

THE 2004 BUDGET SPEECH
BY THE RIGHT HONOURABLE CHIEF MINISTER AND MINISTER OF FINANCE
DATUK MUSA HAJI AMAN
AT THE STATE LEGISLATIVE ASSEMBLY
ON 17TH OCTOBER 2003

Mr Speaker,

1. I am grateful to the Almighty for being able to table the State Budget for the year 2004 once again in this Honourable House.

2. The 2004 Budget has not only taken into account the Mid Term Review of the Eight Malaysia Plan, but it is also co-ordinated with the Halatuju Pembangunan dan Kemajuan Sabah which I introduced during the first quarter of this year. The Halatuju gives emphasis on the progress and development of the state as a whole. From the economic development, emphasis will be given on the productive and strategic sectors such as agriculture, tourism and manufacturing. The Barisan Nasional Government, which shoulders the trust of the people, is concern with its responsibility to bring the State of Sabah and its people forward in tandem with the National Agenda. In line with this noble desire, let us together uphold the slogan "To Gain Success For A Better Future" which was advocated by Y.A.B. Dato' Seri Dr. Mahathir Mohamad while tabling the 2004 National Budget on 12 September 2003.

PROGRESS AND CHALLENGES

3. We in Sabah, are fortunate to reap the benefit of the wisdom of the Federal leadership. They have formulated pragmatic policies and strategies which not only guarantee long term economic and political stability but also increase the prosperity and the quality of life of the people. In an adverse external environment and the slow performance of the private sector especially in the years 2001 and 2002, Sabah's economy continues to record growth rate of 3.9 per cent with inflation rate of 1.0 per cent compared to the national average inflation rate of 1.8 per cent. Even though according to the 2000 Development Composite Index Sabah remains in the cluster of less developed states in Malaysia, this state has recorded significant progress in numerous indicators. For example, the social development rate, urbanisation rate, coverage of rural water and electricity supply and services of doctors; all have improved over the last decade. On the whole, this index has improved from 86.8 per cent (1990) to 113.8 per cent (2000).

4. For the last five years, since 1998, the people of Sabah has enjoyed various additional amenities with the assistance of the Federal Government. For instance, in the field of education, the school buildings have increased from 1,148 units to 1,238 units (up to August 2003), i.e. an increase of 90 buildings all over the state. Now, the State has 15 colleges compared to only one in 1998 besides two public universities. With this development surely the level of education enjoyed by the people are at par with the developed states. From the health aspect, the doctor ratio to 1,000 patients and the ratio of the number of patients to the number of beds, has declined by 17 per cent from 4,005 patients, and 19 per cent from 1,003 beds respectively. Dental clinics have also increased by 9 units from 73 clinics. In the provision of public low cost houses, 5,455 units have been completed by Lembaga Pembangunan Perumahan dan Bandar (LPPB) and 5,455 low income families have been able to own their own houses.

5. This achievement has encouraged us to work harder and the people should give their close cooperation and full support in the implementation of development programmes undertaken both by the Government or the private sector. As proposed by the Prime Minister, we still require mind shift towards positive attitude and value such as to be confident of our own capability, able to elicit innovative ideas, able to be competitive and has great powers of endurance. In respond to this call, strategic steps with the intention of creating knowledgeable, skilled and creative human resources with positive values and attitude will be given emphasis through exposure and suitable training in ICT development. Our capability and willingness to master knowledge and ability to harness new technology will be dependent on the quality of our human resources. Strengthening these fundamentals will increase our success to develop and advance our K-economy in response to the globalisation and ICT era. We will firmly stand with the federal leadership to ensure that we will be able to deliver the call made by the Prime Minister for us to improve our sovereign competitive edge so that we will be able to compete with global players in the international market. This will

only be achieved by increasing productivity, reducing business cost, acquiring technology and to be more innovative.

Mr. Speaker,

6. Normally, the progress of a state is seen through the physical development such as provision of infrastructure amenities and buildings. Nevertheless, the quality of life of the people whether in the cities or in the rural areas, and the provision of social infrastructure is the fundamental dimension. As such, I will ensure that the physical progress and the increase in the quality of life be given equal attention. Other aspects such as creation of jobs, reducing the incidence of poverty, conservation and protection of the environment will be given priority. The private sector will be given incentives to act as catalyst to the state economic development in line with the policies of the Federal Government. I believe the coordination of the implementation of Federal development programmes which are progressing fast in the State with programmes under the jurisdiction of the State Government including the privatisation of basic amenities such as water supply and ports, our common objectives will be achieved.

PRIVATISATION OBJECTIVE

7. As a result of the redressal exercise undertaken on a number of privatised projects two years ago, public expenditure on the privatisation of vehicle and water services has been reduced effectively. Nevertheless, the management and water supply services that the Government has to bear around RM300.0 million a year will be settled through total privatisation.

8. Now, the government is giving serious attention to ensure that privatisation programme will bring benefit to the people and government. In this context, the privatisation of Sabah Ports Authority through Suria Capital Holdings Berhad will become a good example. Privatisation of Sabah Ports Authority will improve the management quality as well as expediting the development of ports and provide modern services. At the same time, the expansion of this service will assist in the creation of employment, business and the transportation sector. The port privatisation exercise is now in the final stage i.e. waiting for the approval of the Securities Commission.

9. A number of agencies that have acted as investment arm of government have shown good investment return. Among these agencies are Sabah Energy Corporation Sdn. Bhd. (SEC), Warisan Harta Sdn. Bhd., Sabah Development Bank, Sabah Credit Corporation (SCC), Progressive Insurance Bhd., Sabah Ports Authority (SPA), Lembaga Pembangunan Perumahan dan Bandar (LPPB), SEDCO Group, Kota Kinabalu Industrial Park (KKIP), Sawit Kinabalu Bhd. and Sabah Land Development Board (SLDB). The success of these agencies will also help towards the socio-economic development and progress.

