

1 **Economic Management and Prospects**

ECONOMIC REPORT 2012/2013





Economic Management and Prospects

Overview

Malaysia made further progress towards a high-income and developed nation in 2012 despite heightened uncertainties in the external sector. Prospects for global growth remain challenging, weighed down by the ongoing sovereign debt crisis in the euro area as well as the slower-than-expected recovery in the United States (US). The spillover from these episodes has affected growth in the advanced and emerging economies to varying degrees, through trade and financial channels. Against this backdrop, the Government introduced the National Transformation Policy (NTP) in the 2012 Budget which consolidates several innovative transformation programmes to strengthen domestic demand and steer the nation in achieving its mission of inclusive and sustainable growth. The timely implementation of programmes under the NTP, including the Tenth Malaysia Plan (10MP) projects, partly cushioned the domestic economy from the effects of a weaker external sector and enabled the nation to record a credible growth of 5.1% in the first half of 2012. With the implementation of programmes under the NTP intensifying and the related multiplier effects gaining traction, the economy is expected to expand further in the second half of 2012 and beyond.

The 1Malaysia, People First, Performance Now principle which permeates all programmes under the NTP is aimed at uniting all Malaysians to face the challenges ahead as a nation. The Government Transformation Programme (GTP), an initiative under the NTP, was launched to strengthen public service delivery to facilitate the outcomes under the seven National Key Result Areas (NKRAs) and 12 National Key Economic Areas (NKEAs). The Economic Transformation Programme (ETP) another effort under the NTP, sets the targets for the development of the NKEAs towards a high-income and developed

economy. Likewise, the Political Transformation Programme (PTP) is aimed at creating a functional democracy by balancing the nation's security needs and individual freedom, taking into account the complex national plurality and threats of global terrorism. To leverage digital technology, an important enabler for the country's transformation, the Digital Transformation Programme or Digital Malaysia was launched in 2011 with strong emphasis on productivity, innovation and creativity. A new initiative under the 2012 Budget is the Rural Transformation Programme (RTP) which complements the national transformation agenda for rural areas.

In addition to the transformation initiatives and active involvement of the private sector in these programmes, Malaysia's strong economic fundamentals provide sufficient buffers against further shocks from the external sector. Despite uncertainties in global growth, the Malaysian economy is expected to expand between 4.5% and 5% in 2012, mainly supported by domestic demand. On the demand side, strong private consumption and investment activities will support growth, while economic expansion on the supply side will be driven by improvements in technology and labour productivity as well as the efficient use of capital. With the external sector gradually improving in 2013, the forecast for the nation's Gross Domestic Product (GDP) growth is between 4.5% and 5.5% mainly driven by domestic demand.

Performance Review – 2012

Fiscal Operations

As an open and trade-reliant economy, Malaysia continues to be affected by the uncertainties and challenges in the global economy. Therefore, fiscal policy initiatives are designed to sustain



the growth momentum in the near term as well as facilitate the long-term transformation of the economy. The Government remains steadfast in its commitment towards prudent financial management. The fiscal deficit is expected to decline further to 4.5% in 2012, with debt-to-GDP ratio of 53.7%. The debt remains sustainable while the deficit will be financed mainly through domestic sources. Given the ample liquidity in the financial system, the borrowings are not expected to affect the private sector's access to funds.

Total Federal Government expenditure is expected to be at RM252.4 billion in 2012 (2011: RM229 billion), an increase of 9.4% over the original estimate of RM230.8 billion. Additional allocations were required during the year for the one-off cash transfers, book vouchers and financial incentives to targeted groups to help ease the rising cost of living; payment of subsidies; improvements in the salary scheme and adjustments in cost of living allowances for civil servants; pension payments; toll compensation; and utilities and general maintenance. Increased commitments undertaken during the year will be supported by favourable revenue collection which is expected to increase 11.8% to RM207.2 billion. Operating expenditure will focus on continuously improving service delivery and the well-being of the rakyat, while development expenditure will be channelled to programmes and projects that enhance the overall efficiency and competitiveness of the economy as well as its long-term productive capacity. Public finances will be strengthened through various measures to ensure fiscal sustainability and boost investor confidence.

The Government has undertaken several measures to ensure public finances remain sound. All programmes and projects are carefully scrutinised and assessed to ensure spending is purposeful. A two-year rolling plan has been introduced to provide flexibility in expenditure management. This affords the Government sufficient space to review policies and priorities to meet the demands of an increasingly challenging economic environment as well as sustain macroeconomic stability. Project implementation is rigorously

monitored to ensure timely completion while Government presence in the economy has been systematically reduced to attract greater private sector involvement. Administrative rules, regulations and procedures are regularly streamlined to improve service delivery and investment climate as well as to contain cost. In addition, the findings in the Auditor-General's report are incorporated to further strengthen the administration and enhance accountability, particularly in procurement. The Government is committed to competitive bidding for procurement of non-strategic goods and services to ensure greater transparency and obtain value-for-money. Government-owned companies are also subject to close scrutiny to ensure they remain viable while meeting their strategic objectives.

Operating expenditure will be reined in through cutbacks in discretionary spending without affecting the quality of service delivery. The size of the civil service will be controlled through audit of posts; redeployment of excess staff; greater inter-agency cooperation and comprehensive use of information and technology (IT) to deliver and assess the effectiveness of public services. Over the medium term, initiatives underway to improve fiscal sustainability include the implementation of accrual accounting in Federal Government; adoption of outcome-based budgeting; and rationalisation of fiscal incentives to industries. Subsidy rationalisation will continue to be holistic and targeted, taking into account the numerous and varied social assistance programmes across agencies. Comprehensive approaches are also being considered to better manage the Government's obligations which have long-term fiscal implications. Areas under close scrutiny include Federal Government debt management strategies; pension liabilities; and administration of housing loan fund for civil servants and higher education student loan fund.

Measures to boost revenue include monetisation of assets through outright sale, lease or joint development; improving efficiency of tax administration and compliance through integrated use of IT; and broadening the coverage of tax audit, investigations and enforcement. Capacity



building for tax personnel will be continuously enhanced. Constructive engagement with the public to raise awareness will also be continued. The comprehensive measures adopted by the Government to enhance its financial position will promote fiscal sustainability over the longer term while providing sufficient flexibility to meet new and unforeseen commitments and challenges during the year.

Monetary and Financial Developments

During the first seven months of 2012, monetary policy was focused on supporting sustainable growth, ensuring price stability and avoiding the build-up of financial imbalances. Given the evolving external and domestic conditions, the Overnight Policy Rate (OPR) was maintained at 3.00%, and the Statutory Reserve Requirement (SRR) at 4.00%.

Despite uncertainties and volatilities in the global financial markets and weakening global growth, the domestic financial system remained resilient due to the strong governance and risk management practices, which resulted in robust balance sheets, strong asset quality and healthy liquidity positions. During the first seven months of 2012, financing through the banking system remained strong with loan applications and disbursements increasing 10% and 20.9%, respectively. As at end-July 2012, the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) stood at 14.4% and 12.7%, respectively, well above the current minimum regulatory requirement.

Malaysia continues to be the largest sukuk market in the world, accounting for 71% of the global sukuk issued in the first seven months of 2012. This included the world's single largest sukuk issued by PLUS Berhad in January totalling RM30.6 billion. Total Islamic banking assets grew 20.6% to RM469.5 billion as at end-July 2012. The pioneering initiative by a joint venture between a Malaysian Islamic fund management company and a foreign entity in launching three equity funds which are in compliance with the Undertakings for Collective Investment in

Transferable Securities (UCITS) and Shariah, marked another milestone in efforts to deepen, broaden and further internationalise the Islamic capital market. These UCITS-compliant funds basically have 'European passports' and can be distributed among European Union member states without any additional authorisation.

Strategic Performance of the 2012 Budget

The 2012 Budget with the theme "National Transformation Policy: Welfare for the Rakyat, Well-Being of the Nation" clearly reflects the Government's commitment in ensuring sustainable growth and enhancing the well-being of the rakyat. The Budget focused on five main areas, namely accelerating investment; generating human capital excellence, creativity and innovation; rural transformation programme; strengthening the civil service; and easing inflation and enhancing the well-being of the rakyat. Several projects under the 2012 Budget have been completed while other initiatives are progressing as scheduled.

First Focus: Accelerating Investment

Higher gross fixed capital formation increases a nation's potential output and the overall demand in the economy. Given its importance, the Government has introduced several new strategies to accelerate investment, including liberalising the services subsectors, enhancing private and public sector collaboration, spurring regional development and focusing on developing niche growth areas. Following the implementation of these measures, total investment increased 21.3% in the first half of 2012 (January-June 2011: 6%) driven by a 22.4% growth in real private investment.

Liberalising the Services Subsectors

Under the NTP, the services sector is envisaged to drive the economy towards a high-income and developed nation by 2020. In 2011, the sector accounted for 54.2% of GDP and 53.4% of total employment. To further strengthen the sector,



the Government announced the liberalisation of 17 services subsectors for implementation in 2012. As at end-June 2012, 10 subsectors were opened to 100% foreign equity ownership. These subsectors are telecommunications for category of applications service provider licence; technical and vocational schools; technical and vocational schools for students with special needs; private hospitals; departmental and specialty stores; incineration services; accounting and taxation services; skills training centres; courier services; and international schools. The liberalisation of another seven subsectors¹ will be implemented in stages in 2012. The liberalisation of all 17 subsectors is to be completed by end-2012 together with an additional subsector, that is, quantity surveying services. The liberalisation initiative is expected to further boost investments in the services sector.

