



ECONOMIC MANAGEMENT AND PROSPECTS

ECONOMIC REPORT **2013/2014**

Economic Management and Prospects

Overview

The Malaysian economy has been making commendable progress since the launch of the national transformation agenda in 2010 and is on track to become a high-income and developed nation by 2020. GDP growth has been strong with low unemployment and manageable inflation. As a result of the transformation agenda as well as other initiatives, domestic demand, particularly private investment and consumption, has increasingly been the driver of growth. Meanwhile, the export structure has become diversified with higher intra-regional trade. With a more balanced economic structure, Malaysia was able to achieve a steady growth of 4.2% in the first half of 2013, despite the increasingly volatile and challenging global economic environment. Given the resilience of the domestic economy and better growth prospects in the US, Japan and China during the second half of the year, the Malaysian economy is expected to expand at a firmer pace in the second half and to achieve 4.5% – 5% in 2013. Growth is supported by strong macroeconomic fundamentals as well as accommodative monetary and fiscal policies.

The 2013 Budget has further strengthened the transformation agenda through various programmes and projects. This agenda, apart from pursuing the objective of a high-income and developed nation by 2020, is also to ensure that the rakyat will reap maximum benefits from the implementation of development projects. Hence, the 2013 Budget focused on sustaining economic growth and improving the well-being of the rakyat. To ensure public finances remain sound over the longer term, the Government set up the Fiscal Policy Committee (FPC) in June 2013.

In 2013, domestic investment activity was boosted by the launch of the Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang, Johor under the Economic Transformation Programme (ETP). The RAPID project will enable Malaysia to become a major global player in the oil and gas (O&G) downstream industry as well as create various economic opportunities for the local community. Small businesses have also benefited from the 2013 Budget, particularly through Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional), which was provided an allocation of RM180 million in 2013.

The Malaysia Education Blueprint 2013 – 2025 was launched in September 2013 to strengthen the education and training system to equip youth with knowledge and skills to meet the challenges of the 21st century, as well as enhance quality of teachers. In leveraging innovation to drive growth, the Government has implemented several initiatives to inculcate an innovative culture and increase productivity. Meanwhile, under the Community Transformation Programme (CTP), Rural Transformation Centres (RTCs), Urban Transformation Centres (UTCs) and new Mobile Community Transformation Centres (Mobile CTCs) were introduced in 2013, to provide various services under one-roof towards improving the well-being of the rakyat.

The Government's efforts in transforming the economy have been well recognised by international bodies. Malaysia improved 6 notches from 18th to 12th position in the World Bank's Doing Business Report 2013. In terms of access to credit, Malaysia was ranked at pole position for five consecutive years (2009 – 2013). In addition, the World Economic Forum in its Global

Competitiveness Report 2013 – 2014, maintained Malaysia as the second most competitive nation among Association of Southeast Asian Nations (ASEAN) countries, and in 7th position among 25 Asia-Pacific countries.

The implementation of initiatives under the 2013 Budget will continue to sustain the growth momentum and increase the resilience of the economy. Going forward, there will be accelerated efforts to enhance competitiveness of the Malaysian economy through greater innovation, productivity and efficiency. As fiscal consolidation efforts continue, the role of the private sector as the driver of growth will become increasingly important. In its role as the enabler of economic activity, the Government will continue to improve its service delivery as well as ensure a conducive ecosystem for private sector activity to thrive, particularly in higher value-added activities. To strengthen the external sector, efforts will be intensified to encourage export of goods and services as well as investment in strategic export-oriented industries to ensure that Malaysia is well positioned to leverage new opportunities in the challenging global market.

Performance Review – 2013

Malaysia's macroeconomic management continues to focus on supporting growth and accelerating the national transformation process while ensuring sustainability of public finances. Despite the challenging external environment, the economy grew 4.2% in the first half of 2013 driven by robust domestic demand and supported by strong fundamentals of the economy as well as an accommodative monetary policy. Following the transformation efforts, sources of growth have become more diversified with the private sector playing a greater role in the economy. While the economy continues to grow at a steady pace, there remain pertinent issues that must be addressed, particularly rising house prices and high household debt as well as narrowing of the current account surplus.

Fiscal Operations

The Government is firmly committed to further strengthening public finances despite the uncertainties and challenges in the external environment. Fiscal resources will be prudently utilised to sustain growth momentum while supporting concerted efforts to accelerate long-term transformation of the economy.

Although additional commitments were incurred during the year, mainly for fuel subsidies and the expanded cash transfers, the fiscal deficit is expected to be reined in at 4.0% of GDP in 2013 (2012: -4.5%) with a debt-to-GDP ratio of 54.8%. The deficit will be financed from domestic sources given the ample liquidity in the financial system. Total Government expenditure is expected to be higher by 3.5% to RM261.3 billion, supported by improved revenue performance and better expenditure management. Sustained investment activity, resilient private consumption and stable commodity prices are expected to boost Federal Government revenue by 6% to RM220.4 billion, thus improving the fiscal position.

Several key initiatives have been implemented to improve public finances, ensure fiscal sustainability and promote long-term macroeconomic stability of the country. The Fiscal Policy Committee (FPC) was setup in mid-June 2013 to provide an overarching guidance and set the tone on fiscal management of the nation. Chaired by the Prime Minister, the committee comprises selected members of the Cabinet and heads of key central agencies. The FPC has since met several times to deliberate on proposals to promote and adopt prudent measures to address fiscal challenges in the near term, and over the longer period. Most importantly, the FPC has reiterated the Government's commitment to achieve a fiscal deficit of around 3% of GDP by 2015 and work towards a balanced budget by 2020. The FPC is supported by a Fiscal Policy Office (FPO) within the Ministry of Finance. The role and functions of the FPO will be expanded, among others, to be the technical secretariat to

the FPC. Other key tasks assigned to the FPO include analytical work related to fiscal policy and strategy formulation; medium-term fiscal framework; fiscal risks assessment and debt management.

The Government will continue to implement initiatives to improve the effectiveness and efficiency in spending as well as enhance revenue collection. On the expenditure side, subsidy rationalisation has resumed since the last round in December 2010. The Government reduced the subsidy on sugar by 20 sen per kilogramme effective from 29 September 2012 for health reasons and to minimise smuggling. Sugar currently retails at RM2.50 per kilogramme.

Fuel subsidy was also reduced by 20 sen per litre effective from 3 September 2013 resulting in an increase in the retail prices of RON95 and diesel at RM2.10 and RM2.00 per litre, respectively. To reduce the burden on low-income and vulnerable groups, cash transfers will be increased in the 2014 Budget. Efforts will be undertaken to ensure fuel subsidies are better targeted. Towards this end, work is underway to implement a comprehensive social safety net by 2015. RON97, the premium grade fuel, remains on a managed float subject to international price movements.

Ongoing measures to promote fiscal discipline in spending without compromising on service quality include the optimal use of Government assets; intensive use of information technology (IT) to deliver public services; controlling the size of the civil service; cutting back on non-critical spending and promoting greater inter-agency cooperation to implement programmes. Meanwhile, flexibility in resource management is afforded through the implementation of development projects on a two-year rolling basis. Development projects above RM50 million are subject to value management to ensure value-for-money and productive spending. Project implementation is closely monitored while rules and regulations on procurement of goods

and services, including through e-bidding, are regularly streamlined for greater transparency and cost efficiency.

Initiatives underway to enhance fiscal sustainability over the longer term include a review of fiscal incentives to industry; implementation of accrual accounting in Federal Government from 2015 and the adoption of Outcome-Based Budgeting (OBB) that focuses on achieving outcomes. The OBB has been rolled out with online submission of the budget and results framework by all ministries. The Ministries of Finance, Health as well as International Trade and Industry were selected to lead the initiative to address data quality issues which will provide useful feedback for other ministries. The OBB is expected to facilitate better policy formulation and programme implementation while optimising resource utilisation.

Measures to enhance revenue collection will continue to focus on broadening the tax base, improving tax administration, promoting higher compliance and intensifying tax education. Government assets will be monetised through sale, lease or joint development while non-core assets in government-owned companies divested to boost value creation and private investment. Concerted efforts taken by the Government to minimise wastage, encourage productive spending, and boost revenue performance will serve to strengthen public finances. This will provide greater fiscal space for new and urgent commitments; meet challenges in an uncertain global environment as well as undertake structural reforms to enhance productive capacity of the economy.

Monetary and Financial Developments

During the first eight months of 2013, monetary policy was focused on supporting growth in an environment of continued weakness and uncertainties in the global economy. With inflation remaining low, the Overnight Policy Rate was maintained at 3.00% and the Statutory Reserve Requirement at 4.00%.

As the prolonged weakness in the external environment affected the domestic economy, financing through the financial institutions and capital market moderated, but nevertheless supported the expansion in economic activities during the first eight months of 2013. Furthermore, during the second quarter of 2013, global financial markets experienced increased volatility following uncertainties over monetary policy adjustments in the advanced economies. However, despite incidences of higher volatility in the global and domestic financial markets, the domestic financial system remained resilient, with strong and well-capitalised financial institutions, while financial intermediation continued to function efficiently to support domestic economic activity. As at end-August 2013, the common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio of the banking system registered 12%, 12.8% and 14.1%, respectively. These were well above the regulatory minimum levels under the Basel III capital adequacy framework, which was implemented starting 1 January 2013.

In the first eight months of 2013, the global sukuk market grew 32.6% compared with the same period last year. With high liquidity levels in the sukuk market, Malaysia saw growing interest from foreign issuers to tap into the domestic sukuk market. Malaysia remains the world leader in sukuk issuance, accounting for 70.5% or USD53 billion of the new sukuk issued globally. As at end-August 2013, Bursa Malaysia continued to be ranked the top exchange for sukuk listing, which amounted to USD32.3 billion.

On 30 June 2013, the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) came into force, further strengthening the financial sector regulatory and supervisory framework. The FSA and IFSA amalgamated several separate laws to govern the financial sector under a single legislative framework for the conventional and Islamic financial sectors, respectively. Consequently, the Banking and Financial Institutions Act 1989 (BAFIA), Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and the Exchange Control Act 1953 were repealed on the same date.

Another significant milestone in the development of the Islamic finance industry was the new brand identity “Malaysia: World’s Islamic Finance Marketplace”, introduced by the Prime Minister in August 2013 with an invitation to the global financial community to collaborate with and mutually benefit from Malaysia’s Islamic finance marketplace that is complete with a comprehensive regulatory, supervisory, Shariah and legal framework. In addition, the marketplace is characterised by a deep primary and an active secondary sukuk market, an efficient price discovery mechanism, a diverse talent base with global capabilities and an efficient multi-currency clearing and settlement system.

Strategic Performance of the 2013 Budget

The 2013 Budget with the theme “Prospering the Nation, Enhancing Well-Being of the Rakyat: A Promise Fulfilled” reflects the Government’s determination to improve the quality of life and well-being of the rakyat while ensuring sustainable economic growth and prudent spending. Five focus areas were identified in the Budget, namely boosting investment activity; strengthening education and training; inculcating innovation and increasing productivity; fiscal consolidation and enhancing the public service delivery; and enhancing well-being of the rakyat.

First Focus: Boosting Investment Activity

The success of achieving economic growth partly depends on the ability to boost investment activity. Towards this, several initiatives were announced during the 2013 Budget which included promoting domestic investment; intensifying growth of small and medium enterprises (SMEs); intensifying tourism; enhancing agricultural activity; sustaining food security; safeguarding farmers and fishermen; stimulating the capital and financial markets; and developing Bumiputera entrepreneurs. Investment activity remains buoyant, reflected in a growth of 9.3% in total investment during the first half of 2013 (January – June 2012: 20.7%) driven by a 11.8% growth in real private investment.

Competition Act 2010

Introduction

The Competition Act 2010 (CA 2010), Malaysia's first comprehensive law on competition, was enforced in January 2012. The introduction of a competition act follows from one of the Strategic Reform Initiatives in the New Economic Model, namely on creating a competitive domestic economy. With the implementation of CA 2010, Malaysia is thus among the few nations globally to have a competition law. The CA 2010 aims to promote economic development and protect consumer interests. An independent body, the Malaysian Competition Commission (MyCC), was established to implement and enforce the CA 2010.

Scope of the CA 2010

Activities Covered

The CA 2010 covers all commercial activities within and outside Malaysia that have an impact on competition in the domestic market. All business entities in Malaysia which are involved in commercial activity, are thus subject to the Act, including government-linked companies (GLCs) and statutory bodies.

Activities Not Covered

These include: activities that involve an exercise of governmental authority; activities carried out pursuant to the principle of solidarity; and purchase of goods or services not intended for resale or resupply. The CA 2010 also does not apply to commercial activities regulated under the Communications and Multimedia Act 1998, and the Energy Commission Act 2001.

Main Areas of Regulation

The Act regulates business activities through two main areas of regulation, namely prohibitions on anti-competitive practices and the abuse of a dominant market position.

Anti-competitive Agreements

The CA 2010 prohibits horizontal and vertical agreements between enterprises, where the agreements have the objective of preventing, restricting or distorting competition in any market for goods or services. Anti-competitive agreements include price fixing; sharing markets or sources of supply; limiting or controlling production; and bid rigging.

Abuse of Dominant Position

The Act does not penalise an enterprise because of its dominance. However, it prohibits any enterprise, whether individually or collectively with other enterprises, from engaging in any market conduct that can be deemed as abuse of dominance. These include imposing an unfair purchase or selling price; limiting or controlling production; refusing to supply; and tying or bundling activities.

Penalty

An enterprise that has engaged in anti-competitive conduct can be fined up to a maximum of 10% of its worldwide turnover.

Implications of the CA 2010

Implications of the CA 2010 can be seen from the following perspectives:

- **Businesses**

The Act provides a comprehensive framework for identifying and dealing with anti-competitive practices for all enterprises ranging from multinationals to small and medium enterprises (SMEs). In essence, it will promote a competitive market environment and provide a level playing field for industry players. Thus, it will safeguard against unhealthy competition and restrictive business practices that could drive enterprises out of business. Competition will also drive businesses to be more efficient, productive and innovative.

- **Consumers**

Consumers will benefit from a more competitive and efficient market in terms of lower prices, wider choices and better quality of goods and services.

- **Economy**

A competitive environment encourages new businesses to enter the market and existing businesses to be efficient and innovative. This can help enhance Malaysia's international competitiveness in attracting investment thus contributing to economic expansion.

Conclusion

As Malaysia transforms into a high-income and developed nation by 2020, it is important to have a resilient and competitive economy. Competition is good for consumers, businesses and the economy. It leads to lower prices, more choices and better quality goods and services for consumers; drives businesses to be more efficient and innovative; and helps to attract higher levels of investment into the economy thus creating jobs and economic growth. In this regard, Malaysian businesses should not fear competition, but should instead strive towards enhancing their competitiveness and contribute to the nation's global competitiveness.