10. There are also many agencies that are actively contributing to the development of the service sector. For example, Sabah Tourism Board (STB) was able to attract more tourists to Sabah that resulted in the transportation, retail, hotel and restaurant sub-sectors contributed to about 21.0 per cent of the 50.9 per cent contribution of the services sector to the state GDP in the year 2001. This achievement is higher than the achievement at the national level for the same year.

Mr Speaker,

11. In our effort to stimulate economic development in a steady manner, the Bumiputera participation aspect needs to be taken into consideration. The existing regulatory body needs to be strengthened to monitor Bumiputera participation and progress in line with the policies of the Federal Government.

12. The involvement of the private sector in Sabah in spearheading the economic development other than the agriculture and services sector, is low. As such the shift in policy regarding economic development which focused on domestic-led growth that was announced in the 2004 National Budget as contained in the Package of New Strategies needs to be given serious attention especially by the business sector. Efforts to diversify downstream activities, specifically local-based resources must be given priority. In this context the oil-palm sector can become the main target. This development will generate various value-added products that will be suitable for the export market.

2004 STRATEGIES

Mr Speaker,

13. As such the 2004 Budget strategies are as follows:

- i. To increase investment in the productive sectors which have the potential to generate growth through provision and upgrading of basic infrastructure and info structure with the involvement of the private sector;
- ii. To continue the redressal exercise and to undertake consolidation action on the utilization of financial resources towards a balanced budget in three to five years;
- iii. To upgrade human resources development which are competitive and innovative;
- iv. To strengthen and improve the effectiveness and efficiency of the delivery system so that it is more transparent and friendly and moving towards the creation of one stop centre; and
- v. To increase harmony and quality of life and prosperity especially among the rural populace.

PERFORMANCE AND PROSPECT OF THE GLOBAL ECONOMY

Mr Speaker,

14. The world economy recorded a growth rate of 3.0 per cent in 2002. However, in the early months of 2003 this momentum was undermined by uncertainties such as the war in Iraq and the outbreak of SARS.

15. The geopolitical situation improved in the second quarter of 2003. The economic environment which is expected to be bright has increased both business and consumer confidence. In 2003 the world economy is forecast to grow at 3.2 per cent, strengthening to 4.1 per cent in 2004.

PERFORMANCE AND PROSPECT OF THE NATIONAL ECONOMY

Mr Speaker,

16. The Malaysian economy continues to be strong and resilient even though it is facing unexpected external factors in 2003. The impact of the war in Iraq and SARS on the economy is not as bad as expected. The national economy is forecast to grow at 4.5 per cent in 2003 and between 5.5 - 6.0 per cent next year. This growth is expected to be spearheaded by the manufacturing sector which are more diverse. The domestic sector is also expected to grow due to the various incentives given to the small and medium size industries in the National Budget 2004. Further, export from the domestic sector is expected to increase in 2004 as a result of bright global economic scenario.

17. The private sector will continue to be the engine of growth for the Malaysian economy. Private investment is expected to grow rapidly at 9.9 percent, while the expenditure of this sector will become strong at 7.5 per cent. With government incentives, the private sector will be more competitive, dynamic and responsive towards changing environment and current global challenges. The private sector will continue to be encouraged to create new sources of growth to maintain the economic development momentum of the nation.

18. The services sector with its contribution of around 56.8 per cent will continue to be the main contributor to the national GDP. The tourism industry especially will continue to develop due to the existence of various aggressive promotion activities. Tourists arrival at 13.3 million last year was the highest arrival recorded. The health care and education sub-sectors showed increase of foreigners seeking health care and education in this country.

19. The manufacturing sector as the second largest contributor to the national GDP showed an increase in the export of electric and electronic products; chemical and chemical products; and textile and accessories for the first half of this year.

20. For the agriculture sector, emphasis will be given towards efforts to explore new activities. The activities are intensified efforts to attract opportunities in the halal food market and aquaculture products.

21. We can be proud of the achievement of the external trade. The growth rate at 6.9 per cent in the first half of 2003 was due to the firming of commodity export and high trade between regions. The export of manufactured goods which forms 82 per cent of the total export increased by 1.4 per cent compared to 0.6 per cent for the same period last year. Revenue from main commodities showed strong growth at 44 per cent due to external demand and high commodity prices.

22. The inflation rate remained at 1.1 per cent for the first seven months this year. The minimum increase in prices was due to increase in transportation cost and communication. Weak deflation influence in several main economic nations is expected to control domestic inflation this year. However, producer price index increased by 7 per cent this year as a result of the increase in crude oil.

23. Employment opportunities are expected to improve with the appearance of positive economic indicators. As such, the labour force growth rate is expected to remain at 3.1 per cent similar to the growth rate last year.

PERFORMANCE AND PROSPECTS OF THE STATE ECONOMY

Mr Speaker,

24. The state economy is expected to improve this year and to record positive growth even though the world economy is facing turbulence. The state GDP is expected to grow at 4.5 - 5.0 per cent this year and 5.0 - 5.5 per cent in 2004. This positive and encouraging forecast takes into account the positive development of the regional and national economy, the global geopolitical stability, increase in fiscal budget (RM5.9 billion was allocated by the Federal Government to Sabah) including provision of various incentives, firming of domestic investment and government finances, positive forecast for the prices of main commodities and pragmatic and pro-growth management of the macro economy.