Second Rolling Plan

The year 2012 marks the commencement of the second rolling plan (RP2) under the 10MP. The RP2 gives emphasis to high-impact development projects to spur economic growth. Among projects under the RP2 include the Gemas – Johor Bahru double-tracking rail project which is expected to be launched by end-2012. Another project is the 184 kilometre (km) East Coast Jabor – Kuala Terengganu Expressway which is to be completed by 2014. Other projects, namely Segamat – Tangkak Expressway, as well as the Central Spine Expressway and Kota Marudu – Ranau road are expected to be completed by 2015. In addition, with the relocation of the current military and police installations, the redevelopment of Sungai Besi, Kuala Lumpur Air Base into a modern and vibrant township is expected to commence by end-2012.

A sum of RM2.5 billion was allocated for the Public-Private Partnership (PPP) Facilitation Fund in 2012 as a tipping point to assist the private sector undertake high-value strategic projects. As at end-August 2012, RM1.8 billion has been expended on several projects, including the

Kuantan High-Tech Park, Sabah International Convention Centre and Plaza Merdeka Shopping Centre in Kuching, Sarawak. These projects are expected to further enhance private investment activities.

Corridor Development

In tandem with the Government's commitment to leverage the comparative advantage of different regions, the 2012 Budget allocated RM978 million to accelerate development of the five growth corridors in the country. **Iskandar Malaysia** was provided with RM308.5 million for the construction of highways and elevated interchanges. In this regard, the 14.5 km Coastal Highway project costing RM69 million was completed in April 2012. The highway reduces travel time between Johor Bahru, Senai Airport and Singapore to Nusajaya by 15 minutes. In addition, the Marlborough College enrolled its first batch of students in August 2012, while LEGOLAND Malaysia Theme Park and Lifestyle Retail Mall commenced operations in September 2012.

The **Northern Corridor Economic Region (NCER)** was allocated RM51.6 million for the implementation of 20 initiatives, including the development of Kulim High-Tech Park, Pauh Industrial Zone and Selinsing Aquaculture Complex. Of this, RM10.5 million was allocated for the upgrading of infrastructure in Kulim High-Tech Park and the project is expected to be completed by 2013. Furthermore, several private sector-led initiatives, including the Collaborative Research in Engineering Science and Technology (CREST), Infineon Technologies (Kulim) Sendirian Berhad and Panasonic Solar projects are in progress. The **East Coast Economic Region (ECER)** received a further boost of RM349.6 million in the 2012 Budget. A sum of RM13.5 million was allocated for tourism-related projects in Endau-Rompin National Park and Lake Chini State Park as well as for Heritage Tourism in Pekan, Pahang. Another RM44.7 million was allocated for agriculture projects, including the Integrated

¹ The subsectors are legal services; telecommunications for the category of network facilities provider and network service provider licences; private universities; medical specialist services; dental specialist services; architectural services; and engineering services.



Fishery Park in Tok Bali, Kelantan, Integrated Pineapple Farm Development in Rompin, Pahang as well as the Fish Marine Seed and Shrimp Production and Marketing Centre in Merchong, Pahang. Furthermore, in the first half of 2012, ECER attracted investments worth RM10.8 billion in the manufacturing sector as well as in the tourism, aquaculture and education subsectors. Among major investments include a fully-integrated ecotourism resort in Mersing, Johor, an integrated tourism resort in Cherating and a halal gelatine plant in the Gambang Halal Park, Pahang.

An allocation of RM62.3 million was provided for the **Sarawak Corridor of Renewable Energy (SCORE)** for several projects, including the design of access roads and internal roads to the Tanjung Manis Halal Hub, water supply in Samalaju and a feasibility study for a Science Park in Mukah. The design of access roads to the Tanjung Manis Halal Hub will be completed in October 2012. The water supply project in Samalaju is expected to be completed by the second quarter of 2013 and will meet the daily demand of 90 million litres in Samalaju. The **Sabah Development Corridor (SDC)** was allocated RM207 million for several infrastructure and agriculture projects. The infrastructure project for Phase 3A of the Palm Oil Industry Cluster in Lahad Datu will be completed by November 2012 and benefit more than 30 establishments in the industrial area. At the same time, the Keningau Integrated Livestock Centre is expected to be completed by January 2013. On completion, the Centre will have the capacity to produce six million litres of milk annually. Work on the Sabah Creative Content Incubator Centre will be completed by year-end. The Centre will focus on training to meet the demand for animators and designers in the creative industry.

Tun Razak Exchange

In efforts to position Kuala Lumpur as the global centre for international finance, trade and services, the Government launched the Tun Razak Exchange (TRX) on 30 July 2012. The 28.3 hectare project, formally known as the Kuala Lumpur International Financial District, is

expected to attract more than 250 of the world's leading companies to locate at the Exchange. On completion, the project will create about 500,000 jobs, including 40,000 positions for knowledge workers, specifically for financial services. The detailed master plan on the TRX was completed on 19 March 2012 and earthwork on Phase 1 of the project is expected to commence by year-end and will be completed by 2016.

Listing of Felda Global Ventures Holdings Berhad

Felda Global Ventures Holdings Berhad (FGVH) was successfully listed on Bursa Malaysia on 28 June 2012. The FGVH initial public offering (IPO) is the largest in Asia and the second largest in the world as of July 2012, placing Malaysia firmly on the radar of global investors. Following the listing, FGVH has emerged as the world's largest palm oil producer and the third largest listed oil palm operator globally. In conjunction with the listing and in recognition of FELDA settlers' contribution to the development of the country's oil palm industry, the Government announced a payment of RM15,000 for each settler. This measure, which involves an expenditure of RM1.6 billion, will benefit 112,635 settlers nationwide. In May 2012, a sum of RM5,000 was disbursed to the settlers, while another RM5,000 was distributed to their spouses in August 2012. The remaining amount will be disbursed to the settlers' children in October 2012.

Intensifying Small and Medium Enterprise Activities

With the aim of strengthening small and medium enterprises (SMEs), the Government has launched a Shariah-compliant SME Financing Fund of RM2 billion. The scheme is currently managed by 13 Islamic banks with the Government providing a 2% profit rebate. As at end-August 2012, a total of 13 loan applications amounting to RM25.7 million have been approved by the banks. Another initiative to assist entrepreneurs with the capacity and potential to sustain their businesses is the SME Revitalisation



Fund. The Government has also established a RM10 million SME Emergency Fund to assist SMEs affected by natural disasters. This fund channels soft loans of up to a maximum of RM100,000 to affected SMEs through the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) and the Malaysian Industrial Development Finance Berhad (MIDF).

Promoting Tourism

The Langkawi Tourism Blueprint (2011 – 2015) was launched on 8 December 2011 to further boost the tourism industry and promote tourist spending. The Blueprint provides the framework for the redevelopment of Pulau Langkawi to be among the top ten islands and ecodestinations globally by 2015. In this regard, RM111 million was allocated under the 2012 Budget for various projects, including upgrading of iconic Geopark sites in Kilim, Dayang Bunting Island and Telaga Tujuh; improvement of Laman Padi and Makam Mahsuri as living museums; upgrading the Kuah Jetty; and redevelopment of the Langkawi Community College as a tourism academy. In addition, the Malaysia Healthcare Travel Council (MHTC) was corporatised in October 2011 to promote and develop Malaysia as the main destination for healthcare services in the region.

Second Focus: Generating Human Capital Excellence, Creativity and Innovation

With rapid diffusion in knowledge and opening up of markets across the globe, Malaysia faces intense competition from other developing countries. To enable the nation to enhance its competitiveness and sustain economic development, an enabling ecosystem for human capital excellence with creativity and innovation is imperative. Towards achieving this objective over the longer term, the 2012 Budget introduced several strategic initiatives.

Total Innovation Movement

As part of efforts to inculcate science and innovation as a way of life, the year 2012 is earmarked as the Year of Science and National Innovation Movement. Towards this, several

programmes such as the Science and Innovation Carnival and Innovation Walk were carried out across states in the country. To encourage the development of new ideas and commercialisation of innovative products, the Malaysian Foundation for Innovation (YIM) has identified 260 products, of which 14 have been selected for incubation and commercialisation.

An enabling financing ecosystem is a prerequisite for expediting the commercialisation of research outputs. In this regard, the Government has allocated RM30 million for the Market Validation Fund managed by the Malaysian Technology Development Corporation (MTDC) and the Malaysia Innovation Agency. As of July 2012, 358 locally developed technologies from seven universities have been identified for market validation. Of these, 27 technologies are at various stages of commercialisation. In addition, the Shariah-compliant Commercialisation Innovative Fund was launched in May 2012 with an allocation of RM500 million. This fund has been available at selected Islamic banks from July 2012.

The Angel Asian Business Forum 2012, which provides the platform for networking between investors, financiers and entrepreneurs, was held in May 2012 in Kuala Lumpur. The event was attended by about 500 local and international delegates, including corporate investors. Another initiative is the World Innovation Forum and National Innovation Conference and Exhibition which will be held from 1 to 7 November 2012 in Kuala Lumpur. During the forum, students and youths with the best innovative invention will be presented with the Cipta 1Malaysia Award (C1PTA). Currently, the innovative efforts of the rakyat are recognised through various awards, including the National Innovation Award, the Prime Minister's Innovation Award, the Civil Service Innovation Award and the Young Scientist National Award.

Strengthening the Education System

A sum of RM50.4 billion was allocated to the education sector in 2012 to develop talented, creative and innovative students as well as for emoluments. Of this amount, an allocation of RM4.6 billion was provided for the building,



upgrading and maintenance of school facilities as well as for non-physical projects such as computer systems, furniture and fittings. The allocation involves 1,969 projects, of which 523 projects have been completed with an expenditure of RM1.3 billion. To cater for the immediate needs of public schools, the Government also provided a special fund of RM1 billion. Of this, RM100 million each was allocated to 822 national-type Chinese schools, 224 national-type Tamil schools, 428 mission schools, 167 Government-assisted religious schools and 32 Maktab Rendah Sains MARA, respectively. The balance of RM500 million was allocated to 1,757 national schools.