Promoting Domestic Investment

In tandem with the Government's commitment to encourage domestic investment and accelerate the participation of Malaysian companies in the global supply chain, the 2013 Budget allocated RM250 million for the establishment of the Domestic Investment Strategic Fund. The fund is targeted for Malaysian companies which are involved in high-end and specialised industries, such as aerospace, medical devices, pharmaceuticals, advanced electronics, machinery and equipment, renewable energy as well as services such as research and development (R&D) and design. As of July 2013, grants worth RM220.5 million have been approved to 36 companies with a total investment of RM2.1 billion focusing on

several areas, including electricity and electronics, services, transport and life sciences as well as machinery and advanced engineering.

Intensifying Small and Medium Enterprises

The Government launched the SME Masterplan on 12 July 2012 to further accelerate the contribution of SMEs to the economy. The SME Masterplan, which consists of 32 initiatives including six high-impact programmes, is expected to increase SMEs' contribution to the economy from 32% in 2010 to 41% by 2020. These initiatives will also enhance SMEs' contribution to the workforce from 59% in 2010 to 62% by 2020; and exports from 19% to 25%. In addition, with the aim of strengthening the role of SMEs

and expansion of industrial areas nationwide, a fund of RM1 billion was provided under the SME Development Scheme. The scheme is currently managed by SME Bank to further facilitate SMEs' access to financing. As of August 2013, RM460 million has been disbursed for the services (85.9%) and manufacturing (14.1%) sectors.

In order to ease the burden of 1.5 million hawkers and owners of small businesses registered with the Companies Commission of Malaysia, RM16 million was provided for the Insurance Coverage Scheme in the event of injury, disability and death. In addition, to assist the implementation of the Business in Transformation programme, a grant of RM4 million was allocated for Perbadanan Nasional Berhad (PNS) to provide soft loans to hawkers and small businesses to modernise their operations towards higher standards and competitiveness through licensing or franchising models. Loans of up to RM25,000 were provided for licensees and RM500,000 for licensors.

Intensifying Tourism

A sum of RM358 million for development expenditure was allocated to the tourism sector, which included RM124.5 million for the Visit Malaysia Year (VMY) 2014 programme. As at June 2013, RM139.5 million has been expended for several programmes, including tourism infrastructure development, eco-nature tourism development, upgrading facilities of rural homestay, tourism projects under the National Key Economic Areas (NKEAs) and VMY 2014. Among the initiatives under the VMY 2014 programme are promotional activities such as participation in several exhibitions and major international tourism expositions as well as conducting sales missions and advertising campaigns in Berlin, Dubai, London, Seoul and Shanghai. These programmes are expected to further enhance tourism activities, attract an estimated 28.3 million tourists and generate receipts worth RM76 billion in 2014.

Enhancing Agricultural Activity

The Government continues to promote the agriculture sector to increase income of rural households as well as ensure food security. In this regard, the 2013 Budget allocated RM5.8 billion for agricultural programmes, including strengthening productivity of paddy farming in Muda Agriculture Development Authority (MADA) and other granary areas; increasing high-value herbal products; and improving agricultural training institutions. The various initiatives have increased the income of target groups, including paddy farmers by about RM70 per hectare per season, from RM5,243 in 2011 to RM5,313 in 2012. Coupled with good agricultural practices, the plantation subsector, which was allocated RM432 million under the oil palm replanting programme, managed to increase the yield of fresh fruit bunches (FFB) by 5.8% to 11.75 tonnes per hectare in the first eight months of 2013 (2012: 11.11 tonnes per hectare).

Sustaining Food Security

Climate change and dwindling arable land will adversely affect agriculture production and food security of the country. Thus, the Government remains committed to sustaining food security through encouraging innovation in the agricultural sector. Towards this, paddy production will be increased through the establishment of four new Integrated Agricultural and Development Areas. In this regard, RM20 million was allocated in 2013 to open four new granary areas with one each in Kota Belud, Batang Lupar, Rompin and Pekan. Efforts will be undertaken for the development of quality seeds to increase paddy yields at an average of six tonnes per hectare.

Safeguarding the Fishermen and Farmers

The Government realises the predicament of fishermen where their daily catch is unpredictable, particularly during the monsoon season. In this

regard, the Government continues to assist the fishermen by providing them with a monthly allowance of RM200. As of August 2013, more than 52,000 registered fishermen have benefited from this programme involving a total of RM73 million. Furthermore, productivity-based incentive was given to the fishermen to increase fish landings. The incentive also helps to reduce the burden faced by fishermen due to rising fuel prices as well as encourage them to declare their catch transparently. Through this measure, the fish landings have increased to 68.7 million tonnes as well as benefited 29,000 fishermen.

In addition, the Government has introduced the Takaful Protection Scheme for Fishermen with a maximum coverage of RM100,000, with the recipients of the monthly living allowance automatically insured under the scheme. The initiative will ease the burden of fishermen in the event of disasters. A total of 56,672 fishermen are covered under the scheme with total premium payments of RM5.7 million, of which 607 fishermen have received compensation due to accidents. In addition, RM300 million was allocated under the Special Housing Fund for Fishermen to further improve their living conditions. A total of 13,929 fishermen have benefited from the provision of basic infrastructure and refurbishment of houses by August 2013.

In order to encourage farmers to be more productive, the Government has allocated RM2.2 billion on subsidies and incentives to increase paddy yield and reduce production cost. Six types of subsidies and incentives were given, either directly or indirectly, namely Paddy Production Incentive (RM563 million), Price of Rice Subsidy (RM528 million), Paddy Price Subsidy (RM480 million), Paddy Fertiliser Subsidy (RM465 million), Certified Paddy Seed Incentive (RM85 million) and Yield Increment Incentive (RM80 million). As at end-September 2013, RM333 million has been spent on Paddy Price Subsidy, benefiting 152,067 farmers.

Meanwhile, RM254 million has been distributed under Paddy Fertiliser Subsidy which benefited 287,000 farmers. The subsidy for price of rice was given to 74 millers in the Peninsular, eight in Sabah and six in Sarawak. Meanwhile, the Government has provided 80,000 tonnes of high-quality seeds under the Certified Paddy Seeds Incentive Programme.

Stimulating the Capital and Financial Markets

Several measures are being implemented to further boost the investment climate and strengthen the structure of the capital market industry. Among the measures include the setting up of a Capital Market Promotion Centre, which has been incorporated as a company limited by guarantee, on 20 February 2013 under the Companies Act 1965. The Centre will ensure an effective and holistic promotion of the Malaysian capital market worldwide, in line with consistent initiatives to position Malaysia as a centre of investment and fund raising. In addition, to support growth of the capital market, the Graduate Representative Programme 1000 was launched on 27 August 2013 to develop skilled and knowledgeable young professionals. As of September 2013, a total of 231 graduates signed up for the programme with participation of more than 36 leading local and foreign investment banks as well as brokerage firms.

To expand the horizon of investment instruments in the capital market, particularly in Islamic finance, the Securities Commission Malaysia (SC) is currently in the process of formulating a framework on the issuance of AgroSukuk for companies engaged in the agriculture sector. Furthermore, SC has also revised the guidelines on Private Debt Securities and Sukuk on 2 January 2013 to allow public-listed companies and banks to offer bonds and sukuk to retail investors. This is to facilitate greater retail participation in the bond and sukuk market following the launching of the retail bond and sukuk framework on

7 September 2012. Subsequently, on 8 January 2013, DanaInfra Nasional Berhad issued the first retail sukuk of RM300 million through Bursa Malaysia.

Bumiputera Entrepreneur Development

Bumiputera entrepreneurs face various challenges to venture into high value-added activities. Therefore, the Government remains committed to supporting them in terms of financing, capacity building, and networking to improve their competitiveness. One of the initiatives was to increase the involvement of Bumiputera entrepreneurs in the MY Rapid Transit (MRT) project through the award of 43% of the contract to Bumiputera companies. As of September 2013, 45% of the total contracts have been offered to Bumiputera companies, surpassing the 43% target set. The overall value of the MRT project is currently estimated at about RM9.3 billion, exceeding the earlier target of RM8.5 billion set by the Government. Meanwhile, the Working Capital Guarantee Scheme (WCGS) totalling RM930 million has been extended until end of 2013 to facilitate access to working capital for SMEs and High-Performing Bumiputera (TERAS) companies. As of August 2013, a total of 8,609 loan accounts amounting to RM10.3 billion have been disbursed under the WCGS.

Second Focus: Strengthening Education and Training

Education plays a key role in the development of human capital by equipping them, particularly the youth with skills to meet the needs of a rapidly challenging environment. In this regard, greater emphasis will be placed on building Malaysia's human capital, productivity and capacity for knowledge absorption and utilisation. The recent merger of the Ministry of Education and Ministry of Higher Education to the Ministry of Education (MOE), would ensure a continuity of quality as well as more dynamic policies and programmes in the national education system. The merger also strengthens the implementation

of the Malaysia Education Blueprint 2013 – 2025 and the National Higher Education Strategic Plan 2011 – 2015. A total of RM52.8 billion was allocated to the merged MOE for operating and development expenditure, with RM36.3 billion spent as at end-August 2013, particularly for the Malaysia Education Blueprint 2013 – 2025, strengthening the role of pre-schools as well as skills and training.

Malaysia Education Blueprint 2013 – 2025

The final report of the Malaysia Education Blueprint 2013 – 2025 was launched on 6 September 2013. The Blueprint consists of 11 thrusts to transform the national education system. These include equal access to quality education; proficiency in Bahasa Malaysia and English language; transforming teaching; and developing values. To monitor and evaluate the effectiveness of the Blueprint, an Educational Performance and Delivery Unit (PADU) was established on 19 March 2013. A sum of RM500 million was allocated in phases for a period of three years until 2015 to implement the Blueprint. As of June 2013, RM100 million has been disbursed for implementation of several initiatives, namely student learning, enhancing quality of teachers and ensuring high-performing school leaders; operational transformation; structural system; and management of PADU.

Strengthening the Role of Pre-Schools

Early childhood education plays a vital role to develop children's minds and prepare them for primary education. Towards this, the Government has allocated RM1.2 billion to MOE, Jabatan Kemajuan Masyarakat, the Department of National Unity and Integration as well as PERMATA Division, Prime Minister's Department to equip children with basic education. As of September 2013, a total of 502 *TASKA PERMATA* are operating nationwide to provide early childhood education to about 10,200 children aged 2 to 4 years. Meanwhile, approximately 16,242 pre-schools are

operating nationwide benefiting more than 451,000 children aged 4 to 6 years. To further enhance quality of education in pre-schools, more than RM18 million was allocated for the placement of 441 new teachers as of September 2013. In addition, RM10 million was provided to assist private operators of Early Childhood Care and Education (ECCE) centres to establish high-quality *TASKA*. As of August 2013, a total of 120 *TASKA* have been assisted.

In addition, childcare and early education of children with disabilities were given priority by the Government. Towards this, six pilot projects of pre-school for disabled children (*TASKA OKU*) have been implemented with an allocation of RM3 million which benefit 180 children. The first *TASKA OKU* for down-syndrome children has started its operation on 1 July 2013 in Putrajaya. The remaining *TASKA OKU* will be opened by end of 2013 for autistic children in Sarawak; for blind or partially sighted in Pulau Pinang; for children with hearing and speaking disabilities in Selangor; for physical disabilities in Sabah; and for learning difficulties in Perak. A sum of RM2 million has been spent on the *TASKA OKU* initiative as at September 2013.

Skills and Training

The Government continues to focus on human capital development with emphasis on skills and training in order to create knowledgeable, creative and innovative human capital. In line with the current situation where graduates are still facing employability problems, the National Graduate Employability Blueprint (GEB) 2012 – 2017 was launched on 4 December 2012 to strengthen the implementation of the Graduate Employability Programme. The Blueprint will serve as a guide to help higher education institutions in developing human capital strategies to meet the demands of the industries in line with the dynamic changing landscape of the country. A Graduate Employability Taskforce was established to monitor the implementation and effectiveness of the GEB. As of August 2013, RM36.5 million has been

disbursed for the implementation of 54 graduate employability programmes which benefited more than 19,300 diploma and degree graduates.

The private sector is also encouraged to provide structured training programmes for unemployed and underemployed graduates, particularly in soft skills and on-the-job training to enhance their knowledge and skills before entering the job market. Under the corporate social responsibility programme (CSR), the 1Malaysia Training Scheme (SL1M) was implemented in 2011 involving government-linked companies (GLCs) and the private sector. As of September 2013, a total of 118 GLCs and private companies have participated in the SL1M programme with more than 4,000 graduates assisted in securing jobs. As an incentive for participating companies, the Government has provided double tax deduction on expenses incurred by the companies.

In addressing the issue of shortage of skilled labour, especially in technical and vocational skills, the Government has developed training programmes to hone new skills in line with future needs of industry. In this regard, RM3.8 billion was allocated in 2013 to train students in technical and vocational skills, and as of end-August 2013, RM2.4 billion has been spent. Several measures have been taken, including provision of loans for trainees to undergo skills training through the Skills Development Fund Corporation which was allocated RM400 million. As of end-August 2013, loans and grants worth RM221 million and RM71 million, respectively have been given to more than 18,500 trainees nationwide. The Government also allocated RM366.6 million to upgrade and repair buildings as well as purchase educational equipment for the Industrial Training Institutes (ILP) and National Youth Vocational Institutes (IKBN). As of end-August 2013, RM132 million was spent on 35 training institutes.

To create a professional and talented workforce in niche industries, particularly oil and gas, the Ministry of Youth and Sports (KBS) has collaborated

with Petroliaam National Berhad (PETRONAS) to train students of IKBN to meet the needs of the RAPID project in Pengerang, Johor. As of September 2013, a total of 20 trainers from IKBN have been trained by PETRONAS on health, safety and environment (HSE), and 10 trainers by SIRIM Berhad on welding courses based on American Welding Society (AWS) syllabus. A total of 682 students have attended both courses at a cost of RM2.1 million.

The Government remains committed to assisting Malaysian Indian youth who are unable to enter the job market due to, among others, lack of opportunity and low education. In this regard, the Indian Youth Skill Training Programme was introduced and targeted those aged between 17 and 35. In 2013, RM20 million was allocated for the Ministry of Human Resources, MOE and KBS to implement the programme. The first intake of the programme, which started in July 2013, involved a total of 618 students. The participants are provided hostel facilities at the ILP, community colleges and IKBN nationwide. They will undergo selected skill courses for two years and will be awarded the Malaysian Skills Certificate (SKM), Community College Full Certificate or National Modular Certificate.

