earning less than RM260 per month, which is half of the poverty line income (PLI). The PLI for Peninsular Malaysia is RM529 per household, RM690 for Sabah and RM600 for Sarawak. Efforts are currently underway to review and redefine poverty to better reflect the existing economic and income conditions, taking into account the different geographical locations and their respective costs of living. The findings of the review will enable the Government to plan and implement future programmes more effectively for the targetted groups.

Total expenditure for the rural sector has increased, as more programmes and projects are being implemented to alleviate poverty, as well as enhance capacity-building in the rural areas. A total of RM475.4 million has been allocated in 2004 for socio-economic projects, including infrastructure, other basic amenities and utilities, such as water and electricity supply. Expenditure for rural electrification will have the largest share at RM160.1 million, a substantial increase over RM43.4 million expended in the previous year. The bulk of expenditure (72%) goes to Sabah and Sarawak, each with more than a three-fold increase, in line with the Government's commitment to improve rural electricity coverage in the two states. Likewise, for rural water supply, 68% of the total expenditure of RM145.3 million is for upgrading water supply and quality in Sabah and Sarawak. The implementation of these projects will greatly enhance the quality of life of the rural population, particularly in these two states.

Amanah Ikhtiar Malaysia (AIM) through its various micro credit schemes, with funds totalling more than RM1 billion, plays an instrumental role in the alleviation of poverty. The rural poor now have access to micro credit, without the need for collaterals, for income-generating activities as well as financing education, housing renovation and installation of basic utilities. As at end-June 2004, these schemes benefitted about 554,000 borrowers from the lower income groups through loans amounting to RM1.03 billion.

To assist students of poor families, the Trust Fund for Poor Students was established in 2003 with a launching grant of RM200 million. This Fund provides assistance to students from families with household incomes of less than RM500 a month or an average income of less than RM100 per month. The financial assistance is for payment of miscellaneous school fees and examination fees, purchase of school uniforms as well as for counselling and coaching. Apart from Government grants, the Fund also receives donations from corporations and individuals. As at end-July 2004, a total of RM4.8 million has been disbursed, benefitting 3,680 students.

Various programmes have been implemented for the *Orang Asli* community to improve their earning capacity, welfare and quality of life. Programmes implemented in 2004 include the provision of basic infrastructure and utilities, systematic land development, education and skills training. Until June 2004, the Government has expended RM105 million for the construction of 2,160 kilometers of roads in 720 *Orang Asli* villages while 8,250 houses in 238 villages were provided with electricity at a cost of RM71 million. As at end-2003, the Government has constructed 11,480 houses under the *Skim Pembangunan Kesejahteraan Rakyat* at a cost of RM46.7 million. Another RM97 million was expended to supply piped water to 327 villages and gravity water to 364 villages, improving further the quality of life of the *Orang Asli* community.

Education opportunities are prerequisites for the upward mobility of the *Orang Asli* community into the mainstream of development. Recognising this, the Government continues to provide infrastructure and financial support for education to the Community. As a result of these efforts, the number of students at the primary level increased from 13,200 in 1994 to more than 23,000 students in 2003, while the number of students at the secondary level more than doubled from about 2,700 to 6,680. At the tertiary level, the number of students registered was 590. The Government will continue to give special emphasis to enable more students from the Community to participate in educational programmes, particularly in skills training, entrepreneurial development and leadership.

The Government recognises the contribution of women and family to the social and economic development of the country. Since 2001, a sum of RM28.3 million has been distributed to 235 non-governmental organisations (NGOs) for the implementation of 577 women and family capacity-building programmes. Low- income single mothers are also given the opportunity to enhance their potential through participation in various programmes, such as entrepreneurial training, ICT literacy and skills, food processing and handicraft production. As at end-June 2004, a total of RM3.3 million was distributed to 60 NGOs, benefitting about 35,000 women through various income generating programmes that helped to upgrade their living standards.