In its efforts to ensure all Malaysians, irrespective of their socio-economic background have access to quality and affordable education, the Government has abolished all school fees and will also bear the cost of insurance premiums for all students in public funded schools. This initiative, which involves an allocation of RM150 million, has benefited more than 5.3 million students. At the same time, the Government announced several fiscal incentives for private schools registered with the Ministry of Education. These incentives will further facilitate the provision of quality education at 349 private schools.

The Government also launched the Malaysia Education Blueprint on 11 September 2012 to further enhance the country's education system. The Blueprint contains views, recommendations and feedback on 11 priority areas, including teachers; school leaders; school quality; multilingual proficiency; the role of parents and the community; the efficacy of resources and information; and the administrative structure of the Ministry of Education. The Blueprint will be implemented in three stages over 13 years. The first stage to be implemented from 2013 to 2015 will give priority to high-impact areas without changing the structure of the education system.

Human Capital Development

The Government continues to encourage the private sector to provide structured internship programmes for undergraduates to enhance

their knowledge and skills before entering the job market. In this regard, the 2012 Budget provides double deduction for expenses incurred in the implementation of training programmes by companies. This incentive is effective for year of assessment 2012 until 2016. At the same time, expenses incurred by companies in attending career fairs abroad are also given double deduction. In this regard, TalentCorp has organised a series of international outreach programmes and sessions for Malaysian students in more than 30 cities across 12 countries, including the United Kingdom (UK), Japan and the United Arab Emirates (UAE). As of August 2012, more than 100 Malaysian companies have participated in both physical and virtual career fairs involving more than 3,000 Malaysian students and 2,000 Malaysian professionals. In addition, private companies are also eligible for double deduction on scholarships awarded for year of assessment 2012 until 2016.

Third Focus: Rural Transformation Programme

The RTP, introduced in the 2012 Budget, is another initiative under the NTP to transform the country into a high-income and developed nation. The RTP aspires to attract investment, create economic and employment activities as well as provide opportunities for the younger generation to return, and live and work in rural areas. With the RTP in place, the rakyat in rural areas will continue to benefit from the nation's transformation agenda. Currently, several initiatives under the RTP are being implemented.

Comprehensive Rural Transformation

The 2012 Budget allocated RM30 million for the establishment of Rural Transformation Centres (RTCs) to integrate services, including collecting, processing and distributing agricultural products, banking and insurance and business advisory services; training and skills; as well as providing clinics and retail space. As of August 2012, two RTCs, namely one in Gopeng, Perak and another in Kota Bharu, Kelantan have been established. In addition, several mini RTCs were also established in 2012.



The Professional Services Fund with an allocation of RM100 million was established in April 2012, to encourage professionals to set up firms in smaller towns. Under this fund, Bank Simpanan Nasional (BSN) provides soft loans to professionals at an interest rate of 4%. The scheme is now available at all BSN nationwide. The Government allocated another RM110 million for 11 Agropolitan Projects under the Rural Mega Leap Programme. The programme aims to promote the cultivation of commodity and cash crops as well as aquaculture farming. To date, RM49.8 million has been expended on the cultivation of oil palm, rubber, cash crops and aquaculture benefiting 3,470 farmers. At the same time, the Rubber Industry Smallholders Development Authority (RISDA) was allocated RM140 million to undertake new planting and rubber replanting programmes. During the first seven months of 2012, a total of 1,578 hectares have been planted with rubber trees while another 23,147 hectares of oil palm have been replanted with rubber trees, benefiting 15,255 smallholders.

Rural Basic Infrastructure

A sum of RM5 billion was allocated to strengthen rural basic infrastructure. Of this amount, RM1.8 billion was provided for the Rural Road Programme and Village-Link Road Project. Under these programmes, a road network of 1,350 km will be constructed in Peninsular Malaysia, Sabah and Sarawak. As at end-June 2012, a sum of RM668 million has been expended on the construction of 385 km of roads in Peninsular Malaysia, 152 km in Sabah and 183 km in Sarawak. Another RM2.1 billion was allocated for the expansion of potable water supply to more than 200,000 houses in rural areas, particularly Sabah and Sarawak. As of June 2012, a sum of RM1.2 billion has been spent benefiting 54,262 households. Another RM1.1 billion was allocated for the provision of electricity supply, of which RM590 million was expended benefiting 9,640 houses in rural areas, including Sabah and Sarawak. A further sum of RM50 million

was allocated in 2012 to expand the rainwater harvesting programme in Sabah, which is expected to benefit 38,460 household heads. To address the shortage of potable water in estates, the Government has allocated a sum of RM50 million to connect the reticulation system to the main pipes. The first phase, covering 41 estates at a cost of RM33.6 million, was launched in Ladang Sri Gading, Batu Pahat, Johor on 24 June 2012.

Access to Banking Services in Rural Areas

In tandem with efforts to enhance convenience and outreach to all citizens, including low-income and rural residents, BSN has been entrusted to appoint 5,000 agents in rural areas nationwide over the next three years. Currently, a total of 2,017 non-bank retail outlet operators have been appointed as agents to deliver basic banking services. Among the non-bank retail outlets providing agent banking services include mini-markets, telcos, insurance agencies and Amanah Ikhtiar Malaysia (AIM). To ensure agent banking is conducted in a safe and reliable manner, Bank Negara Malaysia (BNM) issued the Guidelines on Agent Banking to financial institutions in August 2012. The Guidelines specify the requirements to be observed by financial institutions in the areas of governance and oversight, management of agents, customer protection, awareness and education.

Fourth Focus: Strengthening the Civil Service

A dynamic, responsive and excellence-centred public sector is a prerequisite for the nation to achieve its vision of a high-income and developed economy. Civil servants, the backbone of the Government machinery, have continued to play an important role in facilitating the outcomes of the NTP, particularly the GTP. In recognition as well as to further improve the productivity and well-being of civil servants, the Government has implemented several measures in the 2012 Budget.



An Update on the Government Transformation Programme

Introduction

The Government Transformation Programme (GTP), an important component of the National Transformation Policy (NTP), was launched on 28 January 2010 to address the immediate concerns of the rakyat with regard to the provision of public services. Prior to the launch, the Government had engaged the rakyat through various innovative channels to obtain input, including through nationwide surveys, short message services (SMS) and online feedback. The surveys and feedback were evaluated and the most pressing issues were prioritised and implemented under six National Key Results Areas (NKRAs). In July 2011, a seventh NKRA was introduced to address the impact of the rising cost of living on the rakyat. Significant progress under the NKRAs can be shown through the achievements of the National Key Performance Indicators. The full list of targets and achievements is available at www.pemandu.gov.my/gtp/annualreport2011.

GTP 2.0

Given the success of the GTP 1.0 in alleviating the immediate concerns of the rakyat, the GTP 2.0, which covers the period 2013 to 2015, will focus on a broader section of society as well as leverage on non-governmental organisations (NGOs) and the corporate sector as strategic partners in the provision of services. The seven NKRAs will continue to provide the framework to establish and track achievements of the milestones. Each ministry has identified new goals which are aligned to the aspirations under the NTP. The initiatives in the GTP 2.0 are the result of several intensive engagements involving all stakeholders to ensure that the transformation plan is comprehensive. The engagement process for the design and implementation of the GTP Roadmap 2.0 included:

- The Lab Process – an intensive six-week session where key stakeholders brainstormed ideas that best fit the overall theme of the GTP;
- Public Engagements – engagement with the public to solicit input and feedback for initiatives in the GTP;
- Cabinet Day Workshop – The Honourable Prime Minister and Cabinet Ministers were briefed on the implementation plans and initiatives that will be under their purview over the next three years; and
- Open Days – public engagements held in July and August 2012 in Kuala Lumpur, Kota Kinabalu and Kuching to disseminate information on the GTP.

The GTP Roadmap 2.0 Open Days were held on 24 July 2012 in Kuala Lumpur, on 10 August 2012 in Kuching, Sarawak and on 14 August 2012 Kota Kinabalu, Sabah. These events provided the public with details on the targets, deliverables and initiatives for the next phase of GTP. The Open Days were an important opportunity for the Government to obtain feedback, ideas and buy-in from the public. This extensive consultation process will continue throughout the implementation of the GTP 2.0 with other types of public engagement sessions. These sessions will ensure that the GTP 2.0 not only aims at initiatives with the greatest impact, but holds the responsible agencies accountable for successful delivery over the next three years.



TABLE 1

Highlights of GTP 1.0

National Key Results Areas	Government Transformation Programme 1.0		
	Selected National Key Performance Indicators	2011 Target	2011 Actual
Reducing Crime	- Reduce Index Crime and Street Crime - Increase the number of arrest cases brought to trial	5%; 40% 20%	11.1%; 39.7% 23.4%
Fighting Corruption	- Number of ministries scoring above 90% in the Procurement Accountability Index - Transparency International (TI) Corruption Perception Index Score	19 4.9	18 4.3
Improving Education	- Pre-school enrolment rate - Cohort 1 (Year 1 students) - LINUS Literacy rate; LINUS numeracy rate - Cohort 2 (Year 2 students) - LINUS Literacy rate; LINUS numeracy rate	80% 95%; 95% 90%; 90%	77.23% 97.5%; 98.6% 91.0%; 95.4%
Raising Living Standards of Low-Income Households	- Participation of poor households in 1AZAM Programme - Develop women entrepreneurs - Rehabilitate abandoned houses and build Rumah Mesra Rakyat 1Malaysia	57,793 1,000 4,965	63,147 1,100 4,865
Improving Rural Basic Infrastructure	- Rural roads built (km) - Water supplied (Number of households) - Electricity supplied (Number of households) - Housing delivery (units)	905 58,087 26,882 9,146	1,013 73,227 27,004 14,365
Improving Urban Public Transport	- Public transport modal share - Customer Satisfaction Survey - Morning peak hours public transport ridership	21% 50% 346,184	16.42% 53% 321,487
Addressing the Rising Cost of Living	- Bantuan Rakyat 1Malaysia (BR1M) - Aid to all primary and secondary school students - Bantuan Buku 1Malaysia (BB1M)	- Household with income RM3,000 and below 5.3 million primary and secondary school students 1.3 million higher education students	- RM2.2 billion was provided to 4.3 million households - RM545 million was provided to 5.45 million students - RM244 million was provided to 1.2 million students

CHART 1
Highlights of GTP 2.0



Source: Performance Management and Delivery Unit (PEMANDU).