In efforts to ensure productive and active human capital, the Social Security Organisation (SOCSSO) introduced a new Health Screening Programme (HSP) in January 2013. This programme is also intended to identify high-risk groups of workers with non-communicable diseases (NCDs), particularly cardiovascular diseases, hypertension, diabetes and cancer. A sum of RM220 million was allocated to provide free health screening to 1.9 million active contributors who are 40 years old and above. As of August 2013, a total of 3,283 HSP Panels have been appointed consisting of 2,979 panel clinics, 212 laboratory providers and 92 mammogram centres. The programme has benefited 172,956 contributors, including 46,010 women who have undergone mammogram screening.

Third Focus: Inculcating Innovation and Increasing Productivity

R&D Innovation

R&D is the initial phase of creativity and innovation and is important to uplift the potential growth of the economy. In order to increase the share of R&D to GDP, the spending on R&D activities must continue to increase. In 2011, Malaysia's share of gross expenditure on R&D to GDP was only 1.1% compared to Singapore's 2.3%. In this regard, the Government will intensify its effort to boost R&D activities and continuously support the planning and implementation of programmes and activities which will be centred on enhancing creativity and innovation. The Government also remains committed to developing intellectual property rights (IPRs) as a source of new wealth creation and to move up the value chain.

The 2013 Budget continues to provide allocations to enhance R&D and innovation. A sum of RM600 million was allocated to five research universities to conduct high-impact research in strategic fields such as nanotechnology, automotive technology, biotechnology and aerospace. The Government also funded research and development and commercialisation (R&D&C) projects through the ScienceFund, TechnoFund, InnoFund as well as Product Development & Commercialisation Fund. Meanwhile, a total of RM37 million was allocated to Agensi Inovasi Malaysia for various initiatives such as the *Genovasi* Programme, Innovation Ambassador Development Programme, i-THINK programme, Steinbeis Malaysia, Innovation Business Opportunities (IBOs) and *Jawatankuasa Pelaburan Dana Awam* (JKPDA). In addition, RM200 million was allocated for the establishment of the Intellectual Property (IP) Financing Scheme which will be offered through Malaysia Debt Ventures Berhad. At the same time, RM19 million was provided to set up training courses for IP evaluators and to create an IP marketplace under the Intellectual Property Corporation of Malaysia (MyIPO). The programmes and activities are in various stages of implementation.

Leveraging Innovation to Drive Growth

Introduction

Technological improvement, innovation and knowledge-driven activities have increasingly become important as the third factor of production to create economic growth and wealth creation as well as to remain competitive. Innovation, in particular is an important element to create new value for customers or firms. To consumers, innovation brings better quality or high value-added products and services. To firms, innovation helps break into new markets, improve market share, and increase returns for investors. In addition, innovation benefits employees through creation of new types of jobs and greater opportunities for a competent and talented workforce that commands higher wages. As such, many countries aspire to innovate more. The challenge is not only to boost innovation capabilities but also to create continuous innovation. Meanwhile, disruptive innovations¹ create new markets by applying different sets of values, which eventually overtake existing markets and displace earlier technologies. Therefore, both continuous and disruptive innovations are imperative to increase productivity and move up the value chain to sustain growth and prosperity of the nation. Malaysia has thus recognised the importance of innovation to transform the nation into a developed and high-income economy by 2020.

Malaysia's Position in Innovation

Under the 2010 Budget, the Government incorporated innovation into its national transformation agenda. The transformation is to be implemented through a comprehensive process, encompassing several areas such as public and private sector governance; urban and rural innovation; corporate innovation; industrial, healthcare, and transport innovation; social safety net innovation; and branding innovation. Some of these initiatives have been implemented under the 1Malaysia, People First, Performance Now concept, and the National Transformation Policy. Malaysia's innovation performance has been reported in various international reports such as the Global Competitiveness Report and the Global Innovation Index. Each report highlights innovation from different dimensions.

Global Competitiveness Report

The Global Competitiveness Report (GCR) 2013–2014 recognised Malaysia among the top 20% of the most competitive economies globally, ranking the nation at 24th position out of 148 countries. Among the ASEAN countries, Malaysia remained at second position. The notable achievement was due to market efficiency and competitiveness of goods and services; well-developed and sound financial market; business-friendly institutional framework; business sophistication; and innovation. On innovation, the twelfth pillar of the global competitiveness index, Malaysia attained a creditable 25th position, especially in areas related to: capacity for innovation (15th position); Government procurement of advanced technology products (4th position); and university-industry collaboration on research and development (R&D) (17th position). This encouraging performance reflects the growing effectiveness of Government policy to inculcate an innovation culture among Malaysians.

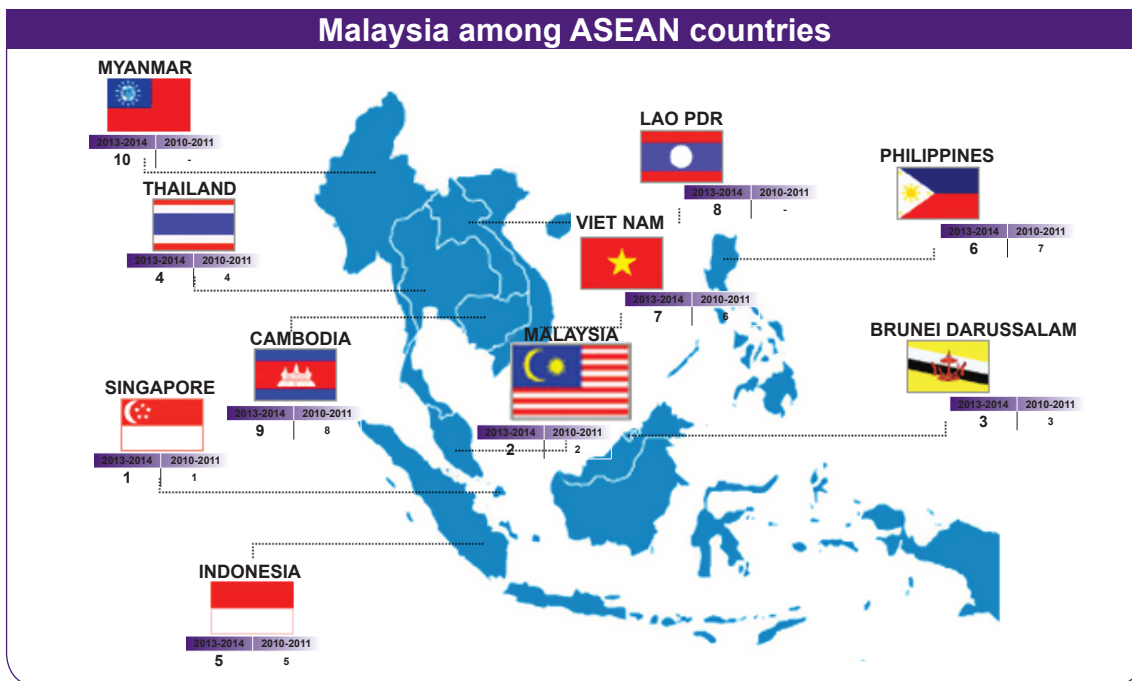
Table 1: Global Competitiveness Index

Country/ Economy	GCI 2013-2014		GCI 2010-2011	
	Rank	Score	Rank	Score
Switzerland	1	5.67	1	5.63
Singapore	2	5.61	3	5.48
Finland	3	5.54	7	5.37
Germany	4	5.51	5	5.39
United States	5	5.48	4	5.43
Malaysia	24	5.03	26	4.88
Republic of Korea	25	5.01	22	4.93
Brunei Darussalam	26	4.95	28	4.75
Israel	27	4.94	24	4.91
Ireland	28	4.92	29	4.74
China	29	4.84	27	4.84
Puerto Rico	30	4.67	41	4.49

Source: The Global Competitiveness Report by the World Economic Forum.

¹ Introduced by Professor Clayton M. Christensen in his research and later popularised through his book 'The Innovator's Dilemma'.

Chart 1: The Global Competitiveness Index (performance of ASEAN countries)



Global Innovation Index

The Global Innovation Index (GII) ranked Malaysia at 32 out of 142 countries in 2012 and 2013. The index uses 84 indicators, including quality of top universities; availability of microfinance; venture capital deals; and innovation capabilities and measurable results. The report identified Malaysia's major strength in market and business sophistication, although there is room for improvement in human capital and research areas as well as institutional framework. Despite the mixed performance, Malaysia was acknowledged as the best among the upper middle-income countries in terms of rising levels of innovation.

Table 2: Global Innovation Index by Income Group

Group rank	Innovation Per Income Bracket				Income group
	GII rank	2012 Country/ economy	GII rank	2013 Country/ economy	
1	1	Switzerland	1	Switzerland	High-Income
2	2	Sweden	2	Sweden	High-Income
3	3	Singapore	3	United Kingdom	High-Income
1	30	Latvia	32	Malaysia	Upper middle-income
2	32	Malaysia	33	Latvia	Upper middle-income
3	34	China	35	China	Upper middle-income
1	50	Moldova, Rep	45	Moldova, Rep	Lower middle-income
2	63	Ukraine	59	Armenia	Lower middle-income
3	64	India	66	India	Lower middle-income
1	96	Kenya	89	Uganda	Low-income
2	102	Rwanda	99	Kenya	Low-income
3	108	Tajikistan	101	Tajikistan	Low-income

Source: The Global Innovation Index Report 2013, Cornell University, INSEAD & WIPO.

Transforming the Nation into an Innovation-Driven Economy

The encouraging performance of Malaysia in the GCR and GII is the outcome of continuous efforts by the Government to realise the national transformation agenda. The Ministry of Science, Technology and Innovation (MOSTI) remains as the general administrator of innovation policy in the country. There are also various agencies and NGOs which support the implementation of the innovation agenda, namely Agensi Inovasi Malaysia (AIM), Yayasan Inovasi Malaysia (YIM), Intellectual Property Corporation of Malaysia (MyIPO), Malaysian Association of Creativity & Innovation (MACRI), Malaysian Green Technology Corporation (MGTC), Malaysian Technology Development Corporation (MTDC), MyNIC Berhad, and the National Strategic Unit (NSU), Ministry of Finance. In addition, several legislations have been formulated or revised, such as the Agensi Inovasi Malaysia Act 2010, Competition Act 2010 and Patents Act 1983 to ensure a more efficient process towards the development and inculcation of an innovative culture in Malaysia.

Towards harnessing human capital and technological potential, the Government and private sector will continuously encourage the development of innovation among Malaysians. Recent initiatives to create a conducive ecosystem to drive innovation include the following:

Cultivate a Thinking Culture

Programme/ Initiative	Current Updates
Higher Order Thinking Skills (HOTS)	- HOTS was introduced through the i-Think programme to assist students in government schools use 8 Thinking Maps to enhance their analytical and critical thinking skills. - By December 2013, 45,000 teachers will be trained on i-Think and deployed to 1,000 schools which will benefit 576,000 students.
Innovation Walk or <i>Jejak Inovasi</i> programme	- To track a variety of innovative products created by Malaysians, especially from the rural areas. - To encourage the rakyat to highlight their innovation ideas to help them improve their life through enhancement or commercialisation of their creations.
<i>Cipta 1Malaysia</i> Award (C1PTA)	- To recognise the most innovative inventions of students and youth at the national level. - Nationwide search for champions of innovation through a reality TV programme called <i>Dengan Inovasi, Yo! (DIY)</i>.
<i>Genovasi</i> programme	<i>Genovasi</i> Programme aims to produce at least 5,000 Innovation Ambassadors over the next five years. - The first intake for the basic ten-week Innovation Ambassador Development Programme started on 4 February 2013. As of September 2013, 182 Innovation Ambassadors, including 150 from the public sector have been trained.
<i>Gigih</i> programme	Identified 50 simple and low start-ups, income-generating activities and business ideas that can be replicated by other low-income individuals to promote self-reliance and generate sustainable income for their families.

Programme/ Initiative	Current Updates
International Baccalaureate (IB) Programme	• RM8.7 million has been approved for the IB Programme which emphasises the most effective teaching and learning methodologies, interaction between subjects as well as communication and development of well-rounded individuals. • 800 teachers from 10 selected schools are currently undergoing the IB Supplementary Professional Development Programme which started in March 2013.
Malaysian talent	• Malaysian talent was part of the creative team that worked on the "The Life of Pi", which won the 2012 Oscar Award for visual effects, signifying homegrown talents have made their mark in creative technologies in the international arena.

Innovate Organisations and Industries

Programme/ Initiative	Current Updates
Venture capital (VC)	• VC is a type of private equity capital provided to start-ups and high potential, growth companies. • Venture capitalists focus on value creation through accelerated development of products and services either with technology or greater market penetration. • As of August 2013, there were 57 venture capital management companies registered in Malaysia.
MyCreative Venture Capital	• Established by the Government in 2012 with an initial fund of RM200 million to boost the attractiveness of Malaysia's creative industry through strategic and innovative funding in the form of equity or debt investments.
Tax Incentive for angel investor	• Designed to help technology-based start-ups in Malaysia raise funding by offering tax incentive to angel investors who have invested in these companies. • Deductions equal to the amount of investment made by angel investors in a venture company are allowed to be offset against all their income, up to a maximum of RM500,000. This incentive will help stimulate the growth of technopreneurs at the pre-seed and start-up stages.
SME Masterplan	• Outlines the implementation of 32 initiatives, including six high-impact programmes with an allocation of RM30 million. • AIM together with SME Corporation will implement high-impact programmes on the Technology Commercialisation Platform to assist SMEs from the development of 'Proof of Concept' to commercialisation stage.
Intellectual Properties (IP) Financing Scheme	• RM200 million was provided for the Intellectual Properties (IP) Financing Scheme, offered through Malaysia Debt Ventures Berhad (MDV). • The scheme, which is scheduled to be launched in November 2013, will enable companies to use their IP rights (IPRs) as an additional source of collateral to obtain funding. As of September 2013, MDV received 22 applications from ICT-related companies amounting to RM104 million. • The Government is also piloting the Intellectual Capital Future Check, a Risk-Assessment methodology for financial institutions to evaluate the risks and returns in financing IPRs.

Programme/ Initiative	Current Updates
IP valuation initiatives	The Government has mandated MyIPO to drive the IP valuation initiative, focusing on four deliverables, namely training of local IP valuers, the valuation of IPRs for suitable local SMEs, developing a national IP valuation model and creating an IP market platform for IPRs to be transacted.
High-speed broadband (HSBB)	- HSBB infrastructure has been supported by the Government to broaden the usage of the Internet. - HSBB enables innovators to start online businesses without incurring high costs which translates into higher productivity and efficiency.
Urban Transformation Centre (UTC) and Rural Transformation Centre (RTC)	- UTC is another Government innovative effort which is monitored by the NSU, MOF. Under the UTC initiative, under-utilised buildings are transformed to offer a variety of services under one roof. - RTCs are established under the Ministry of Rural and Regional Development to bridge the development gap in rural areas.
Malaysian Global Innovation and Creative Centre (MaGIC)	A one-stop centre for entrepreneurs to acquire financing from banks or venture capital; provision of incubators to develop start-ups; intellectual property registration as well as facilities for training, coaching and mentoring.