A Smartstart Package for those getting married has been developed, while courses in parenting skills are conducted as one of the most important aspects in building resilient families. A campaign called *Utamakan Keluarga: Semakin Hari Semakin Sayang* provides the platform for collaboration amongst government agencies, the private sector and NGOs in nurturing the spirit of ‘family first’ and instilling positive values in families. In 2004, more than 80 programmes will be implemented, benefitting about 23,500 participants from all segments of society. Additionally, low-income single mothers can also have access to funds available under *Skim Pembiayaan Ikhtiar Ibu Tunggal* to start their own businesses. A unique fund known as Technology Acquisition Fund for Women was established under MTDC to assist women entrepreneurs to improve technology and production processes. As at end-July 2004, RM15.1 million of the RM25 million allocation under the 8MP has been disbursed to benefit 30 women entrepreneurs.

REDUCING THE RURAL-URBAN DIVIDE THROUGH EDUCATION

Introduction

Eradication of poverty is one of the two-pronged strategies of Malaysia's New Economic Policy (NEP), 1971-1990. This was incorporated and operationalised in the First Outline Perspective Plan (OPP1), where access to education was identified as one of the principal measures for sustainable and long-lasting effect on poverty eradication. In implementing the OPP1, emphasis was placed on reducing the education gap between urban and rural areas. Malaysia has been successful in increasing the overall literacy rate for the nation, which now registers at 94%. Recognising that education remains the main vehicle to promote upward social mobility, the Government continued to further expand its education programmes and projects through the subsequent OPP2 and the current OPP3. The past three decades or more have seen rapid expansion in the education sector, particularly in the provision of educational facilities, infrastructure, access and opportunities.

Education Development Plan, 2001-2010

The Education Development Plan, 2001-2010, embodies a key thrust of the OPP3 in promoting an equitable society by raising the income levels and quality of life of those in the low-income groups as well as reducing economic disparities among ethnic groups and between regions. Towards this end, the Plan was formulated based on four main thrusts, as follows:

i. increasing access to education;

ii. increasing equity in education;

iii. improving the quality of education; and

iv. improving efficiency and effectiveness in education management.

To effect the succesful implementation of the Plan, a number of strategies and action plans have been identified at each stage of the education structure to ensure that all citizens have equal access to 12 years of quality education. As part of Government's efforts to reduce the rural-urban divide, the Plan identified various issues and challenges encountered, especially in providing education to the rural population, and initiated concerted efforts through various programmes and projects to increase the participation rate.

Increasing Access to Education

The Government has undertaken and continues to implement numerous programmes and projects in effort to close the gap in the education divide between rural and urban areas. Such approach extends to both the pre-school and secondary school levels, as the foundation towards accelerating access to, and improving the quality of education in the country.

Pre-school Education Programme

As at 2000, the percentage of children aged five and six years not registered at pre-school, was still high at 36%, or about 199,000 children. The enrolment rate is slightly lower for *orang asli* and natives from the remote areas in Sabah and Sarawak who are less aware of the benefits of education. To bring the facilities closer to the target groups and increase their accessibility, the Government expanded the capacity of pre-school facilities from 1,131 pre-school classes in 2001 to 3,180 in 2004, of which more than three quarters (78%) are located in rural areas. Consequently, pre-school enrolment more than doubled from 26,000 to 64,000 pupils.

Primary and Secondary Education

During the 2001-2004 period, the Government constructed 234 new primary schools in order to increase enrolment amongst rural students. At least 80% of the newly constructed schools are located in the rural areas, as shown in *Chart 1.* Correspondingly, the enrolment of rural students in primary schools increased from 1.8 to 1.9 million, constituting 62% of the total increase during the same period. Meanwhile, the number of secondary schools in the country increased from 1,723 to 1,961, with more than half (57%) of the increase located in rural areas, catering for 54% of total enrolment in 2004, as shown in *Chart 2.* On average, classroom size at the primary level was 31 students and the secondary level, 33 students.