25. The performance of the external trade of Sabah for the first half of this year is encouraging with trade surplus at RM2.57 billion. This indicates an increase of 84.3 per cent compared to the same period last year. Export and import also increased to 26.7 per cent (RM8.79 billion) and 12.1 per cent (RM6.22 billion) respectively, indicating healthy trade.

Mr Speaker,

26. The agriculture sector remained as the main contributor to the growth of the state economy with oil palm as the largest contributor. In 2002, the production of crude palm oil in Sabah reached 4.2 million metric tons. For the first half of 2003 the production of this commodity amounted to 2.4 million metric tons. As of June 2003, the export of palm oil generated revenue amounting to RM3.15 billion, this is 37.5 per cent higher than the export revenue of 2002. Export of palm oil has contributed about 35.8 per cent of the total revenue of Sabah. Other export commodities such as cocoa beans and rubber had also recorded encouraging growth, at 31.3 per cent and 89.0 per cent respectively from export revenue in the first half of this year due to high commodity prices.

27. As the main contributor to the state economy, the agriculture sector will continue to be given appropriate attention in line with the state's Halatuju. Thus, intensive efforts have been made to increase the production of food to make Sabah the Centre of Food Production of the nation while at the same time to reduce the food import bill of the State. The State Government has identified 1,005 hectares of agricultural land suitable to be made Permanent Food Production zone. This is to complement the Third National Agriculture Policy to make Sabah a centre for halal food in this region in the future. Realizing the State's wealth in biodiversity, efforts will be made to explore its potential so as to develop the biotechnology, traditional medicines and herbal industry. The State Biodiversity Council has been established for this purpose, while Sabah Agro-Industrial Precinct (SAIP) was launched early this year.

28. The tourism sector is the fastest developing and resilient economic sector. Most nations in this region experienced adverse effects due to SARS and bombing in Bali but the condition in Sabah is slightly different. In the first half of this year, the total foreign tourist arrival to Sabah recorded 24.6 per cent growth; 237,830 compared to 190,983 foreign tourist arrival for the same period in 2002. This trend reflects the significant potential of the tourism sector here especially when accessibility to this state is improved. The State Government is thankful to the Federal Government and Malaysia Airlines Berhad for their assistance to increase more direct flights to destinations such as Sydney, Balikpapan, Manado, selected provinces in

China, South Korea and Japan. The tourism sector in this state can be further improved by the creation of more new tourism products, upgrading existing products and facilities, ensuring clean environment, giving professional and quality services at hotels and restaurants, transportation and wide dissemination of information. The important factor which will ensure, that the tourism sector will continue to flourish is the good environment and controlled level of security. This will give confidence to tourists especially foreign tourists. The incident which happened at a tourist resort in Lahad Datu recently is an isolated case. However, we take serious view of this incident and once again I wish to reiterate that the government will always take necessary measures to improve the effectiveness and capacity of security especially along the east coast of Sabah.

29. The State and Federal Government will continue to encourage the active participation and initiative of the private sector and government agencies to develop new tourism products and destinations such as Klias Peninsular River Cruise, Dinawan Island Resort; Pulau Tiga Resort; Tabin Wildlife; Langkayan Island Resort and Sandakan English Tea House. Aggressive promotional efforts by all parties spearheaded by Sabah Tourism Board and Malaysian Tourism Board had enabled more regional and international events to be held in Sabah in 2003 and they deserved to be praised. The proactive attitude of the private sector in the tourism sector in this state is apparent by the approval of RM70.7 million to eight entrepreneurs from Sabah from the Special Tourism Fund and Tourism Infrastructure Fund which was provided under the Economic Stimulating Package which was announced in May this year.

Mr Speaker,

30. The development of the manufacturing sector still require the support from the public and private sectors. Manufacturing export which comprise of wood-based products recorded the lowest amount except for veneer for the first half of this year. For the same period, export of either small scale manufactured products including methanol and hot briquetted iron recorded positive growth in export quantity at 34.1 per cent (281,595 metric tons) and 18.5 per cent (432,307 metric tons) due to upward trend in the prices of these products.

31. As the main producer of palm oil, the government will intensify effort to increase downstream activities of the processing of palm oil specifically in the field of oleo-chemical and bio-mass as emphasised in the State Industrial Action Plan. Palm Oil Industrial Clusters (POIC) in Sandakan, Tawau and Lahad Datu will be developed to create palm oil industrial cluster synergy in Sabah. KKIP will continue to be aggressively promoted. At the same time the State and Federal Government will cooperate to focus on reducing or overcoming obstacles which retard industrial development in this state. Industrial land incentives at KKIP; privatisation of Sabah ports, providing industrial services to applicants; and special incentive by the Federal Government under the Economic Stimulating Package and 2004 Budget are among other measures taken to attract investment. The private sector meanwhile should be proactive to take advantage of all opportunities and incentives provided by the government. Among these incentives are the increase in tax exemption from 85 per cent to 100 per cent for companies in Sabah, Sarawak and the Eastern Corridor of Peninsular Malaysia. This incentive is given together with Pioneer Status and tax allowance incentive. Special incentive is also given to companies which produce products based on oil palm bio-mass.

Mr. Speaker,

32. Sabah is one of the states which produces crude petroleum and natural gas in large quantity. As such, the State Government proposes that Petronas should develop oil refinery, petrochemical and LNG plant in Sabah.