Catalyse Research and Development and Commercialisation (R&D&C)

Programme/ Initiative	Current Updates
High-impact research in strategic fields	- RM600 million was provided to five research universities in 2013 to conduct high-impact research in strategic fields such as nanotechnology, automotive, biotechnology and aerospace. - The allocation is also to implement the 5-Star Rating of Malaysia Research Assessment of Higher Learning Institutions, Research Acculturation Collaborative Efforts and Central Lab Management programmes. As of July 2013, about RM223 million has been spent on this initiative. - The Government aspires to develop 1,015 IPs, create 2,448 experts and publish 7,265 R&D related activities. - Tax incentives for the commercialisation of resource-based R&D findings, have been also extended to non-resource based findings for products promoted under the Promotion of Investment Act 1986.
Steinbeis Malaysia	- RM4.5 million was allocated for the establishment of Steinbeis Malaysia, a non-profit foundation, which allow scientists and the academia to set up centres, which are then matched with the requirements of SMEs. - Steinbeis provides a guarantee to industry that assigned projects will be delivered as required. Steinbeis also provides support services, such as project management, business development, legal and administrative services. - The aspiration is to complete 2,000 projects that will create 500 jobs and generate RM1 billion GNI by 2020.

Programme/ Initiative	Current Updates
Innovation Business Opportunities (IBOs)	- The IBO is an internet-based platform to commercialise IP sourced from universities, research institutes and private innovators to be implemented with an allocation of RM1 million. - As of June 2013, the programme has matched 200 IBOs and has facilitated the agreements for 20 investors with an estimated Year 3 revenue of RM325 million.
Jawatankuasa Pelaburan Dana Awam (JKPDA)	- Streamline all grants for R&D&C through JKPDA to ensure funding is available throughout the R&D continuum. - JKPDA has completed the evaluation for R&D&C in the 2014 Budget for nine ministries covering 125 projects amounting to RM1.23 billion. - The committee supported 71 projects amounting to RM802.7 million, while the remaining 54 projects which had elements of duplication among ministries or agencies were recommended for inter-ministry collaboration and streamlining, which resulted in RM432 million of savings for the country. - The next phase, which involves the development of a performance and monitoring dashboard for tracking of budget for R&D&C programmes, will be completed by the end of 2013.
ScienceFund, TechnoFund and InnoFund	- Funds have been allocated for ScienceFund, TechnoFund and InnoFund under the ICT cluster as a basis to further encourage R&D&C activities. - As of May 2013, a total of 51 projects under the ScienceFund and 11 projects under the TechnoFund have been approved totalling RM13.9 million. - The Government also established a Product Development & Commercialisation Fund on 20 March 2013 with an allocation of RM3 million. The fund is aimed at assisting local Multimedia Super Corridor (MSC) companies to accelerate the development and commercialisation of innovative, market-driven products, solution services as well as increase the creation of IP for commercialisation.

Inculcate Inclusive Innovation

Programme/ Initiative	Current Updates
National Corporate Innovation Index (NCII)	The Government will develop NCII as a pilot project involving 200 public-listed and government-linked companies to track their level of innovation as an indicator of value creation.
The 4th Global Entrepreneurship Summit (GES) 2013	- MOF hosted the 4th GES 2013 from 11 to 12 October 2013. - The GES provided a platform for global entrepreneurs to share innovative ideas and best practices.
World Innovation Forum-Kuala Lumpur (WIF-KL)	- MOSTI and YIM have jointly organised the WIF-KL as a platform to create a new culture of innovation, epicentre for economic growth, emerging technologies and innovation within Asian countries. - WIF-KL 2013 will be held at Kuala Lumpur Convention Centre from 12 to 14 November 2013.

Issues and Challenges

Despite rigorous efforts by the Government to encourage the rakyat and businesses to embrace an innovation culture, there are still pertinent issues that need to be addressed.

Attracting and intensifying talent	Competent, entrepreneurial and creative workforce.
Adoption of new technology	The ability to acquire or develop technology assets.
Access to financing	The adequacy of financial institutions to provide funds at reasonable cost for firms to innovate. Presently funding is more focused on the initial phase rather than supporting commercialisation.
Improve competitiveness	Competition drives individuals and organisations to seek out new values and do things efficiently, as well as enables the transformation of capabilities into results
Nurturing innovation through education	Recognising the fundamental role of early education to inculcate an innovation culture.
Enhance market access	Instil an innovative culture among Malaysian businesses to penetrate global markets.

The Way Forward

Driving Malaysia towards an innovation economy requires a framework that is structured to provide reliable support, yet flexible so that it can readily adapt to rapidly changing market forces. The framework must also promote accountability and the delivery of results; encompass all Government objectives; and provide the structure to support innovation. To identify the areas for innovation led-growth, the Government has adopted a ground-up approach involving close collaboration among relevant ministries, universities, research institutes, public innovation funding agencies, capital market intermediaries, private firms, industry associations and NGOs focusing primarily on the following areas:

- The demand for a highly skilled workforce will grow more intense as the marketplace becomes more competitive. Ensuring a sustainable stream of skilled workers will require equipping the younger generation in school with problem-solving skills and the ability to make rapid decisions based on facts and evidence. Graduates must embrace Innopreneurship skills, which is the science and art of converting ideas into wealth, before entering the labour market.
- Universities must also conduct applied research to address and meet the challenges faced by various industries, as well as provide a source of new products or technologies for civil society that can become new avenues for wealth creation by the private sector. Universities must engage with the private sector to commercialise IP. Malaysia has to radically transform the way it manages applied R&D. Applied R&D has to commence with the identification of challenges and opportunities faced by practitioners within the industries, coupled with foresight in science and technology derived from experts in universities.
- Malaysia must also be able to take advantage of the digital medium and deliver innovative and creative ICT services through a multitude of digital platforms, such as personal computers, laptops, tablet devices, smartphones, regular cellular phones, digital TV and satellite radio.

- The Government has provided substantial allocations for grant funding which is available at various stages of the innovation process up to the final deployment of the product and service. The various public grants have to be streamlined to make Malaysia's competitive edge even sharper. Competition for these public grants has to be made keener, so that only the most convincing ideas succeed in securing the funds.
- The Government should also reduce grants in the longer term due to the issue of 'moral hazard' as the public money does not have to be repaid. Other forms of funding should be encouraged such as through angel investors and venture capital. Entrepreneurs could also source financing from crowdfunding.

Conclusion

Innovation remains a focus in Malaysia's development agenda. 'Building the knowledge base and infrastructure' is the sixth Strategic Reform Initiative (SRI) in the New Economic Model (NEM), where the key focus is to promote an environment for innovation. The NEM highlighted that Malaysia still lacks creativity and innovation, which is the third important element after labour and capital, to drive the nation towards a developed and high-income economy. Thus, leveraging innovation to drive growth requires targeted reforms in three dimensions. The first relates to capabilities, where talent, technology and funding are needed to enable firms to innovate. The second is competition, emphasis on competition policy, market flexibility, and patent policies. The third concerns clusters of innovation. Niches and clusters are essential to ensure that efforts will drive maximum economic impact by concentrating in high value-added products. These dimensions will eventually shift up the nation's innovation culture in a more holistic manner.

Fourth Focus: Fiscal Consolidation and Enhancing Public Service Delivery

Fiscal Consolidation

The Government is firm in its commitment to fiscal consolidation, as reflected in the steady decline in the fiscal deficit, from a high of 6.7% during the global financial crisis in 2009 to 4.5% in 2012. The Federal Government debt has remained well within the self-imposed limit of 55% of GDP. Despite higher financial demands on the Government in 2013, fiscal targets for the year are expected to be met through prudent financial management and improved revenue collection. Among the measures to enhance revenue collection are widening the tax base through tax audit, investigations and enforcement; improving compliance; simplifying rules and regulations; as well as greater stakeholder engagement.

On the expenditure side, the OBB is being implemented in phases, and will be fully rolled out by 2015. As a 'whole of government' initiative, the OBB will promote purposeful spending as projects and programmes will be aligned to policy priorities, with outcomes well-defined and accountability assigned through a comprehensive monitoring framework. Meanwhile, the establishment of the FPC is a significant step towards improving public finances over the longer term. The FPC has the clout, and is empowered to formulate policies critical to strengthen the fiscal position of the Government.

Public Service Delivery

In appreciation of the contribution of senior citizens, the Government announced the reduction of passport fees for senior citizens aged 60 years and above from RM300 to RM150 for the 5-year passport and from RM100 to RM80

for the 2-year passport effective from January 2013. The scheme also benefited children aged 12 years and below. As of August 2013, a total of 366,237 discounted passports have been issued, which accounted for 21% of the total issuance of passports and 24.5% of the income from passport issuance.

Improving the Malaysian Armed Forces Scheme of Service

Towards protecting the security and sovereignty of the nation, the Malaysian Armed Forces (ATM) will be equipped with knowledgeable and highly skilled human capital. In this regard, the service scheme has been revised effective from 1 January 2013. This includes raising the entry requirement for commissioning officers with the rank of Second Lieutenant upgraded to a First Degree Honours, and SPM for the servicemen. In addition, the Government also recognised the service of the existing army personnel by allocating RM107 million for time-based promotion of 78,123 personnel. As of February 2013, 3,000 personnel have been promoted from Lance Corporal to Corporal, and from Private to Lance Corporal.

To appreciate the commitment and dedication of our national heroes, the Government has also provided a special incentive as well as a Group Insurance Coverage Scheme. From January 2013, all military personnel (excluding Special Professional Allowance recipients) received a special incentive of RM200 per month. Meanwhile, effective from 1 June 2013, an insurance coverage of up to RM18,000 is provided for the armed forces, policemen and firemen in the event of death and total permanent disability.

For the armed forces personnel who opted for early retirement (less than 21 years of service) and did not receive any pension, the Government has allocated RM224 million to provide a one-off payment of RM1,000. This one-off payment known as *Sumbangan Veteran ATM Tidak Berpencen 1Malaysia* (SVTB1M) was

launched on 4 January 2013 with the vouchers fully disbursed on 11 January 2013. Subsequently, on 1 April 2013, SVTB1M was extended to widows of the non-pensionable armed forces veterans. As of June 2013, a total of RM48 million has been spent and benefited 80,706 eligible recipients.

Fifth Focus: Enhancing Well-being of the Rakyat

The Government continues to focus on enhancing the well-being of the rakyat. Apart from ongoing efforts to improve the public service delivery, various initiatives have been taken covering a wide spectrum of issues relating to safety and security, education and health, women, youth, cost of living, transport and housing as well as social welfare.

Creating a Safe and Harmonious Neighbourhood

The Government remains committed to combatting crime to ensure a safe living environment for the rakyat. In this regard, one of the National Key Result Areas (NKRAs) targets is to reduce the crime index to 5% per annum in 2013. The Government has thus allocated RM450 million under the NKRA on Crime Reduction. Several measures have been implemented, including increasing the number of Polis Diraja Malaysia (PDRM) personnel for patrolling. This initiative known as 'Feet On Street' involved 4,000 officers and members of the General Operations Force. Focus was given to increase the presence of police officers physically, especially in crowded communities in major cities to fight crime 24 hours. These included hotspots in Johor, Kuala Lumpur, Kedah, Pulau Pinang, Perak, Selangor as well as Sabah and Sarawak.

A Motorcycle Patrolling Unit (URB) was also established on 19 December 2012 to monitor housing areas. For this purpose, a total of RM24.5 million was allocated for the purchase of 1,000 units of 250cc motorcycles complete with accessories such as helmets, gloves, raincoats and torchlights.

The motorcycles were distributed to eight states; Selangor (268), Johor (219), Kuala Lumpur (145), Pulau Pinang (133), Perak (85), Kedah (68), Sabah (68) and Sarawak (14). An additional RM10 million was allocated for the purchase of another 400 motorcycles.

The number of Police Volunteer Reserve (PVR) was increased to assist the police in combating crime. As of August 2013, 10,000 PVR personnel have been trained with total spending of RM87 million for recruitment, training, allowances as well as authority cards. The Government has also installed 496 units of closed circuit televisions (CCTV) covering 25 local authorities in Johor, Kedah, Melaka, Pahang, Perak, Pulau Pinang, Terengganu as well as Sabah and Sarawak to prevent street crimes in urban areas.

The collaboration between the rakyat and police is important in efforts to create a harmonious neighbourhood. As part of the rakyat's contribution to make the city abode safe, community policing activities through resident associations have been enhanced. The Government provided a launching grant of RM10,000 each for resident associations registered with the Registrar of Societies Malaysia. As of August 2013, RM14.8 million has been disbursed which benefited 1,492 resident associations. The implementation of various initiatives has resulted in a reduction of house break-in to 3.3% as at end-August 2013.

For those who cannot afford legal representation, the Government provided an allocation of RM20 million in 2013 to the National Legal Aid Foundation (NLAf). The assistance covers all types of criminal offences, except those which carry the death penalty. A screening is conducted to determine the eligibility for legal representation at the trial stage. About 900 lawyers are involved in the provision of legal representation. As of August 2013, the NLAf has provided assistance in criminal matters to 56,643 Malaysian citizens at the stage of arrest, remand, bail application and hearing.

Reducing Students' Cost of Learning

The Government is concerned about students' welfare, in particular students from low-income families. A special allocation of RM2.7 billion was provided to primary and secondary school students, which include per capita grant, hostel meal assistance programme, Food Supplement Programme, purchase of text books and assistance for payment of additional school fees. As of September 2013, a total of RM2.2 billion has been spent on students' welfare.

The schooling assistance of RM100 was given to all primary and secondary students for the second time. As of July 2013, this measure benefited 5.2 million students and involved a sum of RM523 million. The Government also continued the 1Malaysia Book Voucher Programme (BB1M) for all higher learning institution and pre-university students with an increase to RM250 for each student from RM200 previously. As of July 2013, RM309 million has been distributed, benefiting more than 1.2 million students nationwide.

To encourage borrowers to repay their Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) loans, the Government has introduced several incentives such as a discount of 20% for full repayment of loans, effective from 1 October 2012 until 30 September 2013. Since the announcement, more than 34,000 borrowers have fully paid their loans and enjoyed a discount of 20% as at April 2013 with PTPTN collecting RM134 million. Meanwhile, borrowers who make consistent repayment are entitled to a 10% discount per annum effective from 1 October 2012. Based on the current repayment record, a total of 28,689 borrowers are eligible for the 10% discount.