Conclusion

Throughout the GTP 1.0, the Government has delivered on its promises to alleviate the main concerns of the rakyat. The resounding success of the GTP is largely attributed to the commitment and dedication of the civil service. With the GTP 1.0 well received by the rakyat, the Government is determined to continue providing high quality deliverables to the rakyat. In this regard, the GTP 2.0 is designed for greater achievements in resolving pressing issues with several new initiatives introduced to further enhance the well-being of the rakyat. The Government will once again provide the same dedication and commitment in fulfilling its promises to the rakyat.



Improvements to Terms of Employment

From 1 January 2012, employees in the public sector received a salary increment of between 7% and 13%, involving an expenditure of RM6.1 billion. In addition, effective from 1 January 2013, all government pensioners are eligible for an annual pension increment of 2%. This will involve an additional allocation of about RM200 million in the first year of implementation. Furthermore, to leverage the expertise and skills of experienced personnel, the retirement age of civil servants was extended from 58 to 60 years effective from 1 January 2012.

In recognition of the support and commitment of civil servants in achieving the targets of the NTP, the Government provided a half-month salary bonus with a minimum payment of RM500 in August 2012. In addition, a special payment of RM500 was given to government pensioners. These measures, which involve an expenditure of RM2.2 billion, benefited 1.27 million civil servants and 657,000 pensioners.

Towards encouraging self-improvement and lifelong learning as well as enhancing the productivity of civil servants, RM200 million was allocated to enable civil servants, including school teachers to further their studies on a part-time basis. The allocation will be used to provide 20,000 scholarships for undergraduate studies, 5,000 Master's degrees and 500 doctoral degrees. These scholarships will be available from October 2012.

Providing a Conducive Working Environment for Security Personnel

In its efforts to further enhance the capability of the Royal Malaysia Police (PDRM), the Government has allocated RM450.6 million to enable PDRM to acquire state-of-the-art technology and equipment as well as to develop and upgrade housing quarters, headquarters, stations and training centres. The allocation also caters for greater collaboration between PDRM and the Malaysian Armed Forces (ATM), Malaysian Civil Defence

Department (JPAM), and People's Volunteer Corps (RELA) in the fight against crime. As at end-June 2012, a sum of RM234 million has been expended on 44 projects, including the upgrading of police headquarters in Bachok, Kelantan and Sipitang, Sabah as well as the construction of the Bukit Kepong Police Museum Gallery in Muar, Johor. In addition, the 1Malaysia Privilege Card was launched on 7 August 2012 to ease the cost of living for security personnel. The Card, which provides discounts in about 20 participating companies, will benefit about 241,000 members of the ATM and PDRM. With regard to the collaboration between PDRM and other government agencies, the joint patrol programme is currently implemented at various locations, including crime hotspots, the Kuala Lumpur International Airport (KLIA) and schools.

Fifth Focus: Easing Inflation and Enhancing the Well-Being of the Rakyat

The Government continues its efforts in providing a conducive ecosystem to enable the citizens to optimise their potentials and enhance their well-being. Towards this objective, several measures were introduced in the 2012 Budget. These initiatives, targeted at the bottom 40% of households and middle-income group, mainly benefited students, youths, women, senior citizens, the disabled and the homeless.

Easing the Rakyat's Cost of Living

In its efforts to mitigate the impact of inflation on the rakyat, the Government has disbursed RM500 to households with a monthly income of RM3,000 and below. The RM2.2 billion initiative under the *Bantuan Rakyat 1Malaysia* (BR1M) programme brought relief to 4.3 million families. In addition, a schooling assistance of RM100 was given to all primary and secondary school students from Year One to Form Five. This measure, which benefited 5.4 million students, involved an expenditure of RM545 million. A further assistance of RM200 in the form of book vouchers was provided to students in public and private institutions of



higher education as well as matriculation and Form Six students. This programme, which involved an expenditure of RM244 million, benefited 1.2 million students nationwide.

Intensifying Production of Food Supply and Agro-Industry

The National Agro-Food Policy 2011–2020 (NAFP) was launched in January 2012 with the objective of ensuring sufficient food supply, increasing the value-add of the agro-food sector, complementing and strengthening the supply chain and providing a knowledgeable and trained labour force. To facilitate these outcomes, RM1.1 billion was allocated in 2012, of which RM19.6 million has been expended on improving paddy yield and the construction of a barrage in the Northern Terengganu Integrated Agriculture Development (KETARA) area, benefiting 2,700 farmers. A further RM24.9 million was allocated for irrigation projects in Sabah and Sarawak involving 3,145 farmers. At the same time, RM552 million was allocated for NKEA projects, including herbal, swiftlet, aquaculture and fish-cage farming. As of July 2012, a total of RM61.4 million has been spent benefiting more than 3,500 farmers.

Efforts are also ongoing to further modernise the agriculture sector. In this respect, the scope under the Commercial Agriculture Fund was extended to include innovative agriculture projects. As at end-May 2012, Agrobank has disbursed RM418.2 million to finance 42 agriculture projects. To ensure sufficient food supply, the Government has extended the contract farming programme with an allocation of RM14 million. In this regard, the Federal Agriculture Marketing Authority (FAMA) has expended RM6.1 million in marketing more than 191,000 tonnes of agriculture produce benefiting 2,453 farmers.

Assistance for Basic Needs

The Government continues to provide rebates on electricity bills for household monthly consumption of RM20 and less. In this regard, RM46.4 million

has been expended since January 2012 benefiting about one million low-income households. A sum of RM1.2 billion was also allocated to the 1Malaysia Rakyat's Welfare (KAR1SMA) programme which provides welfare assistance to the poor, the elderly and disabled. Currently, more than 470,000 individuals continue to benefit from this programme.

Other measures to ease the burden of the rakyat, include increasing the number of *Kedai Rakyat 1Malaysia* (KR1M), opening more *Agro Bazaar Kedai Rakyat*, expanding the number of 1Malaysia products, issuance of 1Malaysia Student Discount Cards (KDS1M) as well as extending and promoting the *Menu Rakyat 1Malaysia* (MR1M). In 2012, a total of RM40 million was allocated for the KR1M programme. Currently, there are 46 KR1Ms and another 39 outlets are expected to be established by year-end. To market agriculture produce and 1Malaysia brand products, the Government launched 19 *Agro Bazaar Kedai Rakyat* in the first seven months of 2012, and another 11 will be set up by year-end. As of July 2012, this programme has benefited 19 entrepreneurs. Furthermore, on 2 July 2012, the Government launched KDS1M in an effort to mitigate the rising cost of living among university students. The Card, which provides up to 60% discounts on purchases, including books, stationery, clothes and food will benefit about 1.5 million students in public and private institutions of higher learning. MR1M which offers popular menu sets at reasonable prices is currently available at 2,390 food outlets and another 610 eateries are expected to provide MR1M by year-end.

Skim Amanah Rakyat 1Malaysia

Skim Amanah Rakyat 1Malaysia (SARA 1Malaysia), launched in January 2012, is a special scheme initiated by the Government to encourage savings and increase the income of the bottom 40% of households. The Scheme provides opportunities to eligible Malaysians to apply for a RM5,000 loan from participating financial institutions to invest in the *Amanah Saham 1Malaysia* (AS 1Malaysia)



unit trusts. While the borrowers are expected to settle the principal amount, the interest on the loan is borne by the Government. A total of 66,560 individuals have participated in the SARA 1Malaysia scheme with an investment of RM332.8 million.

Basic Rural Amenities

A sum of RM1 billion was allocated in 2012 under the RTP for the construction and upgrading of multipurpose halls, *surau*, drains, small bridges and repairs of dilapidated houses. A total of 5,779 projects, mostly in the rural areas of Sabah and Sarawak have been earmarked for implementation, which will benefit more than 790,000 individuals. Of this, 3,678 projects are in progress and will be completed in stages by end-March 2015.

Flood Mitigation Plan

The Government allocated RM1 billion in 2012 for the implementation of flood mitigation projects in Perlis, Sungai Kerian, Perak and Segamat, Johor. Work on these projects commenced in March 2012 and is expected to be completed by 2015. On completion, more than 185,000 people living in the vicinity of these areas will be relieved from the effects of floods.

Quality Housing for the Rakyat

Continuous efforts have been taken to provide affordable and quality houses to the rakyat, particularly those in the low and middle-income groups. Some of the measures under the 2012 Budget, include the expansion of the My First Home Scheme and the allocation of funds for several projects under the 1Malaysia People Housing (PR1MA) programme, *Program Perumahan Rakyat* (PPR), *Rumah Mesra Rakyat 1Malaysia* (RMR1M) as well as the Abandoned Housing Rehabilitation Programme and the Special Housing Fund for Fishermen. The first project under PR1MA was launched in Putrajaya in July 2011, with houses priced between RM120,000 and RM150,000 compared with the market price of RM175,000 and RM220,000. The project is expected to be completed by 2014 and benefit

560 house buyers. Similar projects involving 42,000 units will be launched over the next few years. Furthermore, effective from January 2012, the financing limit for houses under the My First Home Scheme was increased from RM220,000 to RM400,000. As at end-July 2012, about 420 young adults with a monthly income of below RM3,000 have benefited from this scheme. In addition, another 17,000 units of houses under PPR are under construction and will be ready for occupation by 2015.