Mr Speaker,

33. Similar to previous years, the private sector investment in this state is concentrated on the realty sector. Loans from commercial banks to this sector amount to 30.5 per cent or RM3.7 billion from the total loan which was disbursed at end of March 2003. Loan to this sector grow at 12 per cent compared to the same period last year. The amount of loan given to the manufacturing sector; trading, wholesale and retail, restaurant and hotel sectors, and agriculture sector amount to 14 per cent, 13 per cent, and 11 per cent of total loan respectively. However, new investment in the manufacturing sector by the private sector continues to be low in the first quarter of this year with only 6 new projects and 2 expansion projects approved by MIDA

with total investment of about RM84.4 million. With incentives provided in the Economic Stimulating Package this year and the 2004 National Budget, the manufacturing sector especially the SMIs is expected to expand. As at 31 August 2003, a total of 10,314 applicants from all districts have benefited from the Micro Credit Scheme which was announced under this Package in May this year. The total value of applications approved under this scheme in the first three months since May this year amounts to RM24.6 million.

Mr. Speaker,

34. Fiscal measures introduced by the Federal Government to stimulate the economy has increased public expenditure in this state. This includes expenditure on construction of low cost houses, schools, computer laboratories, skill training centres, roads and water and electricity supply in the rural areas. From the state finances, development expenditure will be utilized to improve the sewage system, road facilities to productive areas, acquisition of land development, mapping and computerisation to expedite land application processing, flood prevention, production of seeds for the agriculture sector to increase food production in various districts, to improve the livestock and fishery sectors and to develop more tourism products.

Mr. Speaker,

35. With improved economy, the consumer confidence has increased as reflected by increase in the number of vehicles, vans, four wheel drive vehicles imported in the first half of 2003. The import rate of vehicle increased by 5.4 per cent (with total number of 7,706 units), whereas the import of van and four wheel vehicle increased by 15 per cent (795 units) and 11 per cent (656 units) respectively. Increase in private consumption rose through the use of credit cards where spending increased by 20 per cent to reach RM 172.7 million in the first quarter of this year compared to the same period last year.

36. The inflation rate remains low this year. For the first half of 2003, inflation rate remained at 1.0 per cent i.e. lower than the national inflation rate at 1.2 per cent. With low interest rate at present, the inflation rate is not expected to increase significantly in the near future.

STATE REVENUE

Mr. Speaker,

37. State revenue for next year is estimated to reach RM1,565.63 million as against the revised revenue for this year of RM1,616.47 million. The original estimated figure for this year was RM1,560.00 million. This shows the target is achieved by above 4 per cent. The 2004 estimated revenue is reasonable in line with the state financial planning towards the sustainable revenue policy. If comparable analysis is made between the estimated revenue for 2004 and the previous years, it is obvious that the revenue from forestry has declined drastically. For example, in 1979, forest revenue reached RM1.1 billion and contributed 77 per cent of the State revenue. Now, revenue from forestry only contribute around RM225.6 million or 14 per cent but the state revenue can be maintained at RM1.5 billion.

38. For 2004, Contributions and Grants from the Federal Government will continue to be a major financial source to the state amounting to RM371.21 million or 24 per cent of the total estimated revenue.

39. The State Government will also pursue its request for compensation following the abolishment of import and excise duties on petroleum products. The amount proposed starting from the year 2000 is RM200 million with an increase of 5 per cent for the subsequent years. For 2004, the amount claimed is RM243 million. The State Government will continue to negotiate with the Federal Government for the compensation to be paid. Meanwhile, the State Cabinet has agreed with the suggestion that the 'Special Grant' to the state should be revised because the last revision was done thirty years ago. The 'Special Grant' of RM26.70 million per year has been received since 1973. Other Federal grants and contributions include 'Grant in Aid of Operating Expenses for Departments' (RM38 million), 'Capitation Grant' (RM38 million), 'Contributions Towards Implementation Cost of Federal Development Projects' (RM20 million), and 'Revenue Growth Grant' (RM4 million).

Mr. Speaker,

40. Sales tax is now the second highest contributor to the State in 2004, with 18 per cent of the total estimated revenue of RM286 million. Collection from crude palm oil is estimated at RM230 million, but the figure can be higher if the present performance can be maintained. This source of revenue is among the alternatives that has the potential to give a higher return in the future as a result of the formula introduced last year and implemented this year. Collections from sales tax on lottery tickets and slot machines next year are expected to remain the same as this year, RM50 million and RM6 million respectively. There will be no change in the collection rate and formula for sales tax next year.

Mr. Speaker,

41. Forest revenue is estimated to reach RM225.59 million next year. From this amount, 'Royalty and Fees on Forest Produce' is expected to contribute RM162.10 million; collection from 'Export Royalty on Timber Products' is estimated at RM8.3 million; 'Premium on Round Logs' to fetch RM45.09 million and other forest revenue RM10.10 million. The projection made by the Forestry Department is based on logs output for next year with only 3 million m³ where 2.9 million m³ will be used for local consumption and the rest for export.

Mr. Speaker,

42. One of the main contributors to the State revenue is Petroleum Royalty. For 2004, Petronas forecasts that the amount of royalty to be paid to Sabah is RM152.64 million. This year, the payout had surpassed RM200 million (as compared to the original estimates of RM153 million) due to the price of oil had increased in January till March. The Petroleum Royalty is expected to contribute 10 per cent of the total estimated State revenue for the year 2004.

Mr. Speaker,

43. Land revenue is also expected to continue as one of the main contributors to the state coffers. Revenue from land is estimated to reach RM147.36 million or 9 per cent of the total estimated revenue for 2004. Collection from 'Land Rents' is expected to raise from RM40 million this year to RM41 million next year. The Lands and Survey Department has taken measures to increase land rents since 2002 by enforcing an integrated land rentals implementation. The rest of the land revenue of RM106.36 million for next year is through 'Premium from Land Sales' with an estimate of RM100 million.