Health as the Essence to Well-being

Health services in the country are continuously improved to ensure that people remain healthy in line with increased life expectancy. To facilitate access to health services, RM13 million has been

allocated for the opening of 70 1Malaysia Clinics. As of August 2013, 52 1Malaysia Clinics have started to operate nationwide. Meanwhile, RM100 million was allocated for the refurbishment of 520 clinics throughout the country, of which 84 were completed by August 2013. To cater to the needs of patients with kidney failure, RM6 million was allocated for the provision of 150 haemodialysis machines to various government hospitals. For individuals diagnosed with terminal illness, the Employees Provident Fund (EPF) allows the full withdrawal of their EPF savings under the current Incapacitation Withdrawal subject to confirmation by EPF's medical board. As of August 2013, a total of 2,366 members have made withdrawals under the Incapacitation Withdrawal with claims totalling RM129 million.

Development of Women, Family and Community

Women play crucial roles in the family institution as well as contribute towards economic development of the nation. To encourage greater women's participation in the economy, several programmes have been implemented, including the Women Directors' Programme, Single Mother Entrepreneur Incubator Programme (I-KIT) and the Women Entrepreneurship Incubator Programme (I-KeuNITA). A sum of RM50 million was allocated to support women's participation in economic activities.

The Women Directors' Programme aims to build up the competencies and technical skills of women to enable them to sit on boards of directors. The programme provides a comprehensive database on women who have undergone training, which will facilitate companies in choosing women candidates for boards of directors. This programme has benefited 350 women. The target is to achieve at least 30% of women in decision-making positions in the corporate sector or public-listed companies by 2016. As of August 2013, more than RM4 million has been disbursed for this programme. Meanwhile, I-KIT and I-KeuNITA provide advisory services and training to further

enhance women entrepreneurship in various fields, including tailoring, handicrafts, beauty salons and food-based industries. As of September 2013, 3,343 single mothers and 1,532 women have been trained under the I-KIT and I-KeuNITA programmes, respectively. Apart from these initiatives, the Malaysian Communications and Multimedia Commission (MCMC) also provides grants for the Get Malaysian Business Online Programme (GMBO). The GMBO is a programme to help 50,000 micro entrepreneurs, particularly women to boost their business through online sales. The MCMC has provided RM50 million for the GMBO initiative where a grant of RM1,000 is given to each qualified micro entrepreneurs. Priority has been given to microenterprises, especially with full-time employees not exceeding 10 persons or income not exceeding RM200,000 per annum. As of August 2013, approximately 4,350 applications have been approved with RM4.4 million grants disbursed.

Following the increased incidence of critical illnesses, especially breast cancer cases, the Government has provided RM25 million for free mammogram screening. Currently, the subsidy programme for mammogram screening is implemented through 58 clinics under the National Population and Family Development Board, 16 clinics under the Ministry of Health (MOH) as well as 61 private centres. Since its implementation, more than 25,200 women aged 35 and above have undergone mammogram screening. From this, 45 women were diagnosed with breast cancer. As of August 2013, RM5 million has been disbursed for this programme.

The Government continues to give emphasis to the well-being of the community, particularly in raising the earnings of low-income households. In this regard, a total of RM400 million was allocated for the implementation of 1AZAM programmes. The programmes involve small-scale activities, such as farming, microenterprises and services subsectors. As of August 2013, RM30 million has been spent for the implementation of various programmes.

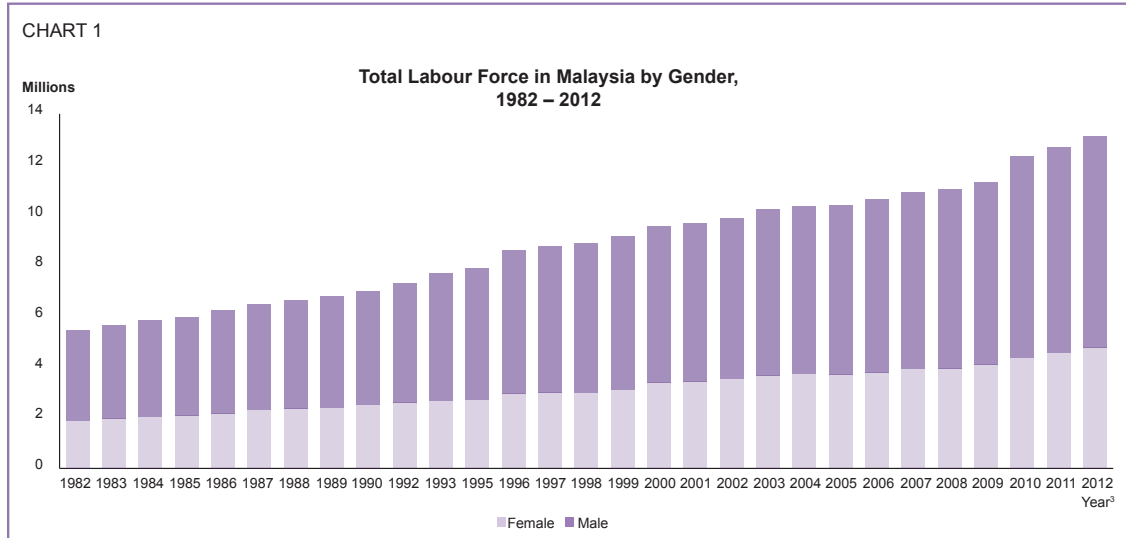
Enhancing Women's Participation in the Economy

Introduction

Women's role in the economy has been gaining importance since over a century. Rising evidence indicates that enhancing women's participation in the economy is an essential requisite for sustainable economic and social development of a nation, especially in the face of a challenging and competitive global environment. According to the 2012 World Development Report on Gender Equality and Development, for an economy to operate at its potential, it is not only crucial to attract women into the labour force, but also to engage them in economic activities that maximises their contribution. In addition, with an aging global population, countries need to utilise their abundant women talent pools to further support the relatively smaller workforce that could affect the pace of economic growth in the future.

Women's Labour Force Participation

In Malaysia, women's labour force participation rate has been considerably low for its level of development, despite higher female enrolment rates at secondary and tertiary education levels. In 2012, only 49.5% of women between the age of 15 and 64 were either employed or seeking employment, trailing behind peers such as Thailand (70%)¹, Singapore (58%)² and Indonesia (52%)¹. The number has not changed much over the past decade and decreases as women move up the corporate ladder. According to a joint survey conducted by Talent Corporation Malaysia Berhad (TalentCorp) and the Association of Chartered Certified Accountants (ACCA) in 2012, the top two reasons which compel women to leave the workforce are to raise a family and to care for a family member.



¹ Labour Force and Social Trends in ASEAN, 2008.

² Singapore Labour Force Survey, June 2013.

³ Labour Force Survey was not conducted in 1991 and 1994.

In most developed countries, women's labour force participation is double-peaked: firstly when they enter the workforce after attaining their education; and secondly when they re-enter after child-rearing years. In contrast, for Malaysia, women's participation rate does not rise again. Additionally, Malaysian women tend to retire early compared with their male counterparts. This attrition in the labour pool has grave implications for Malaysia's economic development, particularly at this critical juncture where human capital is the catalyst to accelerate Malaysia's transformation into a developed and high-income economy by 2020.

A Comparison of Women's Labour Force Participation Rate in Malaysia and Japan

CHART 2

Women's Labour Force Participation Rate by Age Group

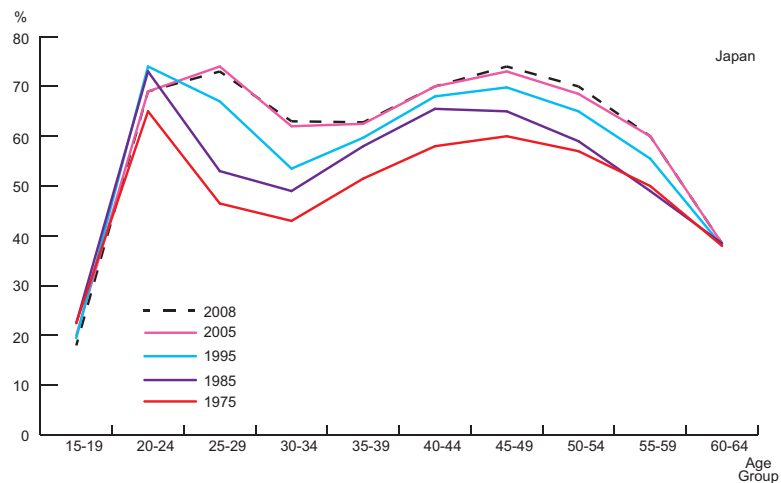
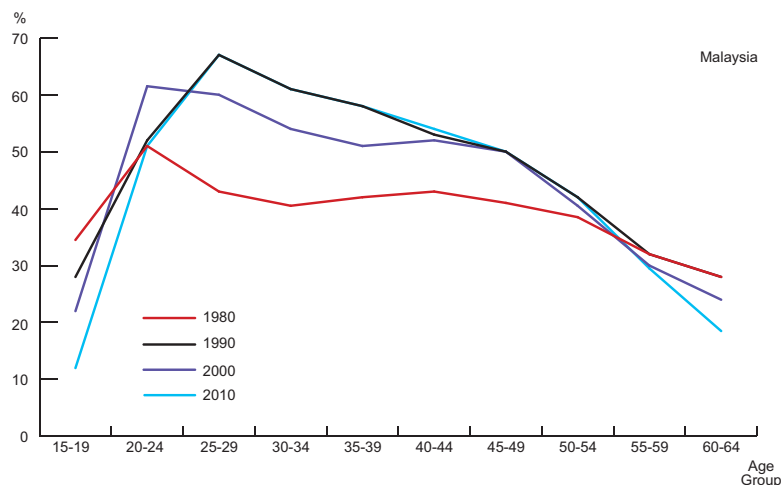


CHART 3

Women's Labour Force Participation Rate by Age Group



Source: Malaysia Economic Monitor 2012, "Unlocking Women's Potential".

Apart from getting into formal employment, women who desire to be self-employed can opt to become entrepreneurs. Nevertheless, women-owned businesses are often under-represented as entrepreneurship has always been associated with men. In fact, the number of Malaysian women entrepreneurs is among the lowest in the region. According to the 2011 Economic Census report, among Malaysian small and medium enterprises, only 19.7% of the businesses were owned by women in 2010 with 91.7% of these businesses confined within the feminine scope in the services sector. These include childcare and pre-school, beauty and skincare as well as training and consultancy.

Challenges Faced by Malaysian Women

While efforts are underway to further enhance women's participation in the workforce, it is crucial to analyse the underlying factors and challenges affecting them. Some of the barriers affecting women's participation include:

i. Inadequate Support for Childcare

Lack of affordable, accessible and high quality childcare remains a major concern among women. Having a childcare centre at the workplace could ease the burden of women. However, most employers, especially in the private sector do not see the urgent need for this despite the provision of various incentives by the Government. As of September 2013, there were only 27⁴ registered childcare centres on-site in the private sector, while in the public sector, 98⁴ childcare centres have been set up within their premises. There is also lack of a unified childcare provider certification as well as poor enforcement of a stringent licensing and certification system for childcare centres that leave families with limited choices.

As a result of rapid development and urbanisation, the younger population tends to migrate to major cities in search of better job opportunities. As they progress towards establishing a family, they lack the extended family support system to care for their children. In addition, parents with school-going children are unable to care for their children after schooling hours due to inadequate community or transit centres in the vicinity. Alternatively, those seeking to hire domestic helpers often face exorbitant costs and tedious procedures. With long working hours coupled with the absence of a support system, women find it difficult to balance between work and family. As a result, they choose to opt out of formal employment.

ii. Lack of Flexible Working Arrangements

The joint survey by TalentCorp and ACCA also verified that generally women are willing to re-enter the workforce if there are suitable part-time jobs and flexible working arrangements to accommodate family commitments and maternal needs as well as to optimise work-life balance. However, flexible working arrangements are not the norm in Malaysia. Many private companies are reluctant to implement flexible working arrangements as they fear employees would abuse the system. Meanwhile, in the public sector, only two agencies have adopted flexible working arrangements as a pilot project.

iii. Difficulty in Re-entering the Workforce

One of the greatest challenges faced by women is to re-enter the labour force, especially after a long career break. These women often lose confidence to re-enter the labour market as they have "lost touch" with the industry, are not technologically savvy and feel their skills and professional contacts are outdated. Furthermore, those who have been on a short break are afraid to be perceived as less committed and incapable compared with an employee who has remained in the workforce. Career breaks could also possibly result in a slower career progression.

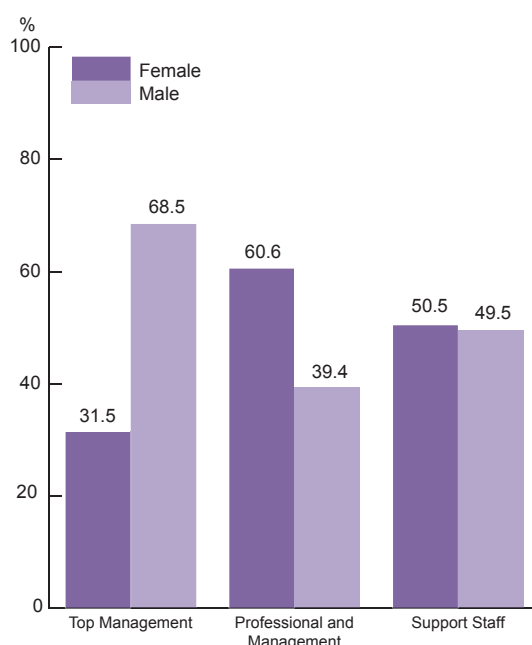
⁴ Department of Social Welfare.

iv. Lack of Women in Decision-Making Positions

The importance of improving gender balance in corporate boards is increasingly recognised across the world. Nevertheless, as of September 2013, only 4.2% of Fortune 500 CEOs were women. In Malaysia, the public sector has achieved its 30% target of women in decision-making positions in 2011, while the private sector is lagging behind with only 7.7% on boards of public-listed companies (PLCs) in 2012. In the political arena, among East Asian countries in 2011, Malaysia has one of the lowest representations of women at 10.4% in Parliament. Currently, out of the 222 parliamentary seats, only 23 are filled by women. Additionally, only two out of the 35 cabinet portfolios are headed by women.

CHART 4

Public Sector Personnel by Occupational Level



Source: Public Service Department, 2011.

In an effort to provide a conducive working environment for women, the Government has also encouraged PLCs to disclose their practices and policies with regards to the employment of women in their annual reports. Subsequently, many PLCs have reported the percentage of women holding middle and top management levels as well as provided information regarding customised policies and practices to enhance women's participation in their organisations.

v. Poor Statutory Protection and the Need for Mindset Change

Although there have been amendments to the Employment Act 1955 to extend maternity benefits, criminalise sexual harassment and encourage flexibility in the labour market, some parts of the Act still remain discriminatory. Under the current Act, employers are not mandated to adopt the Sexual Harassment Code of Practice, thus enabling them to decide what constitutes harassment. In addition, women are still prohibited from working at night in the industrial and agricultural sectors unless exempted by the Director-General of Manpower Department.