The RMR1M programme, which was introduced to assist low-income households, including fishermen and farmers to own decent homes has benefited 17,479 households. Another 10,000 units are currently under construction by Syarikat Perumahan Negara Berhad (SPNB). The Government has provided an allocation of RM63 million to rehabilitate 95 housing projects under the Abandoned Housing Rehabilitation Programme. As at end-August 2012, a total of 23 abandoned projects have been successfully rehabilitated, while another 62 projects are under construction. The Government has also established the Special Housing Fund for Fishermen with an allocation of RM300 million for the provision of basic infrastructure and refurbishment of houses. As of June 2012, about RM101 million has been approved to 10,319 applicants.

Enhancing Health Services

Towards providing quality healthcare services, the Government has allocated RM16.8 billion in 2012. Among others, this allocation will be utilised for the construction of new hospitals in Sri Aman, Sarawak, Rembau, Negeri Sembilan and Kuala Krai, Kelantan as well as for upgrading hospitals in Ipoh, Perak, Mersing, Johor and Putrajaya. Work on these hospitals is currently at various stages of implementation and is expected to be completed by 2015. Meanwhile, another 81 rural health clinics will be upgraded while 70 new 1Malaysia clinics will be launched in 2012. Work in 13 rural health clinics has been completed while another 18 1Malaysia clinics have been established. To ensure the comfort of about 3,000 outpatients seeking treatment daily in the



Kuala Lumpur Hospital (HKL) and to upgrade the existing facilities in the hospital, the 2012 Budget also allocated RM300 million to the country's premier hospital. Of this, RM50 million will be utilised for the construction of a new outpatient block, which will commence in 2013 and is expected to be completed by 2015.

Developing National Sports

A sum of RM30 million was allocated in 2012, to enable athletes to compete in the international arena, especially in high-performance sports such as football, squash, badminton, bowling, diving, archery and cycling. This allocation has been utilised for several projects, including training as well as development and upkeep of sports centres benefiting 5,192 athletes. An additional RM15 million was allocated to build 150 futsal courts across the country. Currently, there are 1,751 public futsal courts benefiting about 1.5 million users annually. An allocation of RM50 million was also made for the construction of football fields with artificial turf and floodlights at 30 selected locations nationwide. Work on this project is expected to commence in October 2012 and will be completed by end-2012.

Youth: Wave of the Future

Youths continue to play a prominent role in enabling the nation to achieve its aspiration of a high-income and developed economy by 2020. To assist youths in realising their potentials, the Government has allocated RM320 million for various activities such as skills training as well as leadership and entrepreneurship programmes. A total of 3,301 activities have been conducted which benefited more than five million youths. The 2012 Budget also allocated RM200 million for the creative industry to encourage creativity among youths. In this regard, MyCreative Ventures Sendirian Berhad was incorporated in April 2012, providing a new platform for the translation of creative ideas into wealth-generating activities.

For youths who are unable to further their studies, the Government has introduced the Strategic Action for Youth 1Malaysia (SAY 1Malaysia)

programme with an allocation of RM200 million. Under this programme, a variety of high-end skills training will be conducted by institutions such as Community Colleges, MARA Skills Training Institutes, Industrial Training Institutes, GIATMARA and private training centres. In addition, on 15 July 2012, the Government announced the establishment of a special RM100 million fund to spearhead the 1Malaysia For Youth (1M4U) programme. This programme is envisaged to instil the spirit of volunteerism among youths through the coordination of all youth volunteer activities.

Empowering Women

Women, who represent 48.2% of the working age population, account for only 36% of the labour force. Several measures, including the provision of childcare centres in working places have been introduced to attract women into the workforce. To further encourage their participation in the labour force, the Government has introduced a policy of 30% women participation in top management and decision-making positions in the corporate sector. In this regard, a programme involving four modules, namely Boardroom Assessment, Board Coaching, Onboard Training and Boardroom Soft Skill were tailored for women directors in June 2012. As at end-August 2012, more than 100 directors have participated in these training modules. To help small-scale entrepreneurs especially women, the Government has allocated RM120 million to Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional) and RM2.1 billion to AIM for microfinancing. Of this, RM100 million each was earmarked for Malaysian Indian and Chinese entrepreneurs through a special unit under AIM. This initiative has benefited 317,877 entrepreneurs, including 5,368 Malaysian Indian and 993 Chinese entrepreneurs.

Cervical cancer is the third most common cancer among Malaysian females after breast and colorectal cancer. In this regard, the Human Papilloma Virus (HPV) immunisation programme was launched in July 2012 as part of the Government's efforts in preventing and controlling cervical cancer.



Engaging the Youths in Socio-economic Development

Introduction

The United Nations (UN) defines youths as persons aged between 15 and 24 years. Malaysia defines youths as those aged 15 to 40 according to the Youth Societies and Youth Development Act 2007. Currently, the Ministry of Youth and Sports is revising the definition of youths from those aged between 15 and 40 to 18 and 30 years.

The youth population in Malaysia grew from 11.2 million in 2005 to 12.8 million¹ in 2011, representing 44.3% of the total population. Youths are an important asset to the Malaysian workforce, accounting for 60% or 7.2 million¹ of the total employed in 2011.

Focus on Youths

Given their age profile and significant representation in the population, youths are the nation's most valuable asset who can play an important role in the country's transformation. More importantly, youths are the future leaders. It is thus imperative that their dynamism and potential contribution to economic and national development are nurtured and harnessed. The youths today are more educated and have higher economic and social expectations. They want opportunities in all spheres such as education, jobs, entrepreneurship, training and skills, and quality of life. They are also more information and communication technology (ICT)-savvy, and are very much into social networking such as blogs, Facebook and Twitter. They are exposed to rapid information flow and tend to be opinionated. They also want to be heard and engaged in nation building.

On the other hand, some youths are involved in social ills such as juvenile delinquency, drug addiction, baby dumping and illegal racing. This could be due to factors including a disadvantaged socio-economic background that hinders economic uplifting; lack of parental attention and guidance; peer pressure; lack of moral and religious guidance; and a weak social support system.

These problems necessitate the inculcation of moral values from young, particularly by parents. Schools and universities can also complement the role of parents to develop positive attitudes among youths. The private sector and non-governmental organisations (NGOs) need to engage and enhance the involvement of youths in useful activities. Through the corporate social responsibility initiative, the private sector can provide entrepreneurship and internship opportunities to youths. NGOs and government agencies involved with youths can strengthen volunteerism and social work among youths.

Government Initiatives

The Government has put in place several programmes and initiatives to address the concerns and expectations of youths. These include providing free school education; vocational and skills training for those not academically inclined; entrepreneurship programmes to involve them in entrepreneurial activities; and leadership and self-development programmes to strengthen youths and inculcate the spirit of volunteerism. These initiatives and programmes are aimed at developing well-rounded youths to help them contribute to the economy.

Recent initiatives to engage and empower youths to enhance their participation in the economy and nation building include the following:

- Launching **Genovasi** in August 2012 to develop youths as "innovation ambassadors" to be catalysts for progress, a better quality of life and solutions for the nation. This programme will involve the cooperation of global innovation leaders to develop a training and learning curriculum.

¹ Data from the Department of Statistics, Malaysia covers those between the age of 15 – 39 years.



- Launching the **1Malaysia For Youth (1M4U)** programme in July 2012 to instil the spirit of volunteerism among youths, with a RM100 million *Dana Sukarelawan 1Malaysia* (DRe1M) for youths to carry out volunteer activities. Applications for DRe1M are open to groups of individuals of at least 10 persons, registered NGOs, sports clubs and uniformed bodies.
- Establishing **MyCreative Venture Capital** with a RM200 million fund under the 2012 Budget to encourage youths to start businesses based on new ideas and innovation. MyCreative Ventures Sendirian Berhad (MyCreative), a Minister of Finance Incorporated company, was established to manage the fund. The fund will also be used to promote businesses involved in the creative industry.
- Introducing the **Strategic Action for Youth 1Malaysia (SAY 1Malaysia)** programme with an allocation of RM200 million under the 2012 Budget to provide skills training of students who do not continue their studies as well as skills upgrading and customised training for youths. Skills training will be conducted by various training institutions such as Community Colleges, MARA Skills Training Institutes, Industrial Training Institutes and GIATMARA, while practical training will be provided by government-linked companies (GLCs) and the private sector.
- Launching the **My First Home Scheme** in March 2011 to assist young adults to own a home. The scheme allows young adults to obtain 100% financing from financial institutions, enabling them to own their first home without the need to pay a 10% down payment. The Government through Cagamas Berhad will guarantee the 10% deposit for the house. As end-July 2012, 423 applications worth RM64.2 million have been approved by banking institutions.
- Establishing **Dana Belia 1Malaysia** with an allocation of RM20 million to provide financial grants for youths to undertake creative projects. The fund, provided by Yayasan 1Malaysia Development Berhad (1MDB) was launched in January 2011. As at end-July 2012, RM9.9 million has been disbursed to 166 successful recipients.