Mr. Speaker,

44. In 2004, revenue from water is also expected to increase as compared to the revised figure of RM78.81 million for this year. It is estimated that water revenue will reach RM89.51 million or 6 per cent of the total state revenue.

45. As mentioned earlier, the State Government has given an 'equivalent subsidy' of 70 per cent to water supply management and services, as such the State Government has decided that the management and service of water supply in this State be privatised wholly. The State Government will ensure that this exercise will no longer burden the state financially and at the same time the people will get a better water supply and service.

Mr. Speaker,

46. Collection from Proceeds, Dividends and Interests is estimated at RM62.15 million for next year where 80.40 per cent of this amount is from dividend and interest payment on loans given to statutory bodies.

47. The State Government is to receive RM210 million from the 'Proceeds from Sale of Investments' through privatisation whereby Suria Capital Holdings Bhd. will take over the operations of seven ports in the state from Sabah Ports Authority. This year the government has received RM63 million as a deposit and advance and the balance will be paid early next year when everything in relation to the privatisation is finalised and the operations of the ports are run by Suria Capital Holdings Bhd. With this take over, the facilities and services at the ports will be enhanced and this will contribute to speed up the economic growth in the state because efficient port services are very critical to the private sectors involvement.

Mr. Speaker,

48. For accounting purposes where loans are converted into equity or grants, it is estimated RM20 million will be acquired from 'Proceeds from Transfer of Loans to Statutory and other Bodies Fund'.

49. Revenue from Rents of Government Properties is expected to remain at RM21 million this year as well as next year. From Sewerage under the Local Authorities, only RM5 million is estimated. A total of RM21.67 million is expected to be collected this year, but in view of the financial positions of those concerned, the target is not achieved. The State Government has made a decision that starting from 1 January 2000, all local authorities in the State are only required to pay maintenance cost to the Public Works Department. Other costs like capital cost reimbursement, interest, charge and development and supervision costs have been waived.

Mr. Speaker,

50. Other regular contributors are expected to maintain their status quo. Nevertheless, a number of these agencies have shown improvements in terms of revenues compared to several years ago.

Mr Speaker,

51. Revenues from Veterinary Services and Animal Industry is expected at RM6.71million for next year as compared to this year's revised figure of RM5.67 million. Sale of fresh milk and livestock are the main contributors for this increase. Contributions from Licenses and Internal Revenue are also estimated to increase from RM2.998 million to RM3.005 million. Collection from Ports and Harbours is expected to increase from RM1.898 million to RM2.185 million. Revenue from the Wildlife Department is estimated to contribute RM12.9 million next year, compared to the revised estimate of RM11.62 million. Agriculture is expected to contribute RM2 million compared to RM1.97 million for this year's revised figure. The increase is through the sale of cocoa and kernels. Revenue from Fisheries is expected to touch RM500 thousand and from the Railway, RM1.09 million.

OUTLINE PERSPECTIVE DEVELOPMENT

52. The State Government had approved the Mid Term Review exercise of the Eight Malaysia Plan (MTR-8MP), 2001-2005. Beside finding out our achievements, the objective of the mid-term review of the five year development plan is to review our plan and to re-align it in accordance to the new perspective which was emphasised in the State's 'Halatuju' document and financial capability to provide for the following years.

Beside that, the two year Budget which would start in 2004 will ensure the smooth implementation of development projects and make it easier for the departments to plan and schedule the implementation of their projects. This approach will not only ensure that limited funds are distributed according to programmes but that it will ensure better utilization of our resources.

53. The Outline Perspective Plan for Sabah (OPPS), which is the Fifteen-year Development Programme for the State of Sabah launched by the Barisan National Government in 1995 will continue to be our main guideline in the allocation of our fund for development. To complement the OPPS, the State's 'Halatuju' programme emphasizes on the following aspects:-

- Modernisation of the Agriculture sector;
- Expansion of Tourism sector;
- Expansion of Manufacturing sector ; and
- Human Resource Development.

However, the main focus of 'Halatuju' is to realized the following agendas:

- Economic progress and development;
- Social Development;

- Political stability;
- Efficiency in the delivery system;
- Forging a better relationship between State and Federal;
- Human Resource and environmental development, and
- A shift to K-economy.

54. All these are challenges that we need to face and deal with together. In consideration of the limited state allocation available, we need to plan and come up with new strategies that would enable us to speed up the production of higher value-added products and services so as to strengthen the expansion of the state economy in line with the objectives of the Outline Perspective Plan for Sabah (OPPS). Nonetheless, the OPPS needs to be reviewed to make it relevant to current development at the State, Federal and global level.

SUPPLY EXPENDITURE

Mr. Speaker,

55. I propose a total sum of RM 1,667.04 million be allocated for the supply and development expenditures for the 2004 budget. This amount represents a reduction of RM 7.83 million or 0.47 per cent as compared to the 2003 budget totaling RM 1,674.88 million. From the proposed sum, a total of RM 280 million is allocated for Development Fund.

56. Under the Supply Expenditure, a total sum of RM 478.52 million is allocated for Emolument which is an increase of RM 38.30 million or 8.7 per cent as compared to the 2003 allocation of RM 440.22 million. The additional increase is needed to cater for the yearly salary increment and the regularisation of salary as a result of the implementation of Sistem Saraan Malaysia Scheme of Service.