Furthermore, there is an urgent need for change in societal norms where traditionally, women have always been viewed as homemakers and men as providers. As women begin to actively participate in the economy in tandem with rising educational levels, societal perception on the traditional role assumed by women should also change accordingly. However, till today, many women struggle to achieve a satisfying balance as changing entrenched societal norm may require decades of cultural transformation.

Current Government Initiatives

Recognising the potential of women in the economy, the Government has introduced and implemented various initiatives to further empower women in the economy. The Tenth Malaysia Plan has set out a target to increase women's participation in the labour force to 55% by 2015. The Government does not only target to provide incentives for women to participate in the labour force, but also to enhance the quality of their participation by increasing the number of women on corporate boards and in top management positions, providing support for women in challenging circumstances as well as eliminating all forms of discrimination against women. Some of these are realised through encouraging flexible working arrangements in the civil service and private sector, promoting a more family-friendly workplace and also intensifying women's participation in entrepreneurial activities via microcredit financing.

As part of the Strategic Reform Initiative on Human Capital Development, under the New Economic Model, a roadmap for leveraging women's talent was developed, outlining measures targeted at women's career development. Some of the major initiatives under the roadmap include setting a minimum target of 30% of women in decision-making positions in the corporate sector by 2016, incentives to increase the number of childcare centres, tailored internships and job placement opportunities for women.

TABLE 1

Selected Programmes to Enhance Women's Participation in the Economy

No.	Programme	Objective	Status
1.	Women Entrepreneur Programme	Train and produce 4,000 women entrepreneurs who would generate a monthly income of at least RM3,500.	➤ From January 2009 to December 2012, 4,300 women have been trained as entrepreneurs. ➤ In the first nine months of 2013, a total of 650 women were trained.
2.	Women Entrepreneurship Incubator Programme (I-KeuNITA) and Single Mothers Skills Incubator Programme (I-KIT)	Enhance the skills and knowledge of low-income women and single mothers through entrepreneurship programmes in various fields.	➤ As of September 2013, a total of 1,532 women have been trained under I-KeuNITA while 3,343 single mothers have participated in the I-KIT nationwide.

No.	Programme	Objective	Status
3.	Purple DNA Project	Capitalise on the skills and talents of the marginalised groups and people with special needs, including the disabled, single mothers and senior citizens as well as provide them with income-generating opportunities.	➤ From May 2012 to September 2013, a total of 126 women have enrolled in the Purple DNA Project.
4.	Housewives Enhancement and Reactivate Talent Scheme (HEARTS)	A pilot programme to train 400 women to actively participate in specialised fields, upgrade their knowledge and skills to encourage self-employment and increase their household income.	➤ As of 4 October 2013, a total of 165 women are undergoing training under the programme.
5.	1Malaysia Women Bazaar	Provide business opportunities to low-income women entrepreneurs to participate at the agricultural markets, rural transformation centres (RTCs) and urban transformation centres nationwide.	➤ Since its launch on 14 December 2012, two 1Malaysia Women Bazaar have been set at Putrajaya and RTC Kelantan, involving 48 women entrepreneurs.
6.	Flexworklife.my Portal	Create greater awareness of gender diversity and inclusion in the workforce through a repository of best ideas and practices on flexible work arrangements and family-friendly facilities.	➤ As of 31 August 2013, 27 companies have advertised jobs that provide flexible working arrangements in the portal. ➤ A total of 15 companies and government departments have shared their best work practices in the portal.
7.	Women Directors Programme	Increase the number of women in decision-making positions in the corporate sector to 30% through: • Placing 20 women directors in PLCs. • Training 500 Women Director Candidates on soft skills, corporate finance and board room simulations.	➤ Since inception until September 2013, 520 women have been trained under the Women Directors Programme. ➤ In the first nine months of 2013, 74 women directors have been placed in PLCs.

No.	Programme	Objective	Status
8.	Women Taxi Drivers	Provide job opportunities for women and single mothers to work as taxi drivers to generate income.	➤ Since July 2012 to July 2013, 30 women have become taxi drivers.
9.	Entrepreneurial Launching Grant	A one-off RM2,700 launching grant provided by the Welfare Department for single mothers interested in setting up businesses.	➤ In 2012, a total of RM359,860 was given to single mothers as capital to set up businesses.
10.	Childcare Centre Incentives and Assistance Programmes	Establish more childcare centres to encourage women to enter the workforce. Incentives include : ✓ RM200,000 launching grant for Ministries to establish childcare centres in their premises. ✓ Industrial Building Allowance at an annual rate of 10% to employers for buildings used as childcare centres. ✓ Up to RM10,000 launching grant for the private sector to establish early childhood care and education centres. ✓ Double deduction on expenditure incurred by the employers for the provision and maintenance of childcare centres and childcare allowance given to employees. ✓ Yearly operational grant of RM2.6 million for the operation of <i>TASKA 1Malaysia</i>. ✓ Childcare fee subsidy of RM180 for each child for families with household income below RM3,000 per month in the public sector. ✓ Tax incentive for private childcare centre operators namely income tax exemption for five years. ✓ RM3 million allocation in 2013 for the establishment of TASKA OKU for children with Down Syndrome; autism; visual, hearing, speech, and physical impairments; as well as learning difficulty.	

Conclusion

Women in Malaysia have made significant progress in contributing to the economy and nation building. Gender equality in education has helped women to get involved in community service, politics, business and the labour force. However, women remain an underutilised resource. Encouraging educated and skilled women to participate in the economy will boost innovation as well as increase comparative advantage and generate growth at a small incremental cost. The different experience and perspective that women bring to decision-making and implementation will lead to better outcomes. In addition, utilising the abundant women talent will help address the shortage of talent in the country amid increased competition to attract skilled labour globally.

Recognising the potential of women in helping to achieve sustainable and inclusive growth with high income, the Government has taken concerted efforts to enhance their participation in the economy. It is imperative for the corporate sector and the wider society to understand that women's economic participation is crucial to create a better future for Malaysia.

Another RM41.4 million was allocated for *Projek AZAM Tani* under the second phase of the Government Transformation Programme (GTP 2.0). The project involved small-scale agro-food commodities; as well as handicraft and agro-based processing activities. As of August 2013, more than RM37 million has been spent and benefited 3,176 families.

Apart from community development, the 1Malaysia Rakyat's Welfare Programme (KAR1SMA) was introduced as part of the social safety net initiatives with an allocation of RM1.2 billion. The programme covers children, persons with disabilities, the elderly, poor families and single parents. As of August 2013, KAR1SMA has benefited 514,066 persons.

The Government has established five *Anjung Kasih* to provide temporary lodging for poor patients or family members accompanying the patients to get treatment in Government hospitals. There is one each located in Hospital Sibu, Hospital Miri, Hospital Sultan Haji Ahmad Shah Temerloh, Hospital Tuanku Jaafar Seremban, and Hospital Permaisuri Bainun Ipoh. These facilities cost a total of RM5 million and have benefited 10,200 patients and family members as of August 2013.

Youth and Sports

Youth represent a tremendous potential resource that can contribute significantly to national development. The potential of youth can be unleashed through sports, entrepreneurship and volunteerism. In this regard, the Government has allocated RM15 million for the High Performance Sports Programme, to prepare athletes for international games, namely SEA Games 2013, ASEAN Paralympic Games 2013, Commonwealth Games in 2014 and Asian Games in 2014. As of September 2013, more than RM18.9 million has been disbursed involving of 458 athletes and 90 coaches undergoing full-time training programmes. An additional RM50 million was allocated for the 4-year "Road to Rio" programme, specifically for preparation ahead of the Olympics 2016. The Government also provided allocation to surface

the first football field with artificial turf at the Youth and Sports Complex in Paroi, Negeri Sembilan. The installation of the synthetic turf amounted to RM2.5 million and the field was opened to the public on 1 March 2013. Recognising sports as a catalyst for national unity, the Government has build 1,870 *Gelanggang Futsal 1Malaysia* (GF1M) throughout the country to draw youth together and foster unity.

As part of efforts to foster entrepreneurship among youth, the 1Malaysia For Youth (1M4U) Blue Ocean Competition was conducted to generate creative ideas and innovation from the youth through competitions at the local, state and national levels. Three best ideas were allocated RM3 million under the 'The Big Dre1m' fund. Currently RM1.9 million has been spent for this programme.

In further efforts to enable youth to access the information gateway, the Government offered a one-off rebate of RM200 under the Youth Communication Package for them to purchase 3G smartphones through authorised dealers. The package is offered to youth aged 21 to 30 earning RM3,000 and below, involving RM300 million and the programme is expected to benefit 1.5 million youth. As of August 2013, RM260 million has been disbursed to more than 1.3 million youth.

Development of Rural Areas and Orang Asli Community

The Government continues to focus on development in rural areas to ensure that no segments are marginalised from the mainstream development. In the 2013 Budget, RM4.5 billion was allocated for the development of rural infrastructure projects, of which RM1.2 billion is for building and upgrading rural and village-link roads. As of August 2013, RM896.2 million or 75.1% of the allocation has been spent.

Meanwhile, RM1.6 billion or 36% was allocated for the development of utility projects, namely water supply and power connectivity in rural areas. Under *Bekalan Elektrik Luar Bandar* (BELB) project, RM961 million was allocated

with 55.5% spent as at August 2013, providing 24-hour electricity supply to 19,811 rural houses. The remaining allocation of RM703 million was channelled to *Bekalan Air Luar Bandar* (BALB) project, to provide clean and treated water supply to rural areas. As of August 2013, about 78% has been disbursed, benefiting 24,000 rural houses.

Program Desa Lestari under the GTP 2.0 also focuses on the well-being of villagers by enhancing human capital, upgrading infrastructure and strengthening their economic activities through cooperatives. The programme involves 42 villages nationwide with a total allocation of RM137 million under the 2013 Budget. As of August 2013, project proposals to set up cooperatives in 29 villages have been approved.

The Government also allocated RM88.5 million for economic development programmes and water supply projects for the orang asli community. As of August 2013, RM17.3 million has been spent on various programmes, including water treatment, public amenities, telecentres and hands-on training. In addition, RM100 million was spent for the supply of 40,000 water tanks for rainwater harvesting, particularly in rural areas in Sabah and Sarawak. For Sabah, the distribution of 20,000 water tanks to 36 districts was completed in July 2013. Meanwhile, 20,000 water tanks were distributed to residents in 34 districts in Sarawak by June 2013.

Expanding Urban Public Transport Network

Following the successful implementation of Rapid KL and Rapid Penang, Syarikat Prasarana Negara Berhad launched Rapid Kuantan on 1 December 2012. Approximately 12 million passengers a month have benefited from all three bus services. Due to the encouraging response from the rakyat, the Rapid bus service will be expanded to other major cities.

Furthermore, on 1 November 2012, the Government extended the 50% discount on KTM Komuter fares to all Malaysians with monthly income of RM3,000 and below for a one-year period. Previously, only

retirees, the disabled and students were eligible for the discount. As of June 2013, the discount has benefited 158,000 passengers.

Housing for the Rakyat

The Government has undertaken continuous efforts to address the difficulties of the middle-income group in owning affordable houses. In 2013, RM1.9 billion was allocated to assist the construction of 123,000 affordable housing units in strategic locations by Perumahan Rakyat 1Malaysia (PR1MA), Syarikat Perumahan Negara Berhad (SPNB) and the National Housing Department. PR1MA was allocated RM500 million to build 50,000 homes in major locations nationwide, and another RM500 million to build 30,000 homes in collaboration with private housing developers. The houses ranging between RM100,000 and RM400,000 per unit are expected to be completed in three years and will benefit more than 320,000 rakyat. PR1MA houses will be 20% lower than market prices and allocated through an open balloting system.

For the lower-income group, SPNB was allocated RM320 million to build 22,855 residential units, including 1,855 medium-cost apartments, and 10,000 *Rumah Mesra Rakyat 1Malaysia* (RMR1M), which are expected to be completed by 2015. Meanwhile, the National Housing Department was allocated RM543 million to implement the People's Housing Programme (PPR) involving 20,454 units, which will be constructed using the Industrialised Building System.

To assist young adults who have just joined the workforce to own their first house, the Government has further eased the conditions of the My First Home Scheme, which previously catered for those earning RM3,000 and below. In January 2013, improvement was made to the scheme where the limit of monthly income was revised to RM5,000 from RM3,000 previously, or joint income of up to RM10,000. As of August 2013, total of 108 applications have been approved by the banking system.

Price Uniformity Scheme

In order to alleviate the increasing cost of living as well as address the price differences between the Peninsular with Sabah and Sarawak, the Government has introduced the Price Uniformity Scheme. Under the scheme, RM386 million was allocated for various initiatives, including transport subsidy and the setting up of *Kedai Rakyat 1Malaysia* (KR1M) to cater for the needs of the rakyat in Sabah and Sarawak as well as Labuan. To implement the KR1M programme, a sum of RM87 million was allocated. As of August 2013, there were seven KR1M already in operation while another 20 will be set up in stages in three areas.

Bantuan Rakyat 1Malaysia

Following the successful implementation of *Bantuan Rakyat 1Malaysia* (BR1M) in 2012, which has especially benefited the lower-income group, the Government extended the cash aid of RM500 in 2013. In addition, a cash aid of RM250 was extended to singles aged 21 and above earning RM2,000 and below per month. A total of RM2.9 billion has been disbursed benefiting 4.8 million households and 2 million singles.

Broadband Programme for Urban Poor

To create an IT-savvy generation as well as to equip the rakyat with the latest information, the Government has established 1Malaysia Internet Centres (PI1M) in urban areas with PPR. The centres are equipped with computer facilities and broadband services to enhance socio-economic activities. The MCMC provided an allocation of RM150 million for the initiative. The first PI1M was launched at PPR Seri Pantai in Pantai Dalam on 26 March 2013. As of August 2013, a total of 359 PI1M have been established nationwide, benefiting about 700,000 people.

Promoting Corporate Social Responsibility

The Government encourages the private sector, corporate bodies and GLCs to actively engage in CSR. In this regard, GLCs and

private firms have undertaken several CSR initiatives to contribute to the well-being of the rakyat. These include housing, 1Malaysia Mobile Clinics, community development and scholarships.

Federal Land Development Authority (FELDA) will build 20,000 units of new-generation housing within five years on 5,000 acres of FELDA areas at a cost of RM1.5 billion. As of July 2013, a total of RM513 million has been spent to build 5,349 houses in Jengka, Mempaga, Kuantan, Segamat and Sahabat. In addition, FELDA also allocated RM60 million to refurbish traditional village houses. The programme is divided into three stages from 2012 to 2014, with 4,000 houses planned to be upgraded each year. As of May 2013, FELDA has spent RM19 million to refurbish 5,780 houses which surpassed the target. FELDA also pledged to spend RM60 million for education and skills training programmes as well as provide scholarships for 4,000 new-generation children, including 1,200 children from outside the FELDA scheme. As of July 2013, RM39 million has been spent for this programme.