The Government recognises the importance of engaging the rakyat, particularly youths through social media such as Facebook, Twitter and blogs. Other channels include the **1Malaysia Roundtable**, an online platform for Malaysians to discuss issues, guided by subject matter experts to ensure focused and fruitful discussions, and assist the Government to obtain feedback, ideas and proposals from the rakyat on various topics, including the annual budget. Another important channel to empower and engage youths is the annual gathering of youths at Putrajaya, known as **Perhimpunan Jutaan Belia**. The first gathering held in 2011 attracted more than 1 million youths while the second gathering held in May 2012 garnered the participation of 2.5 million youths.

Conclusion

Given the sizeable youth population and their potential, it is important to understand their characteristics and aptitudes to formulate policies and programmes that are in line with their attributes and aspirations. This is to motivate and engage youths in socio-economic development and useful activities such as sports and volunteerism, thus enabling them to contribute meaningfully to the nation.



For this, RM50 million was allocated and as at end-July 2012, more than 160 women have been immunised. In addition, RM700 million was provided for the construction of a hospital for women and children in Kuala Lumpur. Work on this PPP project is expected to commence in 2013 and is scheduled for completion by 2015. On completion, this hospital is envisaged to benefit about 170,000 patients annually.

Spearheading Bumiputera Community Development

Unit Peneraju Agenda Bumiputera (TERAJU) was established in February 2011 to lead, coordinate and drive bumiputera participation in the economy. Towards this, TERAJU will continue to provide assistance in enabling high-performing bumiputera companies to be listed on Bursa Malaysia. As at end-August 2012, four companies were listed on Bursa Malaysia while another two companies are expected to be listed by end-2012. In addition, on 6 July 2012, TERAJU in collaboration with SME Bank, have launched a RM500 million loan facility to provide financing to high-performing bumiputera companies. Loans under this fund are available from August 2012. Furthermore, under the MY Rapid Transit (MRT) project, 47% of the packages will be awarded to bumiputera companies and as at end-July 2012, a total of 17.5 packages with a value of RM7.6 billion were awarded to the companies. Another 17 packages with a value RM1.7 billion will also be allocated to bumiputera companies.

The Government also allocated RM200 million for an integrated entrepreneur development programme to enhance bumiputera competitiveness and viability. Of this sum, approximately RM80 million has been spent on various programmes, including Express Contract Financing Scheme (SPiKE), entrepreneurship training and the Industrialised Building System. A total of 22,589 entrepreneurs have participated in these programmes.

Appreciating the Contributions of Senior Citizens

Effective from 1 January 2012, senior citizens aged 60 years and above are exempted from paying the outpatient registration fee of RM1 in all Government hospitals, including 1Malaysia clinics and dental clinics. In addition, senior citizens are exempted from paying the registration charge of RM5 for specialist outpatient treatment at all Government clinics and hospitals. Furthermore, senior citizens receiving treatment at third-class wards in public hospitals are only required to pay a minimum of 50% of their medical charges or a maximum of RM250 compared with RM500 previously. These measures introduced in the 2012 Budget reflect the Government's commitment in improving the well-being of senior citizens.

Easing the Burden of Private Taxi Owners

The Government has implemented several initiatives in 2012, towards assisting taxi drivers to enhance their income through delivery of quality services to customers. The *Sewa-Beli Teksi Baru* scheme, which was launched on 9 April 2012, provides a 2% interest rate subsidy for the purchase of new locally manufactured taxis. As at 18 July 2012, BSN has disbursed more than RM17 million to about 400 applicants. Taxi owners were also provided with rebates of RM3,000 for the trade-in of taxis aged between seven and ten years and RM1,000 for taxis aged over ten years. A total of 712 taxi owners have benefited from this initiative. Furthermore, under the *Teksi Rakyat 1Malaysia* (TR1Ma) tyre replacement programme, the Government has provided vouchers to more than 38,200 taxi owners. Another initiative under TR1Ma is the personal accident insurance scheme which was launched on 24 June 2012. This scheme which covers all taxi drivers registered with the Land Public Transport Commission (SPAD) is expected to benefit about 100,000 individuals.



National Legal Aid Foundation

The Government is committed to ensuring that no accused person is denied legal representation. In this regard, the National Legal Aid Foundation, which commenced operations in April 2012, was allocated RM15 million to provide legal aid and advice at the stage of arrest, remand and bail application. The assistance, which covers all types of criminal offences with the exception of those which carry the death penalty, is available in all states, including Sabah and Sarawak. As at end-June 2012, legal aid has been provided to more than 10,500 Malaysians.

Anjung Singgah

Anjung Singgah, a social assistance centre which provides employment referrals, temporary shelter, food, welfare assistance and counselling to the homeless, was established in Kuala Lumpur in April 2011. Currently, more than 620 people are registered with Anjung Singgah, with 223 individuals offered jobs. Given its effectiveness in rehabilitating the homeless, three more centres will be established in Johor Bahru, Pulau Pinang and Kuching. Construction work on these centres commenced in July 2012 and is expected to be completed by end-2012. Each centre will have facilities to accommodate about 100 people at any one time.

Economic Management – 2013

With prospects for the external sector remaining weak, economic management in 2013 will be centred on strengthening domestic demand and maintaining macroeconomic stability. In this respect, through a process of extensive consultation with all stakeholders, particularly the rakyat, the Government has identified several issues that need to be addressed in the immediate term. These issues are also opportunities for the Government to further strengthen domestic demand as the engine of economic growth.

Issues and Challenges

External Environment

With uncertainties weighing on activities across all regions, the global economy is expected to grow moderately in 2013. In Europe, economic recovery will be marginal with considerable downside risks. The US continues to grapple with high unemployment, slow financial sector reforms as well as high fiscal deficit and debt. Despite efforts by China to lower its policy lending rate, economic growth in China will remain below its potential level following the weak external demand. Against this backdrop, the forecast for global growth is 3.9% in 2013 compared with 3.5% in 2012. The external sector is hence expected to contribute marginally to Malaysia's GDP in 2013.

Domestic Economy

Investment

The Government has introduced several measures to encourage the private sector to play a leading role in generating economic activities. Following these initiatives, private investment grew 12.2% to RM94.9 billion in 2011 from RM84.6 billion in 2010. This encouraging trend continued in the first half of 2012, with private investment increasing 22.4% to RM62.4 billion compared with RM51 billion in the first half of 2011. Despite the encouraging private investment performance, the share of investment to GDP remains low at 26.8% in the first half of 2012 compared with the 40% recorded during the period before the Asian Financial Crisis, namely between 1995 and 1997. Furthermore, after more than three decades of industrialisation, the majority of manufacturers continue to focus on assembly operations. This reflects the need to attract and encourage high-end investment from domestic private and foreign companies to enable the nation to deliver high value added products and processes.



Small and Medium Enterprises

SMEs constitute about 99.2% of total business establishments in Malaysia and contribute about 32% of GDP, 60% of employment and 19% of exports. Although SMEs have recorded credible growth over the last few years, several issues remain that need to be addressed. Among the impediments, include the slow adoption of technology and innovation, lack of access to financing, particularly among new SMEs and micro-enterprises, limited in-house human capital development as well as lack of long-term business plans. SMEs also face challenges from uncertainties in the external sector and intense competition in the market place.

Public Transport

A world-class public transport system is imperative as the nation moves towards a high-income and developed economy. The Sungai Buloh-Kajang Line MY Rapid Transit (SBK-MRT) service, which is expected to be operational by 2017, will transform the urban public transport infrastructure in the Klang Valley. Similarly, there is a need to improve the public transport system in major cities outside Klang Valley to facilitate a seamless and efficient movement of people, goods and services.

Prices of Food

Inflation, as measured by the Consumer Price Index (CPI), remained low at 1.4% in August 2012. However, prices of food commodities have been trending upwards. Global factors such as rising prices of agricultural inputs, drought, floods, limited resources, competing uses of commodities for biofuel and increasing demand arising from population growth, have elevated the prices of food commodities. The rakyat, in particular the bottom 40% of households, with almost 30% of their consumption expenditure on food and beverages, will be the most affected by this continuing trend. Furthermore, despite various efforts by the Government, Malaysia remains a net food importer with a trade deficit

of RM13.9 billion in 2011. Accordingly, food security and production are concerns that must be addressed.

Affordable Housing

While the Government continues its efforts to provide adequate affordable quality housing for the rakyat in rural and urban areas, there are several issues that require appropriate remedial action. These include the mismatch between supply and demand of affordable low and medium-cost houses, especially in urban areas. In addition, low-cost houses are not always strategically located, and at times, are constructed without adequate basic social amenities such as recreational areas, parking facilities and multipurpose halls. Furthermore, residential property prices in urban areas or preferred locations in Kuala Lumpur, Pulau Pinang and Selangor have appreciated in the range of 10% to 30%.

Poverty and Urbanisation

Over the last five decades, Malaysia has made tremendous progress in reducing poverty across the country. The incidence of poverty declined from 49.3% of total households in 1970 to 3.8% in 2009, while hardcore poverty has been practically eliminated. Of the 228,300 poor households in the country, about 30.6% reside in urban areas and the rest in rural areas. In addition to the significant number of poor households in urban areas, the disparity in income between rural and urban communities as well as the rich and poor is a concern that needs to be addressed. Furthermore, about 102,300 students dropped out from the public school system annually, and this could lead to a higher number of poor households in the future.

In tandem with the nation's rapid development, the proportion of urban population has increased to 71% in 2010 compared with 62% in 2000. Though urbanisation promises economic prosperity, it also poses challenges for the urban population, particularly the urban vulnerable group (UVG). The group comprising urban households earning less than RM3,000 per month, are more prone to



the challenges of urban living. Furthermore, as the nation continues to urbanise, the Government has to ensure that the rakyat continue to have adequate access to water, electricity, housing, education, transport services, healthcare and employment opportunities.