57. Allocation amounting RM 505.51 million is proposed for Other Charges Annually Recurrent which represents an increase of RM 116.73 million or 30.02 per cent as compared to the revised allocation for the year 2003 amounting RM 388.78 million. The increase in this allocation is necessary to carry out repairs and maintenance of government buildings, repairs and maintenance of water facilities, repairs and maintenance of government vehicles; traveling and transportation; purchase of milk from livestock breeders; repairs and maintenance of main irrigation systems; rental of vehicles from plant hire, small entrepreneur development fund, human resource development training and the award of scholarships in private and public institutions of higher learning; and programmes and activities towards women advancement under the Women Advisory Council.

58. An allocation amounting RM 683.01 million is proposed for Special Expenditure for the year 2004 which represents a decrease of RM162.86 million or 19.25 per cent as compared to the revised allocation of RM 845.88 million for the year 2003. Nevertheless, a number of vote heads have been given an increase in allocation such as Contribution to Development Fund; equity investment in SESB under the Treasury General Services allocation; purchase of vehicles to replace those that are not economically viable to operate; conversion of state loans to update the state loan accounts besides improving the financial positions of agencies or other government owned companies like Kota Kinabalu Industrial Park (KKIP), Sabah Rubber Industry Board; the management of agencies like Rural Development Corporation (KPD). A total amount of RM 95.75 million is allocated to Water Department to undertake the management of the state water requirement of which a total sum of RM 55 million is for the payment of water concessionaires that supply water to all the main towns in Sabah.

DISTRIBUTION OF SUPPLY EXPENDITURE

Mr. Speaker,

59. The distribution of Supply Expenditure for the year 2004 to the various Ministries are as follows:-

Ministry	RM Million	Percentage
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(i)	Ministry of Finance	546.42	32.78
(ii)	Ministry of Infrastructure Development	373.53	22.41
(iii)	Chief Minister's Department	266.26	15.97
(iv)	Ministry of Agriculture and Food Industry	165.79	9.94
(v)	Ministry of Social Development and Consumer Affairs	79.25	4.75
(vi)	Ministry of Tourism, Culture and Environment	61.58	3.70
(vii)	Ministry of Rural Development	46.92	2.81
(viii)	Ministry of Local Government and Housing	43.22	2.60
(ix)	Ministry of Resource Development and Information Technology	23.67	1.42
(x)	Ministry of Youth and Sports	16.19	0.97
(xi)	Ministry of Industrial Development	5.28	0.32
(xii)	Expenditure not under Ministries	15.55	0.93
(xiii)	Charge Expenditure	23.38	1.40
	Total	1,667.04	100.00

DEVELOPMENT EXPENDITURES

Mr. Speaker,

60. During the first two years of the Eight Malaysia Plan, the State expended a total sum of RM774.91 million of State Fund for development. Combined with the estimated sum of RM433.64 million this year, a total sum of RM1, 208.55 million had been set aside by the State as development expenditures during the last 3 years. This is about 63.3 per cent of our revised Eight Malaysia Plan development expenditures of RM1, 907.82 million.

61. For 2004, an amount of RM444.17 million is proposed for development. This amount is RM10.53 million or 2.4 per cent more than the estimated sum of RM433.64 this year. Of that amount, a sum of RM246.82 million or 55.6 per cent is for continuation projects, and the balance of RM197.35 million or 44.4 per cent for new projects. Of the RM444.17 million proposed for development expenditures an amount of RM280.0 million will be met by fund contributed to the development fund from State sources, and the balance of RM164.17 million is expected to be met by Federal contribution.

62. The proposed estimates for development consist of RM429.47 million direct grant; RM9.70 million State loans to the Lembaga Pembangunan Perumahan dan Bandar and KKIP Sdn. Bhd. who will be getting RM4.48 million and RM5.22 million respectively; while the balance of RM5.0 million is set aside for contingencies.

63. Of the total development expenditures proposed RM298.15 million or 67.1 per cent is allocated for the Economic Sector. In line with our new emphasis that has recently been stressed out in the State 'Halatuju' document, this sector is given the largest share. This allocation will be used to undertake various projects under agriculture and land development; industries and finance; infrastructures development and transportation; tourism development; public utilities and human resource development. It is hope that with the allocation provided we will be able to bring about and expedite the socio-economic development of the state.

64. Of the remaining balance, a sum of RM104.66 million or 23.6 per cent is allocated for the Social Sector for the implementation of projects under community and rural development; libraries; social services; youth and sports; housing and new township development; women in development; and the development and improvement of city and local authority areas.

A sum of RM36.36 million or 8.2 per cent is set aside for General Administration which consist of construction of workshops and government buildings; purchases of plants and equipment, and Lands and Survey. And RM5.00 million or 1.1 per cent is set aside for contingency purposes.

DISTRIBUTION OF THE DEVELOPMENT EXPENDITURE

Mr. Speaker,

65. The distribution of the 2004 Development Budget proposal by Ministries are as follows: -

	Ministry	RM Million	Percentage
i	Ministry of Infrastructure Development	186.35	41.95
ii	Ministry of Agriculture and Food Industry	78.13	17.59
iii	Chief Minister's Department	72.46	16.31
iv	Ministry of Local Government and Housing	25.76	5.80
v	Ministry of Rural Development	22.50	5.07
vi	Ministry of Social Development and Consumer Affairs	15.90	3.58
vii	Ministry of Finance	13.38	3.01
viii	Ministry of Tourism, Culture and Environment	13.18	2.97
ix	Ministry of Industrial Development	8.94	2.01
x	Ministry of Resource Development and Information Technology	2.00	0.45
xi	Ministry of Youth and Sports	0.57	0.13
xii	Contingencies Reserve	5.00	1.13
	Total	444.17	100.00

66. The Ministry of Infrastructure Development is the largest recipient of the allocation amounting RM186.35 or as much as 41.9 per cent. This is followed by the Ministry of Agriculture and Food Industry, and the Chief Minister's Department who are allocated RM78.13 million or 17.5 per cent, and RM72.46 million or 16.3 per cent respectively.