Sabah and Sarawak Rural Education Programme

The Government initiated the Sabah and Sarawak Rural Education Programme, which incorporates a complete range of integrated facilities and infrastructure to rural and remote schools under the centralised school project. In addition to classrooms, electricity and water supply, as well as teachers' quarters are planned, configured and constructed on a comprehensive basis. Currently, the project is at various stages of implementation and is expected to be completed by mid-2005.

The centralised school project was launched to facilitate students with transportation problems, providing them with educational facilities including hostels, a conducive educational environment and adequately trained teachers to improve academic and extra-curricular performance. Two centralised schools have been selected as pilot projects, namely, SK Mata Parang, Sarawak with 301 students and SK Bum-Bum, Sabah, with 310 students, both of which have been operational since 2003 and 2004, respectively.

CHART 1

Number of Primary Schools by Rural-Urban Location, 2001-2004

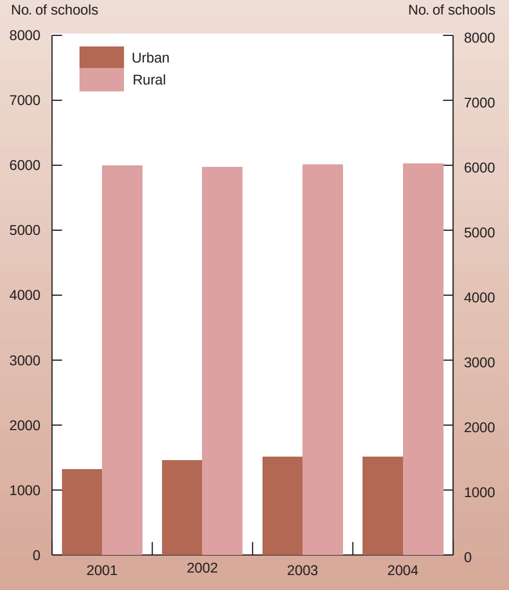
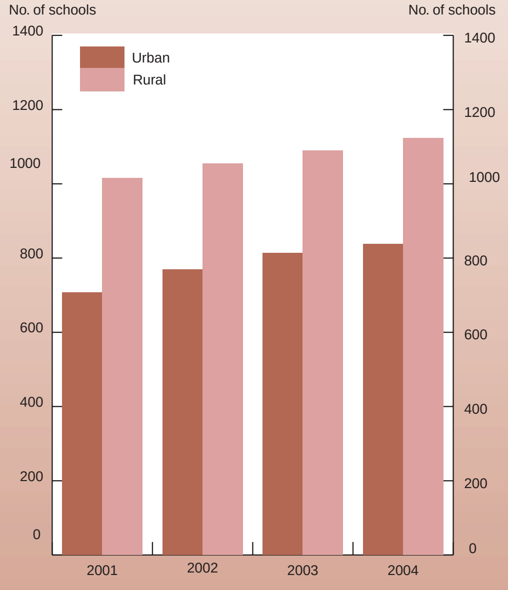


CHART 2

Number of Secondary Schools by Rural-Urban Location, 2001-2004



Source: Ministry of Education

Increasing Equity in Education

Support Programmes and Assistance

In addition to the provision of schools in rural areas, the Government implemented various programmes to assist students from poor families to ensure that they have equal access to educational opportunities. Among the support programmes are the Supplementary Food Scheme (RMT), School Milk Programme (PSS), Trust Fund for Poor Students (KWAPM), RM120 One-off Assistance, Tuition Voucher Scheme (SBT), Textbook Loan Scheme (SPBT) as well as a scholarship programme. For the period 2001-2004, a total of RM2,265.8 million was allocated, benefitting 8.19 million students.