Youths

Youths, defined as those aged between 15 and 39 years, are the nation's most important asset and currently account for about 44% of the population. The youths of today are more educated and have higher economic and social expectations. While the Government strives to provide a conducive environment for the younger generation to realise their potentials, there are several issues affecting the youths, including unemployment, inadequate platforms for generating ideas as well as lack of access to financing for business ventures and opportunities for skills training.

Social Assistance

The existing social assistance programme covers the poor, the disabled and senior citizens. With the increase in the cost of living, including the cost of private healthcare services as well as loss of income due to natural disasters, heads of households, especially farmers and fishermen are increasingly at risk of being unable to provide a comfortable living environment for their families. Currently, the social assistance programme does not cater for these possibilities.

Education

The education system has served the country well in its progression from a low to upper middle-income nation. However, studies indicate that compared with other regional and developed countries, Malaysian students' performance in science and mathematics, has been declining. Furthermore, employers report that Malaysian employees are weak in soft skills such as communication, creativity, innovation, teamwork and leadership which are essential for a nation in transition towards a high-income and developed economy.

Crime Rate

The crime index has declined about 15% and 11% over the last two years. In addition, the 2012 Global Peace Index ranked Malaysia as the safest country in Southeast Asia, and among the 20 most peaceful countries, ahead of 158 nations, including Australia, Singapore, the UK and the US. These achievements reflect the Government's efforts in creating a safe and secure environment for all Malaysians. While the crime rate is on the decline, public safety and security remains a major concern for the public, reflecting the rakyat's high expectations in reducing crime. In the same vein, there is greater citizen expectation on the quality of services provided by other Government agencies as well as for involvement in the design, implementation, and evaluation of policies and legislation.

Public Finance

The central issues in government finance are related to revenue base and expenditure management. From the revenue perspective, the nation's tax base is narrow with only 11% of registered companies and 14.8% of employees paying taxes. In contrast, oil-related revenue account for 33% of total revenue. From the expenditure side, although Government outlays at 27% of GDP are not overly high by international standards, there is a need to ensure operating expenditure does not exceed revenue growth.

Strategic Initiatives – 2013 Budget

The 2013 Budget will focus on improving the rakyat's quality of life nationwide through ensuring sustainable economic growth, prudent spending and reducing the fiscal deficit with the ultimate objective of enhancing the rakyat's well-being. Towards this, emphasis will be given to several efforts, including boosting investment activities; intensifying innovation and increasing productivity; advancing education and training; enhancing the rakyat's quality of life; and strengthening the achievements of public service.



Boosting Investment Activities

The Government remains committed to providing an enabling environment for the private sector to take the lead in generating economic activities, particularly by encouraging greater public and private partnership in the implementation of the NTP. Through this effort, private investment is targeted to expand about 13% per annum during the period 2011 and 2015. To realise this target, the 2013 Budget will further attract foreign direct investment and promote domestic direct investment. Among private investment projects include iron and steel, telecommunications, electrical and electronics, rubber and medical equipment as well as oil and gas (O&G). Major projects will be implemented to position Malaysia as the regional hub for the supply of O&G to neighbouring and other Asian countries. In addition, allocations will be made for projects under the NKEAs as well as facilitating the implementation of several initiatives under the recently launched SME Masterplan 2012 – 2020. Furthermore, to position Malaysia as a financial hub, the Budget will introduce initiatives to energise the capital and financial markets. The agriculture sector will also benefit from several measures in the 2013 Budget which are aimed at ensuring the availability, accessibility and affordability of food for the rakyat.

Intensifying Innovation, Increasing Productivity

Towards facilitating the nation's progression towards a high-income and developed economy, the 2013 Budget will allocate funds for the implementation of programmes and activities centred on knowledge, creativity and innovation. Efforts will be undertaken to enable SMEs to utilise their intellectual property (IP) as collateral for financing. Allocations will be provided to institutions of higher learning for high-impact research and commercialisation of innovative products. To enhance the nation's gross national income, funds will be allocated for the development of high value-add industries, particularly agrofood and agriculture products. Efforts will also be intensified to promote green

technology as the way forward for a greener liveable environment. Furthermore, several international conferences will be held in 2013 to encourage networking among successful innovators, experts in science and technology and local industry players.

Advancing Education and Training

The 2013 Budget takes a holistic approach in human capital development through initiatives to further improve the education system, infrastructure, productivity of facilitators as well as skills training centres. Realising the importance of early childhood education, several measures will be introduced to nurture and mould students from an early age to be strong, united and resilient in facing challenges and adversities. Allocations will be extended to facilitate the outcomes of the Malaysia Education Blueprint and enhance the curriculum of skills training centres. Allocations will also be made to upkeep and upgrade the facilities in public schools. At the same time, to improve the teaching standards as well as to produce quality and dedicated teachers, funds will be allocated to the most critical areas such as teacher training and upskilling programmes. Furthermore, additional programmes will be introduced to increase the enrolment of youths at skills training institutions to enable them to engage in productive activities.

Enhancing Rakyat's Quality of Life

Currently, there are several programmes to meet the increasing demand for houses. These include the PPR and the RMR1M programmes for the lower income group as well as the My First Home Scheme and PR1MA for the middle-income group. The 2013 Budget will continue to provide funds for these programmes as well as provide allocations for new initiatives to further increase the supply of affordable houses for the rakyat. With regard to crime, the Government will enhance police omnipresence by providing additional allocation for the recruitment of officers and acquisition of sophisticated equipment. Allocations will also be provided for programmes to intensify public awareness and cooperation in tackling crime.



With the MRT project in progress, which is expected to significantly improve traffic congestion in Kuala Lumpur by 2017, the Government will introduce measures to improve public transport and connectivity in other locations, including Kuantan, Ipoh, Seremban, Kuching and Kota Kinabalu. Allocations will also be made for the construction of new hospitals and establishment of additional 1Malaysia clinics. In tandem with the measures in the RTP to convert rural areas into vibrant economic localities, the 2013 Budget will introduce similar measures to address issues in urban areas where about 71% of the population reside.

Strengthening the Achievements of Public Service

The 2013 Budget will continue to promote activities towards enabling the public sector to play a facilitative role in supporting private sector-led growth as well as ensuring public services are delivered to the highest standards. In this regard, efforts will be undertaken to transform the public sector into an organisation that is centred on productivity, creativity and innovation in providing services swiftly, accurately and with integrity. Measures will also be initiated to improve programmes in the Government training institutions to produce high-performing civil servants. The Government will continue to consolidate its fiscal position by introducing appropriate measures to further enhance revenue collection as well as improve the effectiveness and efficiency of public expenditure.

Prospects for 2013

The 2013 Budget details measures and allocations to further enhance the nation's economic growth towards achieving its strategic goal of a

high-income and developed economy by 2020. With prospects for global growth remaining modest at 3.9%, domestic demand will continue to drive the Malaysian economy boosted by the measures in the 2013 Budget. Against this backdrop, the GDP forecast for the Malaysian economy is between 4.5% and 5.5% in 2013. This will translate into nominal Gross National Income (GNI) per capita growth of 6.4% from RM30,956 to RM32,947. In purchasing power parity terms, per capita income will grow from USD15,676 to USD16,368. In tandem with higher investment activities, the proportion of savings-investment gap to GNI is projected to decrease to 7.3% (2012: 7.5%). Private and public consumption, the largest component of real GDP, is anticipated to expand further by 4.2% in 2013 and remain the main driver of domestic demand. Private gross fixed capital formation is expected to expand 13.3% following the implementation of several new projects under the NTP. In tandem with the challenging external environment, exports of goods and services are projected to grow 2.8%, while imports will increase 3.6% supported by higher domestic demand.

Despite an increase in aggregate demand, inflation is expected to remain manageable following the expansion from the supply side. All sectors of the economy are expected to contribute to growth, with the services, manufacturing and construction sectors spearheading the expansion. The economy will continue to operate under conditions of full employment with the unemployment rate remaining below 4%. On the fiscal side, with revenue collection outpacing growth in operating expenditure, the Federal Government deficit is expected to narrow to 4% of GDP in 2013. The Government is committed to reducing further the deficit to 3% by 2015.



Community Transformation Programme

Introduction

Malaysia's credible economic performance over the last five decades was achieved through sound macroeconomic policies as well as investment in infrastructure and human capital. This economic expansion has resulted in rapid urbanisation, a structural transformation of the economy and significant poverty reduction. Despite these successes, there are several issues that need to be addressed to enhance the well-being of the rakyat. In rural areas, among the major issues affecting the community, include low value-added activities and lack of employment and entrepreneurial opportunities. In urban areas, residents continue to grapple with housing and transport issues as well as high population densities and inadequate access to quality services. The Government recognises that today's challenges require a different approach and the focus now is on providing a conducive ecosystem to attract private investment, create employment and economic activities as well as enhance the quality of services in urban and rural areas.

The Government has thus introduced the Community Transformation Programme (CTP) which aims to reach out directly to the rakyat and enable all communities to fully benefit from the wealth of the nation. The CTP is part of the National Transformation Policy (NTP) which aspires to transform the country into a high-income and developed nation by 2020. The CTP comprises two components, namely the Rural Transformation Programme (RTP) and the Urban Transformation Programme (UTP).

CHART 1
Community Transformation Programme





Rural Transformation Programme

The RTP aspires to revitalise rural areas into developed, attractive, productive, and safe and secure localities. This, in turn, will attract private investments, intensify economic activities and create employment opportunities in the targeted areas. In addition, this initiative will enhance the well-being of the rakyat and encourage youths to reside and work in rural areas. In tandem with these objectives, the RTP focuses on several main projects, including:

- i. Development of a RTP Master Database which contains information on rural households to assist in planning and poverty eradication;
- ii. Establishment of the Rural Development Committee in rural areas to coordinate and implement various programmes;
- iii. Establishment of 21st Century Villages to create vibrant economic activities with the involvement of the public and private sectors;
- iv. Implementation of the Rural Basic Infrastructure Programme to provide adequate basic rural infrastructure such as roads, electricity, water and houses; and
- v. Establishment of the Rural Transformation Centre (RTC) as an integrated services centre with facilities for the collection, processing and distribution of agriculture products as well as the provision of quality services such as banking and insurance, business advisory, education, training and skills, health clinics and retail space.