67. Besides channelling allocation directly to the Ministry of Agriculture and Food Industry, Ministry of Tourism, Culture and Environment, and the Ministry of Industrial Development, a sum amounting RM15.64 million is provided under the Ministry of Infrastructure Development for the implementation of projects under these Ministries, they are: roads to agriculture areas, RM7.24 million; roads to industrial areas, RM6.65 million, and roads to tourism areas, RM1.75 million.

68. A sum of RM129.04 million or 69.2 per cent of the total amount provided to the Ministry of Infrastructure Development is allocated to the State Water Department. Of the sum, RM63 million is set aside for the special water project involving 3 water concessionaire companies.

69. Under the Chief Minister's Department a sum of RM31.29 million is allocated to the Lands and Survey Department of which RM11 million is for land compensation at the Kota Kinabalu Industrial Park (KKIP). Other than that, a sum of RM 20 million is also set aside for special development programme under the Chief Minister's Department.

70. To further intensify our rural development programme special allocation for legislative Assemblyman under the Ministry of Rural Development has been increased to RM13.95 million from the RM11.55 million amount this year. Besides that, and in line with the Ministry's planning the amount for minor development projects has been maintained at RM5 million.

FEDERAL ALLOCATION

Mr. Speaker,

71. I am also happy to inform this House that the Federal Government will continue to provide us financial assistance next year. As specified under the Federal Constitution we are entitled to receive financial assistance in the form of Federal Reimbursable Grants, Federal Loans and Federal Direct Grants. For next year we will be expecting to receive a total of RM644.94 million of which RM19.38 million for Federal Reimbursable Grants, RM39.16 million for Federal Loan, and RM586.40 million in the form of Federal Direct Grant.

72. No doubt these allocations will help us in the development of the State, and I would like to express my sincere appreciation to the federal leadership for their support. The RM5.9 billion allocation estimated for Sabah that was announced during the tabling of the National Budget in Parliament recently surely will help to uplift our state economic and social standing to a level much higher than in previous years. The details of

this allocation at this point, however is yet to be received by us from the Federal Ministry of Finance. Nevertheless, I am confident that this sizeable allocation will enable us to overcome various problems especially in regards to the provision of infrastructure facilities throughout the state which is critical and urgently required by the private sectors in order for them to play a major role in the economic development of the state.

GOVERNMENT STATUTORY BODIES AND AGENCIES

Mr Speaker,

73. In my earlier speech, I mentioned the roles of government agencies and their subsidiaries which were entrusted by the government to contribute in order to expedite social and economic development. They are not bound by bureaucratic government system but operate as private sector to enable them to face challenges in this globalization and liberalization era. Unfortunately, there are agencies that do not adopt good practices resulting in their continuous dependence on government for financial resources.

74. Guidelines had been introduced while several specialized training have also been conducted. The Managers were also exposed to latest management concepts and system which take into consideration global experiences. Despite the knowledge acquired the management are still performing below the desired level. Therefore, I propose to these agencies that they should restructure and reorganize their respective management system in order to be more prudent, responsible and responsive.

75. The general perception that socio-economic role and activity will produce goods and services without profit must change. They should continuously make efforts to integrate resources and assets to make socio-economic and commercial projects viable. Through such approach, I believe they would be able to be self sufficient and would no longer be dependent on the State Government for funding. Therefore, the reduction in the State Government financial allocation should not be used as an excuse to be dormant. The State Government is confident that they are able to face their respective problems. Therefore, I urge managers to plan and increase their efforts to make their organisations sustainable and to transform them to become profit centres.

76. The controlling ministry must control and coordinate effectively and meticulously the role and activity of each and every agency under its respective jurisdiction. Strategic alliance and smart partnership among agencies concerned must be stressed especially for those agencies whose roles and activities are closely related or overlapping. In this way I believe the delivery system will be improved and this will minimize the initial cost of a particular service and product.

77. Agencies such as Sabah Energy Corporation Sdn Bhd, Sawit Kinabalu Bhd, Sabah Credit Corporation (SCC), SEDCO, Sabah Development Bank Bhd (SDB), Progressive Insurance Bhd and Warisan Harta Sabah Sdn. Bhd had shown excellent performance that we can be proud of for the continuous dividend payment they made to the State Government almost annually. For this year alone, the State Government expects to receive RM52.5 million from dividend payments by these agencies. The excellent performance of these agencies should be emulated by other agencies and should be an inspiration for them to succeed.

PROACTIVE ACTION IN LOCAL AUTHORITIES

Mr Speaker,

78. Similarly most local authorities encounter financial problem and are still dependent on annual allocation from the State Government. The basic problem, among others, are due to the failure of the management to identify the potentials of existing resources/assets owned such as land, as well as weakness in the project implementation and tax collection systems.

79. Management system related to implementation of development projects need to be improved and tax collection have to be updated. This is because both systems are directly related to the identification of determining suitable and sustainable projects and the effectiveness of revenue collection generated from the local economic activities.

80. In relation to the above, Local Authorities should be smart in their efforts to exploit fully the utilization of available resources/assets to create a friendly and conducive environment to further boost the local business activities. Only with the existence of such environment would growth in business activities from the both local and overseas investors be encouraged to generate higher revenue for the local authorities concerned.

