

**THE 2006 BUDGET SPEECH  
BY THE RIGHT HONOURABLE CHIEF MINISTER/MINISTER OF FINANCE  
DATUK MUSA HAJI AMAN AT THE STATE LEGISLATIVE ASSEMBLY  
ON 2ND DECEMBER 2005**

**'ENSURING CONTINUOUS DEVELOPMENT'**

**Mr. Speaker,**

1. I beg to table the 2006 Budget for the approval of this Honourable House.
2. Let us be grateful to the Almighty for allowing me to table the State Budget for the year 2006 amidst an environment wherein the state is peaceful, calm and moving forward for the sake of development.

**Mr. Speaker,**

3. Continuous political stability and close co-operation between state and federal leaders and among state and federal administrators is a fundamental factor that had put the state's economic and social development on a firm footing. The improvement of road and communication system in the state has opened up opportunities for the people to enhance interaction among themselves. The completion and operation of rural smart schools and health centres; and modern hospitals has improved the level of services available to the public. The conclusion that we can draw from this positive development, other than ensuring the delivery of good education, health and important services to the public at large is that the provision of these facilities will create awareness among the people about the enhancement of quality of life for the development of complete human beings especially in the rural areas. And, we have only one more month before we move on to the year 2006 armed with the knowledge that we are confidently prepared to implement planned economic and social development.

**Mr. Speaker,**

4. 2006 is the beginning of the Ninth Malaysia Plan (RMK 9), and it is definitely important for us to enhance the public management system by improving work processes as well as delivery system and to improve the standard of living of the people through the creation of skill, training and employment opportunities and by enhancing the participation of the private sector. We will improve our competitiveness and ensure that we will be able to face increasing challenges arising internally or a result of liberalisation and globalisation as well as steep business competition due to ICT. The threats from increased oil price and bird flu will be able to disrupt our efforts and preparation and will be able to stall the growth of productivity the key to our economic development, if we do not address these threats wisely and determinedly.

### **State's Development Direction**

**Mr. Speaker,**

5. Since tabling my maiden Budget for the year 2002 in 2001, together we have continued to strive towards the realisation of Vision 2020. We faced various constraints especially weak financial resources and depleting natural resources and other liabilities as well as legal claims resulting from inflexible and lop-sided agreements and privatisation programmes which favour individual interests. All of these are hindering our efforts and now we are facing legal suits from certain parties who want to take advantage of the situation. Nevertheless, the Barisan Nasional led government will remain resolute, energetic and focused in wanting to safeguard the people's interest through fair distribution of wealth and creating opportunities for them to enjoy meaningful standard of living. This state of affairs encouraged us to resolve seriously to get out of such situation. Government policy and redressal exercises in the management of public affairs that have caused wastage and loss had been successful and will be continued. The previous closed door approach of dealing with the government has now been negotiated transparently to safeguard the public interest.

**Mr. Speaker,**

6. Hence, despite a deficit budget, the government is committed to ensure that the state's economic fundamentals will remain strong and vibrant to ensure a steady economic growth. With the publication of the State's Development

Direction in the 2005 Budget as the pillar of state development policy, it was targetted that Sabah will become a developed state by the year 2015. Now we can concentrate on the realisation of economic infrastructure, to promote specifically and aggressively the agriculture and tourism sectors as well as to accelerate the growth of manufacturing industry specifically through the Kota Kinabalu Industrial Park (KKIP) and Palm Oil Industrial Cluster (POIC) to add value to crude palm oil. The government will specifically focus on the implementation of the POIC to realize its potential which is projected to be able to generate investment amounting to RM50 billion for palm oil-based industry. Besides this, the government will continue to promote the development of the real estate sector, specifically the low and middle cost housing industry and the provision of basic amenities including the provision of social infrastructure in line with the government policy of providing appropriate living standard to the people.

## **Rural Development**

**Mr. Speaker,**

7. We are aware that a majority of the population live in the rural area, living in poverty with minimum basic infrastructure. The livelihood of the rural populace is as important as those living in the urban area though of different magnitude. Based on the Development Composite Index (DCI), 2000 - 2003, which placed Sabah with other states under the less developed states category, there is an improvement in our development index i.e. from 84.2 marks (2002) to 89.5 marks (2003). This is a good achievement compared to other less developed states in the country. I wish to assure that rural development will be given emphasis through multi approach and through direct provision of appropriate allocation for rural development. What is more important is the establishment of framework for management and the compactness of delivery services.

## **Participation in Modern Economy**

**Mr. Speaker,**

8. We are not satisfied with our present achievement. However we can be proud of our Gross Domestic Product growth which is hovering around 3.0 to 5.0 percent per annum and projected to be 4.0 to 5.0 percent for 2004. Economic growth is not an end in itself. What is more important is translating economic growth and wealth into employment opportunities, new business opportunities and

improving living standards. To achieve this we need to focus on work quality and productivity and to be prepared to venture into modern economy through productive and skilled manpower and business investment that includes research to strengthen the state's advantage in export oriented economic activities.