Total Allocation and Beneficiary of MOE Assistance by Programme, 2001-2004

Programme	Allocation (RM million)	Students
Supplementary Food Scheme (RMT)	499.4	2.13 million
School Milk Programme (PSS)	64.4	1.98 million
Trust Fund for Poor Students (KWAPM)	6.2	4,352
RM120 One-off assistance	208.4	1.7 million
Tuition Voucher Scheme (SBT)	168.8	446,381
Textbook Loan Scheme (SPBT)	699.1	971,872
Scholarship	619.5	961,044
Total	**2,265.8**	**8.19 million**

Source: Ministry of Education

Improving Quality of Education

Teaching Capacity

Taking cognizance that student enrolment is rising, it is further acknowledged that a substantial number of teachers are also needed to ensure effectiveness in ensuring higher quality education. During the period 2001-2004, the number of teachers increased to 179,600 from 160,300 teachers in the primary schools and to 130,400 from 118,300 teachers in secondary schools. Of this total, 67% of primary and 54% of secondary teachers were posted to rural areas. The measure to place more teachers in rural areas has resulted in a higher rural teacher-student ratio of 1:16 compared to the national ratio of 1:17 in 2004. In *Education at a Glance, OECD Indicators 2003*, published by the Organisation for Economic Co-operation and Development (OECD), it was shown that Malaysia's teacher-student ratio is comparable to, or even better than, some developed countries. In 2001, except for the US with a teacher-student ratio of 1:16, Malaysia's ratio of 1:18 is better than the ratios in Japan (1:21), the United Kingdom (1:20) and Thailand (1:20).

ICT Programme

In keeping pace with technological advancements and the objective to narrow the digital gap between the rural and urban areas, the Government has placed great emphasis on enhancing ICT literacy among school children. Various ICT programmes have been launched as part of educational development. ICT development in education comprises three main thrusts:

i. increase ICT literacy among all students, especially from the rural areas;

i. intensify the role and function of ICT in education as an integral part of the curriculum and as an educational tool; and

iii. utilise ICT to increase productivity, efficiency and effectiveness of the educational system.

Under the ICT Programme, various projects were undertaken, namely, Learning of Science and Mathematics through the English Medium (PPSMI), Computerisation, SchoolNet Network and Smart Schools. The PPSMI was introduced in 2003 to enhance fluency in English and facilitate proficiency in Science and Mathematics. Meanwhile, the Computerisation project aims at enhancing the standard of ICT knowledge and narrowing the education digital gap between rural and urban students, with priority given to rural schools.

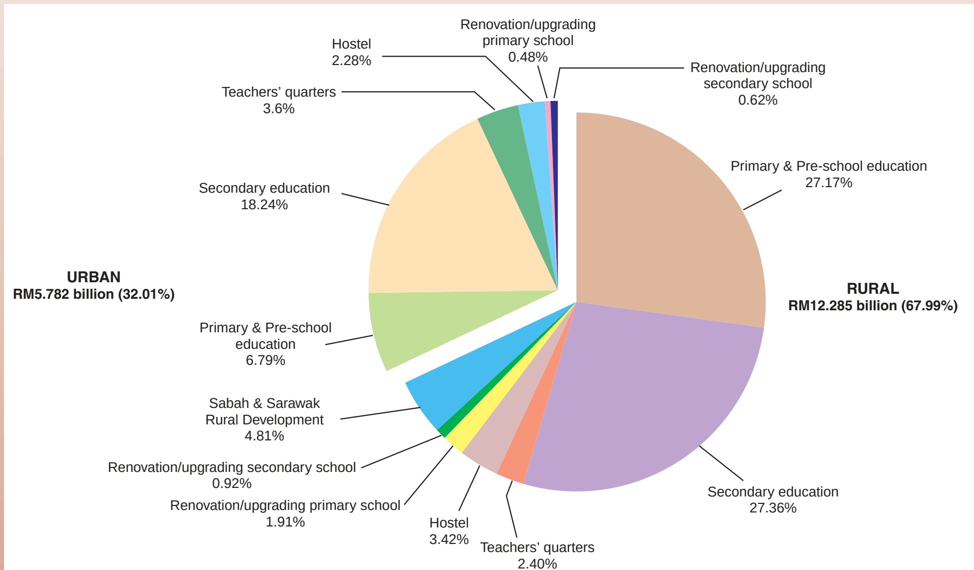
The SchoolNet project will enable every school, including those located in rural areas, to access the Internet, thus opening opportunities for students to gain knowledge through the Internet. This project is expected to be completed by 2005. The establishment of Smart Schools represents the Government's efforts in redesigning the whole educational process as well as school management to help students prepare for the information era. The Smart School pilot project (1999-2002) involved 87 primary and secondary schools of which 35 are located in rural areas.