In addition, the 1Malaysia Development Berhad (1MDB) Foundation has given financial assistance to establish 13 1Malaysia Mobile Clinics to provide easy access to basic healthcare to about 35,000 people in rural areas. As of September 2013, nine buses have started operations in Johor, Perak, Selangor, Kelantan and Pahang. Likewise, three boats are currently operational in Baram and Rajang, Sarawak as well as Kinabatangan, Sabah. An additional boat will be operated in Semporna, Sabah.

Eradicating Corruption

The Government continues to intensify efforts to eradicate corruption to further improve public confidence, particularly through the NKRA on fighting corruption and the Malaysian Anti-Corruption Commission (MACC). A sum of RM276 million was allocated to the MACC in 2013. The MACC has implemented several initiatives to tackle corruption, including building strategic

alliances with external agencies; improving forensic investigation capabilities; developing a Complaint Management System; shortening the trial time; introducing team-based investigation method; setting up of video interviewing room facilities; and conducting structured training modules.

Driving Community Transformation

The Government continues to prioritise the well-being of the rakyat at all levels. In this regard, the Government introduced the Community Transformation Programme (CTP), which aims to reach out directly to the rakyat and enable all communities in urban and rural areas to fully benefit from the wealth of the nation. The CTP comprises two components, namely the Urban Transformation Programme (UTP) and Rural Transformation Programme (RTP). In this regard, the National Strategic Unit under the Ministry of Finance was established on 16 November 2012 to plan, coordinate and oversee the functioning

of all UTP and RTP initiatives are implemented efficiently and effectively for the benefit of the rakyat.

Towards providing integrated services to the rakyat, the Government established the Rural Transformation Centre (RTC), a one-stop centre which provides in-demand services through strategic alliances between Government agencies and the private sector. As of August 2013, four RTCs are already operating, with one each in Perak, Kelantan, Melaka and Pahang. In tandem with the growing demand for quality services from the urban populace, the Government introduced the Urban Transformation Centre (UTC) in 2012. The UTC provides the rakyat with wider accessibility to quality public and private services under one roof. As of August 2013, five UTCs have been established, with one each in Melaka, Kuala Lumpur, Perak, Pahang and Kedah. Meanwhile UTC Sabah is under construction and is expected to be completed in November 2013.

An Update on the Community Transformation Programme

Background

The Community Transformation Programme (CTP) is one of the programmes under the National Transformation Policy, to transform Malaysia 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). The aim of these transformation programmes is to reach out directly to the rakyat and enable all communities to benefit from the development and wealth of the nation.

The RTP, which aspires to revitalise rural areas into developed, productive and safe localities, focuses on several main projects. These projects include the implementation of 21st century villages and rural basic infrastructure; establishment of the Rural Development Committee; setting up Rural Transformation Centres; and development of a RTP Master Database.

The UTP is designed to address urban issues in a holistic manner, such as creating employment; enhancing education and skills achievements; providing affordable housing, transport and quality services. These are carried out through several initiatives such as the Urban Poverty Eradication Programme, Urban Housing Programme, Urban Transport Programme and Urban Transformation Centres.

Highlights of the RTP

Project	Description	Target	Achievement
21 st Century Villages (CVs)	- To empower the village community in the planning and implementation of projects. - To create job opportunities and increase income of rural people. - To encourage youths to choose entrepreneurship as a career. - To create rural areas as a vibrant and attractive place to live and work.	- Creating 42 CVs. - An estimated 37,800 households or 189,000 persons are expected to benefit from the programme.	As at August 2013, a total of 29 CVs have been identified to implement economic projects that could provide jobs and generate high income for the villagers.
Rural Basic Infrastructure	- To build roads. - To improve water supply. - To supply electricity connection. - To construct and rehabilitate houses.	Under GTP 1.0 and GTP 2.0 99% of rural residents in Peninsular Malaysia and 95% of rural residents in Sabah and Sarawak will have access to roads. 99% will have access to roads, treated water supply, and 24-hour electricity.	Under GTP 1.0 - Paved roads stretching 3,349.6 km. - Construction and rehabilitation of 53,376 houses. - Electricity supply to 95,300 houses. - Water supply to 297,067 houses. Under GTP 2.0 (as at August 2013) - Roads (Peninsular = 39km, Sabah = 36.07km, Sarawak = 50.9km) 24,254 houses out of 24,000 houses targeted have access to water supply 9,260 houses connected with 24-hour electricity supply.
Rural Transformation Centre (RTCs)	- To provide one-stop centre government and private sector agencies. - To implement eight RTC initiatives, namely skills training, 1Malaysia information kiosks, high-value farming, agro processing, supply chain management, university partnership, 1Malaysia health services and financial support.	Five new RTCs, one each in Kulai (Johor), Jitra (Kedah), Jawi (Pulau Pinang), Kuala Terengganu (Terengganu) and Miri (Sarawak) are expected to be in operation in 2013.	- All five RTCs are in various stages of implementation. - Four RTCs are currently in operation, that is RTC Gopeng (Perak), RTC Kota Baharu (Kelantan), RTC Kuala Linggi (Melaka) and RTC Pekan (Pahang).

Highlights of the UTP

Project	Description	Target	Achievement
Urban Poverty Eradication Programme	- To provide housing rent assistance. - To provide urban housing assistance. - To provide skills and entrepreneurship training (NKRA-AZAM Bandar).	- Providing housing rent assistance to 5,500 heads of households. - Providing assistance to build 314 new houses and repair 100 units. - Providing skills and entrepreneurship training to 1,600 heads of households to assist them in increasing their income.	As of 19 August 2013: - Housing rent assistance to 4,242 heads of households. - Assistance given to build 204 new houses and repair 113 houses. - Skills and entrepreneurship training for 1,760 heads of households.
Urban Housing Programme	To provide quality and affordable housing to middle-income households in major cities through PR1MA.	- Phase One: 850,000 houses within 10 to 15 years in major cities. - Phase Two: 60,000 units (residential and commercial) in suburban areas by 2015.	Phase one: involving the construction of 42,000 houses was launched in 20 strategic sites, including Putrajaya Presint 11, Seremban Utara and Sentral, Penang, Nusantara Prima and Damai.
Urban Transport Programme	MY Rapid Transit (MRT) Line 1 Sungai Buloh to Kajang - Phase One from Sungai Buloh to Semantan. - Phase Two from Semantan to Kajang. Light rail transit (LRT) Line Extension Project Kelana Jaya Line (KLJ) - Stretching 17 km and will run through Subang, Subang Jaya, USJ and Putra Heights. Ampang Line (AMG) - Extended by 17.7 km and will pass through Bukit Jalil, Bandar Kinrara, Puchong, Kg Sri Aman and Putra Heights.	MRT Line 1 - Phase One will become operational by end-2016. - Phase Two will become operational by July 2017. LRT Line Extension - KLJ and AMG are expected to be completed by end-2014.	MRT Line 1 progress (As at 30 June 2013): - Physical work progress: 21.5%. 68% of the total value of contracts (RM23 billion) have been awarded. LRT Line Extension progress (as at 31 July 2013): - KLJ progress is at 52.2%. - AMG progress is at 30.3%.
Urban Transformation Centres (UTCs).	To provide one-stop centre for various public and private services.	Build one UTC each in Sabah, Sarawak and Johor.	- New UTC in Kedah. - One UTC each in Perak, Pahang, Melaka, and Kuala Lumpur. - One Mini UTC in Sentul, Kuala Lumpur.

Highlights of the Mobile CTC

Project	Description	Target	Achievement
Mobile Community Transformation Centre (Mobile CTC)	- To provide basic, key touch-point services to people in rural areas and living far away from the UTC and RTC. - To provide service counters by various departments and agencies, thus bringing public service delivery closer to the rakyat.	- Deployment of Mobile CTC teams in 2013 to:- - Create a carnival-like atmosphere in the neighborhood to disseminate information on government policies to rural areas. - Creating synergy among various government agencies on sharing resources to benefit the rakyat.	- Mobile CTC was launched by the Prime Minister on 1 March 2013 - As of October 2013: 20 various programmes have been conducted through Mobile CTC programmes or collaboration with other events such as <i>Khidmat Masyarakat</i> and <i>Karnival Jom Heboh</i>

Conclusion

There has been positive response to the CTP with increasing numbers using the services of the UTC, RTC and Mobile CTC. In particular, the extended hours offered by the UTC have made it easier for working people to access selected services after working hours. The Government will thus continue its efforts to provide services under the CTP and gradually expand it to other areas. Essentially, the CTP is meant to benefit the rural and urban communities, particularly to revitalise rural areas into productive and higher income-generating localities.

Economic Management – 2014

Notwithstanding the better global growth prospects arising from stronger recovery of key advanced economies, there remain downside risks. These include a further slowdown in China and significant reduction in global financial liquidity which could lead to hikes in interest rates. Given these uncertainties, the near-term challenges for Malaysia are to further enhance the resilience of the domestic economy to achieve sustainable growth while ensuring the sustainability of public finances. Hence, macroeconomic management in 2014 will focus on pursuing a private-led growth and enhancing domestic resilience through improving productivity and competitiveness of the economy. In this regard, the Government will continue to focus on issues such as promoting quality investment; moving up the value chain; enhancing exports; increasing productivity and innovation; strengthening human capital; improving public service delivery and pursuing fiscal sustainability.

In addition, pertinent issues such as escalating house prices in strategic locations and high household debt, as well as the risk to external resilience due to the narrowing current account surplus will be addressed in the 2014 Budget.

Issues and Challenges**Investment**

Private investment is an important catalyst in raising the nation's output potential, accelerating technological progress and creating job opportunities. Realising this, the Government has introduced several initiatives to accelerate private investment activities in the economy. The continuous efforts by the Government has yielded a positive result as private investment in nominal value grew strongly by 13.1% to RM85.7 billion during the first half of 2013 compared with RM75.8 billion in the corresponding period of 2012.

Despite the encouraging performance, the share of private investment to GDP remains low at 18.3% during the first half of 2013 compared with the level prior to the Asian Financial Crisis in 1997/1998. Therefore, the Government will continue to strengthen the private sector's role in the economy, especially in new growth areas, high-value added, high technology and knowledge intensive industries. This will help to ensure sustainable economic growth.

Strengthening the role of the private sector as an engine of growth requires commitment and willingness of the private sector to enhance investment spending, particularly investment that leverages innovation, automation and high value-added activities. Another pertinent issue that needs to be addressed is to enhance competitiveness and contribution of the services sector, currently at 55% of GDP and well below average level in developed nations at 70%. The services subsectors with high-growth potential include Islamic finance, tourism, education and healthcare.

Manufacturing, O&G and agro-based industries need to continuously invest in technology and new growth areas and move up the value chain to enhance their competitiveness. This will ensure that Malaysia is well positioned to seize the opportunities in global markets.

Enhancing External Resilience

As a highly open economy with increasing trade in goods and services, Malaysia's exports remain vulnerable to global uncertainty. Following the softening in global demand, arising from the slower growth recovery in key advanced economies and slowdown in major emerging markets, particularly China, Malaysia's trade surplus has been narrowing since the second half of 2012. This has affected the current account surplus in the balance of payments. To strengthen the current account surplus to support foreign reserves, as well as to ensure stability of the ringgit and maintain Malaysia's

sovereign ratings, a more holistic approach needs to be taken to enhance Malaysia's external position. This holistic approach encompasses strategies such as generating high value-added investments, increasing exports of goods and services, diversification of export markets and employing more aggressive export promotions, particularly to fast-growing economies. In addition, the implementation of projects with high-import content and low-multiplier effect will be sequenced in order to support foreign reserve.

Human Capital

The realisation of investment outlays is heavily dependent on the availability of a highly skilled and talented workforce. A workforce that possesses knowledge, creativity and self-esteem qualities to meet industry requirements will be a prerequisite to implement the national transformation agenda, particularly ETP initiatives. Knowledge workers are also needed to support Malaysia's economic strategy to move up the value chain, which will complement and accelerate the transformation process from an input-driven to a productivity-driven growth strategy. With a pool of quality workforce, the economy will be less dependent on foreign workers, who currently account for about 16% of the total manpower in the country and are mostly unskilled. In order to produce a highly skilled and talented workforce, elements of human capital development should be embedded in the whole spectrum of the learning path. The Human Capital Report 2013 ranked Malaysia at 22nd position out of 122 countries. Among upper middle-income nations, Malaysia is placed ahead of China, Thailand, Costa Rica and Panama, and second after Singapore in Southeast Asia. Notable achievements were scored in two pillars, namely workforce and employment (18th) and enabling environment (22nd). However, the pillars on quality of education (34th) as well as health and wellness (39th) need to be improved.

The performance reflects underlying issues and challenges on identified areas that need to be addressed in order to create balanced and holistic

human capital. The most pressing issue that needs to be resolved is the job mismatch between the educational providers and the demand of industries for a skilled and talented workforce. In addition, market intelligence needs to be intensified for effective planning of human capital development, including graduate employability. It is estimated about 19% of graduates from various disciplines are unemployed in 2012, while approximately three-quarters of the workforce only attained secondary and lower education level. Moreover, the lack of science and technical graduates as well as ability to solve multifaceted problems remains an impediment in efforts to promote industries with creativity, innovation and high value-added activities.

Furthermore, there is room for improvement on quality of teaching and learning to produce students with knowledge, thinking and leadership skills, bilingual proficiency, ethics and spirituality. In addition, Malaysian students's achievement in Mathematics and Science subjects is still below advanced and some upper middle-income countries, as reflected in the ranking of Trends in International Mathematics and Science Study (TIMSS). TIMSS ranks Malaysia at 57th position behind Thailand (52nd) in Mathematics while in terms of Science, Malaysia is at 52nd (Thailand: 51st). Thus, issues related to human capital development need to be addressed comprehensively to achieve the best quality of students, a highly skilled and talented workforce as well as a well-balanced knowledgeable society.

Well-being of the Rakyat

Every nation aspires to attain sustainable growth and development. However, growth has to be inclusive. These include providing basic infrastructure and amenities access roads, potable water and 24-hours electricity supply, particularly in rural areas as well as addressing housing and public transport issues in urban areas. In this regard, continuous efforts will be undertaken to achieve the targets of the seven NKRAs towards improving the well-being of the rakyat.

Currently affordable housing remains a pressing issue. There is need for more medium and low-cost houses at affordable prices for the rakyat, including people with special needs, senior citizens, single mothers and squatters. In addition, abandoned housing projects and poor maintenance of flats and apartments need to be effectively addressed. Healthcare is another issue which requires attention from the Government. In line with the increasing prevalence of NCDs, there is need to provide greater access to adequate and quality health services for the rakyat.