CONCLUSION

Mr Speaker,

81. I am aware that every year in tabling the budget, the leadership will reiterate the same message i.e. for the ordinary people, economic growth means prosperity for them (social equity). As a whole, what is important for the people is increase in income, especially among the low income group, so that they will be able to enjoy better quality of life. Although the Development Composite Index had showed improvement, a lot more need to be done to accomplish our responsibility as administrator of this state.

82. We are proud of our independence through Malaysia 40 years ago, but the financial position of the state needs to be strengthened. The colonial government left this country 40 years ago. Our forest reserve has almost depleted. Privatisation programmes which should have managed the government asset productively has instead caused wastage of public fund and increased liability which runs into hundreds of million of ringgit compared to its benefits. Similarly, business cost and investment had yet to be competitive. The government delivery system also needs to be improved. In this context, the standard of skilled labour in Sabah remains at a low level. For instance, in the year 2000 only 7 per cent of the labour force has tertiary education compared to the national average of 14 per cent.

83. I believe the 2004 State Budget will be made a turning point to strengthen the state finance by 2006. As stated earlier, the privatisation of the port operation in Sabah is a starting point that will act as the basis for privatisation management. Provision of modern and efficient port services will act as catalyst to spur economic development in Sabah. Similarly, the privatisation of water supply and services in total, will not only address the problem of high quality water supply but it will reduce the state's burden in the form of subsidy every year.

Mr Speaker,

84. The privatisation exercise is in line with the domestic-led and private sector-led economy. To increase the involvement of the private sector the POIC in Sandakan, Tawau and Lahad Datu will be supported so that they will be able to produce indigenous products with high value added through down stream activities. The government has also taken proactive action to ensure that a project which involves the private sector should be completed in the prescribed time frame. For the people and State's interest, this measure has been implemented in many cases involving the Forest Management Unit (FMU), land development in Tanjung Aru and privatisation of Rural Development Corporation (KPD).

85. The Federal and State Governments are committed to provide strategic infrastructure to stimulate the state's economic development and to enhance the quality livelihood of the people. For instance, the reconstruction of the rail services in Sabah, which involve investment amounting to RM393 million, will upgrade the transportation services, specifically to stimulate the business and tourism sectors. This service is expected to be operational by the year 2006.

86. In line with the state economic policy to encourage the private sector to spearhead economic development and progress, the effectiveness and efficiency of the delivery system will be updated so that it will satisfy the requirement of the private sector. Delays in processing and approving applications will only bring loss to the government and the people of this State.

As such, I will initiate the creation of one-stop centre to act as an effective clearing house which will be able to overcome the existing weaknesses. The function of this one-stop centre is to act as an incentive to attract more investment to Sabah.

Mr Speaker,

87. While we make efforts to stimulate the economy, the government is also committed to establish a united society that live in harmony. As such, the social programme under both the state and federal will be intensified. These programmes such as giving assistance to single parents and empowering women organisations movements will be supported under the allocations meant for NGOs. Special fund for small business specifically to promote traditional handicrafts, will be provided to assist small traders and entrepreneurs especially in the rural areas. Regarding the development of ICT and infrastructure, the government is trying to address the digital divide. As an example, an infokiosk has been established in the Ranau district. In Keningau, Desa Net will be introduced. These facilities are in addition to the unit that is providing services in the districts of Papar, Kudat and Kota Belud. Through such projects, the rural community will also enjoy the fruits of development and progress of the state. Surely the quality of life as advocated by the government will bring prosperity and harmony to the people.

88. As a responsible government, the Barisan Nasional Government will ensure that all parties, specifically government agencies and companies, practice efficient management culture and have healthy financial position. In this context one effective measure that the State Government has identified is the importance to have a two-prong mechanism i.e to strengthen co-ordination at the highest order among the federal and state agencies. By practising coordination and consolidation at the Highest Order both parties will be able to move together towards One Objective. The best example that had been implemented is the reactivation of the 'Jawatankuasa Skim Pembangunan Kesejahteraan Rakyat/Pembasmian Kemiskinan Negeri dan Daerah' to eradicate poverty.

TO REMEMBER THE GOOD DEEDS AND KINDNESS OF Y.A.B. DATO' SERI DR. MAHATHIR MOHAMAD, PRIME MINISTER OF MALAYSIA

89. We are fortunate to have a leader who has successfully brought the name of the nation to a level that we can be proud of. Administrative policies that were introduced have brought development and progress to all sectors in this nation. On behalf of the government and people of Sabah, I wish to convey our appreciation and thanks for the leadership and contribution of Y.A.B. Dato' Seri Dr. Mahathir Mohamad to the State of Sabah in particular and to Malaysia in general. His wise leadership in handling the nation's economy and his ability to stimulate the economic development despite facing various challenges especially the uncertainties in the world economy amazed many parties. The formula used to stabilise the Malaysian economy is now acknowledged globally. We are thankful to him because under his leadership he always give appropriate attention to Sabah specifically in the context of planning and implementation of the nation's development policies. At the same time the State Government gives its undivided support to the Right Honourable Deputy Prime Minister, Datuk Seri Abdullah Ahmad Badawi as his successor.

Mr Speaker,

90. The contribution by members of the civil service is satisfactory although there are rooms for improvement in the enhancement of the quality of the civil service. To take up the challenge of improving the delivery system in the civil service, I urge all members of the civil service to be concerned, mindful and to shoulder their responsibilities with full commitment and to strive for excellence so that the policies of the government as contained in the State's 'Halatuju' can be realised. As an appreciation to their efforts and contributions and taking into account the State's financial position, the government will award a bonus of half month salary this year to all qualified staff. The government believes this privilege will spur them to carry out their job and responsibilities with excellence.

Mr. Speaker, I beg to propose.