Expenditure Allocation

The importance of education as a tool to ensure a quality labour force is underscored by the fact that a large portion of the Federal Government's budget has consistently been allocated through the years to the education sector. For example, the allocation of RM105,600 million under the Eighth Malaysia Plan (2001-2005), is 50.4% higher than the expenditure under the Seventh Malaysia Plan of RM70,200 million. Chart 3 shows the breakdown of development expenditure by programme as at end-July 2004.

CHART 3

Performance of Rural and Urban Education Development Expenditure 8MP by Programme as at 31 July 2004



Source: Ministry of Education

Conclusion

The Government has embarked on several measures, strategies and programmes to narrow the rural-urban education gap. Much progress has been achieved in raising the standards of education, school enrolments and the literacy rate. The high literacy rate achieved thus far can be attributed to the various programmes initiated by the Government, particularly the provision of Government assistance and infrastructural facilities to provide more opportunities for rural children to better themselves.

Outlook 2005

Public-private partnership with high-performance culture in ensuring continued success...

The outlook for 2005 will generally remain favourable although global growth is expected to moderate on account of high oil prices, inflationary pressures, interest rate hikes and a probable slowdown in China's economy. The emergence of these risks, that became apparent in the second half of 2004 and are expected to continue into 2005, will have a larger impact on growth next year. Global economic growth is projected to moderate to 4.4% in 2005 from 4.6% in 2004. The stronger macroeconomic fundamentals and resilience, backed by sturdy domestic demand and broad-based growth, will however, continue to support Malaysia's GDP growth, forecast at 6% in 2005.

The manufacturing sector, the forerunner in economic activity, will continue to spearhead growth although at a slightly slower pace as the electronics demand tapers in the global semiconductor cycle. The services sector will continue to maintain its largest share of 57% in GDP, largely supported by higher consumer spending, growth in tourism, communications and finance activities. The sector is also expected to diversify into new growth areas and export markets including education, health and ICT. Higher palm oil output and expansion in other agricultural activities, particularly from aquaculture, horticulture and livestock, from the measures put in place by the Government, are expected to drive growth in the agriculture sector. Growth is expected to emanate from rigorous efforts to increase food production and processing, especially halal food. Continued expansion in crude oil and gas production on account of favourable prices and higher demand will support the mining sector. Construction activity is anticipated to pick up on account of increased activities, particularly in the residential property sub-sector and low cost housing programme.

The high value-added agro-based industries in livestock breeding, aquaculture and fruit and vegetable farming as well as food processing on a large scale basis have been identified as niche areas with huge potential where private investors can venture into. Activities in agro-based industries have been singled out for further development to transform the agriculture sector into a vibrant and economically viable source of growth. Efforts will be taken to re-orientate the smallholders into a modern farms utilising the research output, particularly from biotechnology. Large-scale, professionally managed and mechanised farms will contribute to higher output and yields. Greater emphasis will also be given to packaging, marketing and promotion to increase sales. A high value-added, modern and developed agriculture sector will help to uplift rural incomes and alleviate poverty in the rural areas Ultimately, the transformed agriculture sector will no longer be associated with rural poverty.