The rising cost of living is another area of concern for low-income and vulnerable groups, particularly the increase in food prices, which was higher (3.4%) than headline inflation (1.7%) in the first eight months of 2013. Increasing food prices affect households as food forms the largest share at 30.3% of the CPI. Moreover, prices of food and other essential items are generally higher in Sabah and Sarawak due to the high cost of delivery and distribution compared with Peninsular Malaysia. In this regard, the Government will continue to address the rising cost of living to ensure the well-being of the rakyat.

Environmental issues such as higher emissions of greenhouse gasses, landslides, flash floods and coastal erosion not only lead to decreasing well-being of the rakyat but also pose risks to economic activities and business communities. The rakyat need a peaceful and harmonious environment to be productive in their daily activities. At the same time, there is need for the rakyat to be safeguarded against crime and intrusion to ensure safety of the society and sovereignty of the nation.

The equitable distribution of wealth is another area of concern to ensure that the benefits of growth and development are equally shared among all segments of society and across regions. Despite a significant increase in average household income from RM4,025 in 2009 to RM5,000 in 2012, the national Gini coefficient improved marginally from 0.441 to 0.431. At the same

time, the rural-urban income gap ratio showed the income of urbanites was relatively higher at 1:1.86 in 2012. At the regional level, the national-regional gap ratio in Sabah was 1:0.82 and Sarawak (1:0.86), which were relatively lower than the Peninsular (1:1.03).

The incidence of poverty among the ethnic groups shows the highest for Bumiputeras at 2.2%, followed by Indians, 1.8% and Chinese, 0.3% compared with the national average of 1.7%. In terms of equity ownership, Bumiputeras who comprise 67.9% of the total population, currently hold corporate equity ownership of 23.5% in 2011, which is still below the national target of 30%. There is thus a need for stronger efforts to constructively and productively improve the wide persistent inequality and distribution of wealth through growth to ultimately achieve the objective of ensuring harmony, unity and stability as well as regional balance for inclusive growth.

Public Finance

Issues in public financial management revolve around the need to rein in operating expenditure, and a narrow revenue base, which is over-reliant on oil related revenues. About 70% of operating expenditure is considered “locked in,” leaving little room to institute cutbacks on discretionary spending. Further, fuel subsidies are not well targeted. Development expenditure must also be productive to boost growth potential of the economy. On the revenue side, the tax base is narrow, with only 15% of registered companies and 16% of employees paying income taxes. In addition, oil-related revenues which are a major source of income tend to be volatile and less stable as crude oil prices fluctuate according to external demand. Oil-related revenues account for 31% of total revenues.

Public Service Delivery

The ongoing transformation programmes, including the GTP and ETP have helped Malaysia improve its competitiveness ranking, with the latest

report from the Institute of Management and Development (IMD) indicating Malaysia at 15th position. The competitiveness index highlighted three major achievements in business efficiency (4th), economic performance (7th) and Government efficiency (15th). However, some pillars still require attention, particularly health and environment (42th), education (34th), infrastructure (25th) and productivity (22nd). These indices convey a clear signal on the importance of improving and ensuring essential services are of the highest standards. In meeting this goal which is performance-driven, the public sector should be guided by transparent decision-making and integrity. Institutional capacity and expertise to manage critical public facilities and infrastructure can be enhanced through best practices as well as integrated policies and services in accordance with the principles of 1Malaysia, People First, Performance Now.

Strategic Initiatives – 2014 Budget

The management of macroeconomic issues is crucial in realising the overarching objectives of the national development agenda which focuses on two major thrusts, which are the nation’s growth and the well-being of the rakyat. The Budget will adopt five main strategies to address the current pertinent issues, namely stimulating investment; strengthening human capital; accelerating urban and rural development; prioritising well-being of the rakyat; and strengthening government financial position while inculcating high performance in the civil service. To implement these strategies, comprehensive efforts need to be emphasised in transforming and rebalancing the current economic structure towards strong, balanced and inclusive growth. The commitment and effective collaboration from all stakeholders, that is the rakyat, the business community and the Government are imperative in building a dynamic and progressive nation. This can be achieved through improvements in productivity and innovation as well as global strategic management to harness competitiveness in facing uncertainties and

challenges in the external environment. The Budget will also focus on measures to accelerate the transformation programmes through a far reaching and multi-dimensional approach resulting in higher potential growth to fulfil the aspiration of a high-income and developed nation by 2020.

Accelerating Investment

Although overall investment, particularly by the private sector has been increasing since the last four years, the nation still requires high investment to boost its potential output as well as provide job opportunities, particularly in high value-added, advanced technology and knowledge-intensive industries. Efforts will be intensified to leverage investment activities that yield high returns through high-impact projects (HIPs), including MRT, RAPID, KLIA2, Kuantan Port and other ETP projects as well as regional corridor development. In this regard, more investment activities need to be accelerated in all sectors of the economy, particularly the services sector. On the supply side, the services sector as the largest contributor to the economy, will complement the above initiatives by enhancing the subsectors with competitive advantage. In addition, SME investment activities will be given emphasis, particularly on increasing participation in entrepreneurship programmes. Investment activities in export-oriented industries will be further encouraged to enhance the resilience of the external sector. This will also address the narrowing current account surplus in the BOP.

The Government will vigorously promote investments in the services sector, particularly in financial and trade-related subsectors as well as tourism, healthcare and education. In this regard, the 2014 Budget will focus on effective and efficient auxiliary services activities including logistics as identified in the Services Sector Blueprint. For the financial and trade-related sectors, efforts will be focused on enhancing the depth and breadth of domestic financial and capital markets by promoting Malaysia as a centre

of origination as well as a major regional player in Islamic finance in line with the thrusts of the Financial Sector Blueprint. Several initiatives have been undertaken to expand financial products and capabilities, especially in areas of risk management, derivatives market as well as to broaden the development of Islamic financial activities.

In the tourism industry, measures will be taken to attract more tourists through special campaigns and activities, including in eco-tourism, edu-tourism and health tourism, in conjunction with VMY 2014. The medical tourism industry generated an income of RM600 million in 2012, reflecting a growth of more than 20%. Meanwhile, to attract more foreign students, investment in the education sector is required to improve the quality of education services and to ensure that the programmes offered by the public and private educational institutions meet international standards. In the aviation industry, investment activities will be enhanced further to facilitate expansion in trade and services activities. With the KLIA2 operational in 2014, along with KLIA, there will be greater synergy through optimising the potential airport facilities to increase the frequency of landing and take-off and reduce turnaround time. This will also create huge opportunities for logistic services, including catering and cargo services, as well as maintenance, repair and overhaul (MRO), thus generating better spin-off and multiplier effect for the aviation industry.

Investment activities will be accelerated in O&G, manufacturing and agro-based industries. Major domestic investment in the O&G sector is expected to focus in the field exploration and development as well as petrochemical projects. These include PETRONAS activities such as Floating Liquefied Natural Gas project, Gas Processing Plant Rejuvenation and Revamp, Sabah Ammonia-Urea (SAMUR) Plant as well as RAPID project. In manufacturing and agro-based industries, leveraging various developments in corridor areas through the economics of large-

scale production will spur them to become global players. In addition, SMEs including microenterprises will be given more attention to increase their contribution to the economy through innovation as well as greater participation in the global supply chain. For the agriculture sector, various initiatives in food production will be encouraged to achieve self-sufficiency as well as exports of fruits, seaweed, ornamental fish and floriculture.

In line with these developments, the 4th Global Entrepreneurship Summit (GES) recently held in Kuala Lumpur has provided a strategic platform for young entrepreneurs to learn, network and forge business alliances with global entrepreneurs. In this regard, greater efforts to promote Malaysia as an Entrepreneurial Nation through various programmes will be implemented, including 1Malaysia EnTrepneur (1MeT) to inculcate entrepreneurial among the rakyat, particularly youth.

Strengthening Government's Fiscal Position

Deficit reduction and prudent debt management are a function of good economic management and well-paced fiscal reforms. Notwithstanding the protracted challenges in the external environment, the Government will continue to consolidate its fiscal position in a firm, but measured way to ensure growth momentum is not undermined.

The FPC will give credence to fiscal policy formulation and its adoption by the broader public sector. It will endorse principles for a sound fiscal policy that will guide in the implementation of strategies to strengthen public finances and fiscal discipline in government operations. Initiatives to ensure fiscal sustainability over the longer term will encompass budget management, tax administration, debt management and fiscal risks assessment. Decisions of the FPC will be clearly articulated to the rakyat for greater accountability and transparency as well as to boost investor confidence.

Fiscal management will be enhanced through various initiatives. Government spending will come under greater scrutiny to ensure value-for-money. The quality of governance structure in fiscal institutions will be enhanced. Meanwhile, the findings and recommendations of the Auditor-General's report will be incorporated in administrative procedures while internal controls within government agencies strengthened. Rules and regulations will be regularly updated to be more relevant and purposeful while action taken against errant civil servants for wastage or negligence. Cost-cutting measures will be undertaken without affecting the productivity and quality of service delivery. These include staff redeployment, greater inter-agency cooperation for effective service delivery and close monitoring of project implementation to contain cost over-runs. On the revenue side, a holistic review of the tax system will be undertaken. Meanwhile, continuous improvements will be made to enhance efficiency of tax administration through capacity building, wider use of information and communication technology (ICT) and constructive engagement with stakeholders.

In line with the Government's fiscal initiatives, major public sector transformation programmes will be accelerated to enhance the effectiveness and efficiency of the public service delivery system. In addition, good governance will be strengthened to uphold high transparency and integrity. These factors will act as a catalyst for the public sector to move from an input-oriented approach to an outcome-based framework that is able to generate value-added to the economy as well as to ensure the well-being of the rakyat. The public sector transformation programme is currently led by the Ministry of Finance and Public Service Department. In this regard, in planning for the rakyat under the framework of National Blue Ocean Strategy (NBOS), emphasis is on low cost, high impact, rapid implementation and sustainability of programmes. This approach is reflected in the implementation of several programmes including UTC, RTC and Mobile CTC.

Strengthening Human Capital

Several measures will be introduced to strengthen human capital, starting from pre-school to tertiary education as well as lifelong learning. Although academic achievement is normally given preference, there needs to be greater awareness on the importance of technical and vocational education which is highly demanded by the industry.

The 2014 Budget will take into account the Malaysia Education Blueprint 2013 – 2025 to effectively and efficiently undertake programmes and activities in education, that are on par with international standards. The Blueprint aims to give students the best shared values and experiences by embracing diversity and a system which maximises their full potential and outcomes within the given budget. In line with this measure, competent and capable teachers will be given priority for better career development and to be respected by society. In lifelong learning, opportunities will be given to upskill the workforce with multi-tasking and new knowledge to become more valuable and well-rounded workers.

Realising that most equipment and facilities in technical institutes, and skill training centres, are relatively obsolete, there is a need to upgrade these facilities and equipment to keep pace with the rapid technological advancements. At the same time, there is a need to review the curriculum of training institutions to equip students with higher skills and knowledge to enhance employability.

Prioritising Well-being of the Rakyat

The ongoing socio-economic programmes and activities to further improve the well-being of the rakyat will remain an important strategy in the 2014 Budget. The fruits of national development should be shared by all segments of society, particularly the lower-income and vulnerable groups. In executing the national agenda with the aspiration to become a high-income and

developed nation, the country's resources need to be mobilised efficiently in fulfilling the rakyat's expectations, particularly in providing basic infrastructure and amenities, building affordable houses, reducing the cost of living, improving healthcare and providing a quality environment as well as ensuring safety and security.

The 2014 Budget will also focus on providing sufficient and quality food supply, an efficient public transport system and excellent communication coverage as well as a comprehensive social safety net. Basic infrastructure will be improved, particularly, to build and upgrade rural road to support accessibility and facilitate economic activities. In addition, the construction of the Pan Borneo Highway will be accelerated to benefit the rakyat in Sabah and Sarawak. Other measures include providing potable water and creating awareness through education on rainwater harvesting techniques, particularly for the rakyat in the remote areas. The awareness programmes will also include guidance on managing telecentres as well as ICT services towards enhancing socio-economic activities in rural areas.

In providing quality and affordable houses, further initiatives will be put in place to build more houses within the price range of RM100,000 to RM400,000 per unit, as well as low-cost apartments. Concurrently, with house prices increasing beyond the reach of the low and middle-income groups in major urban areas, there is a need to curb speculative activity in the property sector. Similarly, with the rising cost of healthcare services and increase in NCDs, better quality services will be provided, including improvement of human capital development and training, upgrading klinik desa and expanding 1Malaysia clinics as well as refurbishment of hospital facilities. To address the rising cost of food items, particularly in Sabah and Sarawak, the price uniformity programmes as well as measures to increase food production will be continued.

Regarding the social safety net, particularly for the vulnerable groups, distribution of BR1M will be continued for households and single individuals and likewise, the assistance including scholarships and books will also be given to students. Apart from that, the existing welfare programmes and assistance will be continued for the less fortunate and disabled, single mothers and the elderly.

A quality environment is important to ensure the well-being of the rakyat. This is in line with the commitment to international standards to mitigate floods, landslides, and coastal erosions as well as promote the MYCarbon programme. The Government will also not compromise on safety and security to ensure

peaceful living for society and the nation. In this regard, measures will be undertaken to provide better facilities and equipment as well as enhance skills and expertise of the police and the armed forces. In addition, to safeguard sovereignty of the nation, the Eastern Sabah Security Command (ESSCOM) will continue to be given priority to strengthen border security.

The 2014 Budget will also undertake measures to ensure regional balance and inclusive growth as well as to narrow income imbalances to avoid marginalising any segments from mainstream national development. The well-being of the rakyat is an imperative for long-term peace and stability.

Strengthening Border Security

Malaysia, a country with long and porous borders, is exposed to risks of intrusion. The need to strengthen border security has become more critical due to the recent illegal intrusion of Sulu gunmen in Lahad Datu, Sabah in early 2013.

The intrusion disrupted economic activities, particularly palm oil production in Felda Sahabat, tourism in Pulau Sipadan and fishing activities as well as security and social activities. In addition, the Petronas LNG regasification terminal could have also been a target of the terrorists.

In response to the disruption, the Eastern Sabah Security Command (ESSCOM) was established by the Government on 7 March 2013 to strengthen land and maritime security in the eastern part of Sabah. ESSCOM aims to prevent terrorist activities in the waters of Sabah, as well as ensuring that trade and business activity are not affected.

In addressing the national security threat, particularly in Lahad Datu, a sum of RM200 million has been allocated to strengthen the border security. As a result, the security threat in Lahad Datu has been successfully alleviated.

Subsequently, production of palm oil, fishing activity and US investment in lobster farming have resumed in Lahad Datu and tourist arrivals have been on the increase, while projects within the vicinity such as construction of Petronas LNG regasification terminal has resumed.

Thus, with the establishment of ESSCOM, the borders in eastern region of Sabah will be well guarded and security restored, thus instilling confidence. These efforts will ensure that trade and business activities will continue to flourish and national sovereignty upheld.

Source: Eastern Sabah Security Command (ESSCOM).