An important development in the RTP in 2012 is the establishment of a RTC in Gopeng, Perak and in Kota Bharu, Kelantan, respectively. To further extend the coverage of services as well as business and employment opportunities to the rakyat, the Government also established several mini RTCs in 2012. Following the overwhelming response of the people towards these initiatives, the Government will launch several new RTCs and mini RTCs across the country.

Rural Transformation Centre

The RTC was conceptualised under the National Blue Ocean Strategy (NBOS) to provide high quality services to the rakyat. Essentially, the RTC is an integrated one-stop centre which provides in-demand services through strategic alliances between government agencies and the private sector. Among the major initiatives under the RTC are as follows:

- i. Establishing of 1Malaysia information kiosks;
- ii. Encouraging value added agriculture;
- iii. Processing of agro foods;
- iv. Managing the agricultural-output supply chain;
- v. Enhancing cooperation with higher education institutions;
- vi. Providing 1Malaysia Health Services; and
- vii. Extending financing facilities to rural dwellers.

On 18 February 2012, the Government launched the first RTC in Gopeng, Perak. Another RTC in Kota Bharu, Kelantan was launched on 4 May 2012 while more RTCs will be established in Melaka, Kedah, Johor, Sabah and Sarawak. In addition, the Government also established four mini RTCs in Perak and six in Kelantan. As at end-August 2012, a total of 1,537 participants have benefited from 65 skills training sessions and another 4,080 participants from eight seminars. Furthermore, about 450 farmers have participated in contract farming programmes with the Federal Agriculture Marketing Authority (FAMA). Improvements to 225 agri-products were also made through branding, packaging and labelling activities. FAMA also focused on providing opportunities for the rural community to engage in the production of niche agricultural produce such as dairy products, swiftlet nests and arowana breeding.



Simultaneously, Bank Simpanan Nasional offers agent banking awareness courses on a monthly basis. Following this initiative, 1,922 local sundry shop owners were provided licences to operate as BSN branchless banking agents. In addition, through training and assistance, about 280 producers have successfully obtained the 1Malaysia Food Safety Scheme (SK1M) certification. SK1M was introduced to assist Small and Medium Enterprises (SMEs) to comply with the requirements under the Food Hygiene Regulations 2009. Furthermore, the mobile medical clinics stationed at RTC Gopeng and RTC Kota Bharu have provided medical and dental services to more than 2,500 patients.

Urban Transformation Programme

The UTP is designed to address urban issues in a holistic manner. Among others, the UTP aspires to enhance employment opportunities, support educational achievement and skills training as well as provide affordable home ownership for urban dwellers. In addition, the UTP aims to improve transport connections within and outside urban areas as well as provide better access to quality services. These objectives will be achieved through various initiatives including:

- i. The Urban Poverty Programme which details measures to increase the income of the bottom 40% of urban households;
- ii. The Urban Housing Programme which aims to provide quality and affordable housing for urban dwellers through several housing schemes;
- iii. The Urban Transport Programme which aspires to modernise urban transport through initiatives such as MY Rapid Transit (MRT) and extension of light rail transit (LRT) lines; and
- iv. The Urban Transformation Centre (UTC), a one-stop centre for various public and private services.

In tandem with the growing demand for quality services from the urban population, the Government introduced the UTC in 2012. The UTC, another innovation under the NBOS, aims to enhance the rakyat's well-being by providing wider accessibility to quality public and private services. The Centre places several federal and state government agencies as well as private sector and non-governmental organisations (NGOs) all under one roof. In addition, the UTC also provides opportunities for rural entrepreneurs to retail their products to urbanites and tourists.

Urban Transformation Centre

The first UTC, implemented within six weeks after conceptualisation, was launched in Melaka on 23 June 2012. The speed at which the project was executed mirrors the Government's commitment in delivering the 1Malaysia, People First Performance Now principle. It also sets a new benchmark for all Government projects in the future. In tandem with its objectives, UTC Melaka provides a variety of services under ten clusters. Currently, UTC Melaka operates from 8.30 am to 10.00 pm and provides a variety of services to about 500 persons daily.

Given the success of UTC Melaka in providing exceptional utility to the rakyat, another UTC was established in Kuala Lumpur. The UTC Kuala Lumpur in Pudu Sentral was officially launched on 22 September 2012. The Centre operates from 8.30 am to 10.00 pm daily, including weekends.



TABLE 1

List of Agencies at UTC Kuala Lumpur

Initiative/Cluster	Agency
Government Services	Kuala Lumpur City Hall, National Registration Department, Land Public Transport Commission, Road Transport Department, Immigration Department, Inland Revenue Board, Employees Provident Fund (kiosk)
Social Welfare and Community Development Services	Ministry of Women, Family and Community Development, Majlis Agama Islam Wilayah Persekutuan, Pusat Pungutan Zakat
Human Resource and Practical Training Services	Ministry of Human Resources, JobsMalaysia, National Higher Education Corporation Fund, Malay for Indigenous People's Trust Council
Health Services	1Malaysia Clinic
Financial Services	SME Bank, Agrobank, Bank Simpanan Nasional, Amanah Ikhtiar Malaysia
Youth Development Services	Ministry of Youth and Sports, Youth Centre, Fitness Centre, Futsal Court
Security Services	Royal Malaysia Police
Business Development and Entrepreneurship Services	Perbadanan Usahawan Nasional Berhad, Tabung Ekonomi Kumpulan Usaha Niaga, Federal Agriculture Marketing Authority, Companies Commission of Malaysia, e-Procurement
NGO Services	1Malaysia For Youth
Utilities and Public Facilities	Pos Malaysia Berhad, Tenaga Nasional Berhad, Telekom Malaysia Berhad, Indah Water Konsortium Sendirian Berhad, Kedai Rakyat 1Malaysia, Kedai Kain 1Malaysia, Kedai Buku 1Malaysia, Cybercafe, Cafeteria, Prayer room

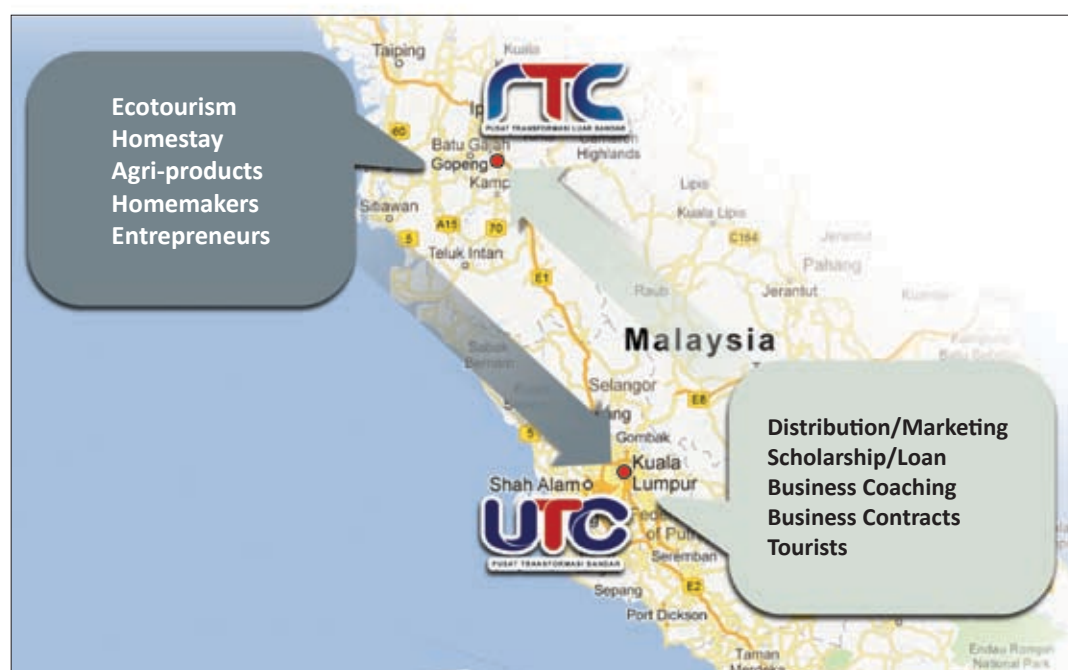


Linkages between RTC and UTC

Apart from enhancing the quality of services to the rural and urban population, the establishment of RTCs and UTCs is a strategic move to expand the demand for domestic products, particularly from rural areas. For example, entrepreneurs in rural areas involved in homestay programmes and ecotourism will be able to market their services directly to urban dwellers and foreign tourists at the UTCs. Additionally, urban entrepreneurs may add value to these activities by providing ancillary services such as marketing as well as business coaching and mentoring to entrepreneurs in rural areas. The potential for such collaboration is unlimited and the ability of the people to fully utilise such opportunities will enhance the income of rural and urban dwellers.

CHART 2

Linkages between RTC and UTC



Conclusion

In tandem with the Government's inclusive and sustainable growth policy, rural and urban communities are well positioned to benefit from the rollout of various programmes under the NTP. In this regard, the CTP aims to strengthen human capital, increase economic opportunities, improve the quality of life and manage urban and rural governance in an effective and efficient manner. A special unit will be established under the Ministry of Finance to plan, coordinate and oversee the functioning of all RTCs and UTCs as well as to ensure strong linkages between these centres for the betterment of the rakyat.