Private sector initiatives will remain the driving force of the economy and all efforts will be geared towards supporting those initiatives. With rising income levels, greater employment opportunities, stable inflation and low interest rate environment, growth in private consumption is forecast to be sustained at a high level of 7.9%. Private investment is projected to increase strongly by 11.9% in 2005, alongside the gradual reduction in public investment. Efforts will continue to be taken to support domestic demand and private sector activity to compensate for the moderation in the global economy. Incentives will be for investment in higher value-added activities in the priority areas such as agriculture, ICT, Islamic banking and finance, and tourism as new sources of growth. In addition, to promote entrepreneurship, the current assistance will be reviewed to improve the effectiveness of those supports to the entrepreneurs.

The Government will continue its fiscal consolidation process. Prudent financial management remains a key feature of fiscal policy towards improving the overall financial position of the Government, through gradual and progressive reduction of the fiscal deficit. A lower deficit level will improve the macroeconomic policy options for the Government to mitigate future external shocks in the economy. Federal Government deficit will show a definite downward trend to 3.8% of GDP while the consolidated public sector will turn around to show a surplus of 1%. Expenditure will be moderate and wastefulness is discouraged. Expenditure will be directed towards maintenance and repairs to extend the economic life of public sector assets and smaller-sized projects with lower costs, so that more projects can be implemented to benefit a wider spectrum of people. A large portion of the budget will also be for projects that will benefit the poor, lower income and disadvantaged groups.

Monetary policy will continue to be supportive of domestic economic activities, with the interbank and retail rates sustained at low levels over the near term, within an environment of low inflation and ample liquidity. It is also expected that growth in monetary aggregates will remain firm to finance the increased activities of the private sector.

The underlying thrust of public sector measures will continue to draw upon the success achieved thus far, from the long history of public-private partnership since the 1980s to enhance the nation's competitiveness. This is to be achieved through a culture of high performance made possible through a change in mindset. Improvements in the delivery system will be addressed by way of implementing KPIs in the public sector and the review and streamlining of processes and procedures, on a continuous basis, with the view towards making approvals more automatic. More importantly, the underlying premise of a good delivery system will be the inculcation and practice of values that stress on integrity, ethics, transparency and good governance. While greater enforcement of laws and regulations will ensure compliance, the way forward is to build a society that is more trusting and self-regulating.

Human resource development is the key to productivity enhancement and mindset change. Emphasis will be given to increase the number of skilled manpower through skills training to match industry requirements. Strengthening human resource capabilities as the basis for continued success remains a top priority. Towards this end, measures will continue to be undertaken to re-orientate the education system to nurture creativity and innovativeness, re-examine the brain-gain programme to attract and retain talented Malaysians who are currently working abroad and develop comprehensive incentive packages to attract high-quality foreign talents. While skilled foreign workers will be recruited to bridge talent gaps in critical areas, dependence on unskilled foreign labour will be gradually reduced.

To ensure long-term sustainability, the nation will have to be more self-reliant. In this respect, there must be less dependence on the Government for projects and financial assistance. Individuals and corporations alike have to be more self-sufficient and self-financing, including reducing over-dependence on foreign labour. Industries are encouraged to further automate and mechanise their production processes. As the nation is already strong in the production level, future efforts will focus more on packaging, marketing and promotion, with the view to world branding local products. Innovativeness and creativity will enhance the nation's competitiveness, which will be achieved through a more focussed R&D strategy.

To achieve the Government's objective of reducing poverty, relentless efforts to eradicate hardcore poverty will be continued, particularly through rural and agriculture development, enhancing accessibility and providing opportunities for self-improvement and income upliftment. Special programmes for targetted groups, such as *Orang Asli*, to improve their household income will be implemented to encourage them to participate in income generating activities, particularly the commercialisation of herbal products and handicraft. Community and welfare development will be enhanced through programmes to be implemented with close collaboration with NGOs, which will work together in partnership with the public and private sectors. The private sector will be encouraged to meet the social obligations as good corporate citizens. The family unit and good parenting skills will form the strategy to reduce social problems including drug abuse, rape and incest. Safety and security will be given priority, as part of the overall measures to improve the quality of life of the people living in a progressive, prosperous, united and harmonious country.