## **Human Capital Development**

**Mr. Speaker,**

9. Hence, as we are aware, education and technical skill training is capable of creating an empowered and dynamic society especially among our youths so as to be able to be successful in the modern economy. Although education and technical training is under the purview of the Federal Government, the State Government will play an active role in the introduction of global technological equipment and approaches so that our youths will be able to master and utilise ICT in the context of modern economy. Thus, the State Government will give due emphasis on development of new resources, that is, human capital development through life long learning, introduction and construction of infrastructure whether at investigate level or through adaptation of human capital skill training. Since in the future skill and knowledge are important for carrying out challenging tasks, all category of the civil service which form the backbone of the government must be given the opportunity to further their studies and knowledge in the field of management.

## **Healthy Environment and Social Welfare**

**Mr. Speaker,**

10. Orderly environmental protection management such as air, river and natural environment cleanliness for the future generation will get maximum positive impact if the community is aware about these benefits. Similarly more efficient utilisation of natural resources will result in better yield if we understand the need for sustainable management of natural resources. Critical issues regarding environment prompted us to create data base to centralise information related to environment. Our effort to promote eco-tourism based industry will depend on sustainable management of natural resources and this effort will bear fruit if we take fast and determined action with the establishment of the Sabah Water Resources Council which will be fully operational next year, I believe water

resource management which is related to environment protection will be better planned to ensure sustainability.

**Mr. Speaker,**

11. The government is mindful of the welfare of the needy in this state who are qualified to receive public assistance, old age assistance and assistance for orphans. Hence, the State Cabinet has agreed to increase the rate for public assistance, old age assistance and assistance for orphans which will benefit about 41,500 recipients. I hope their welfare will continue to be cared for and they will be able to continue to live decently in the midst of development. The welfare and health of our children, especially in the rural area will continued to be looked after through the distribution of free fresh milk to 2092 primary schools in the whole state. This assistance also include uniform, shoes and stationery.

### **Democracy and Vibrant Management**

**Mr. Speaker,**

12. I have emphasized on the importance of improving the relationship between policy, implementation planning and budget to realise the impact in the implementation of development programmes and delivery system. It is important to have an efficient co-ordination system among the state and federal institutions. The government will facilitate transactions involving the public such as payment of water bills through nominated financial institution and dissemination of information through Sabah Net to support transparency. I hope these endeavours will enhance public awareness and will increase their participation in government programmes. Frequent consultation with the people will result in a strong, healthy and caring democratic system and will result in the formation of a co-operative and caring culture. Though lacking in resources, with better public finance management since 2002 as reported in the Auditor General's report, and due to effective spending management, we continue to be able to uphold our economic and social responsibilities. Although we are budgetting for a deficit, this is to ensure that development of public utilities and economic infrastructure that are much needed will continue to be undertaken and capacity building as well as planned capital expenditure will not be disrupted so as to enhance the operation of the public service while at the same time creating a conducive and friendly environment for investment.

## **The Role of Public Agencies**

**Mr. Speaker,**

13. Public agencies that were established to support government policy to spearhead commercial or socio-economic development have mixed achievement; a certain number of these agencies do not require financial assistance from the government while a few require full assistance from the government. The government will reinvent their capacities and will impress on their management to undertake drastic restructuring such as reviewing their cost of operation, increasing productivity and to adopt good corporate governance at all levels starting with the Board of Directors. As of today, a few public agencies failed to update their annual financial statements in compliance with the stipulated schedule, and these statements are necessary to portray their business position and to fathom the performance of the Board of Directors and management. The adoption of unit costing on their products or services will be a measurement on their efficiency to face competition in the market. The future of these agencies will be viewed and appraised from their objectives under present circumstances. This appraisal will determine the efficiency, integrity and ability of the management including measuring the performance of the Board of Directors specifically in the fulfillment of their responsibilities. To address excess staff, the process of consolidation, assimilation and rationalisation will be taken into account by the government. As an example, a weak agency will be assisted in all aspects by a vibrant government department or agency with excellent work culture. The government at present is not taking drastic action because the government does not wish to see retrenchment of staff. An allocation amounting to RM99.46 million will be provided next year for ten (10) public agencies by the government to show government's determination to assist the management and their undertakings.

## **Locally Made Products**

**Mr. Speaker,**

14. Next year the government will be taking a new approach to assist the manufacturing sector in Sabah as measure to realize the objective of the government strategic direction by encouraging government departments and agencies as well as government companies to purchase locally made products through the slogan 'Buy Sabah Made Products'. The government will cooperate

with the Federation of Sabah Manufacturers (FMS) and other local bodies to take up the challenge by promoting awareness campaign regarding locally made products which are also of good quality and having excellent design. Consumers in Sabah are urged to support this campaign and to give priority to locally made products. I hope this small gesture will act as recognizance to the role of local private sector as leader of economic growth in the manufacturing sector of the state. To promote this campaign the government has allocated RM400,000 for the Sabah Industrial Exposition (SIE) next year.

### **Participation of Bumiputera Entrepreneurs**

**Mr. Speaker,**

15. Bumiputera participation in commerce and industry specifically small and medium scale enterprises will continue to get government's concern. Specific and general programmes which were carried out by state and federal government agencies will be continued and enhanced. In relation to this and as a basis for the continuation of such efforts, the government has undertaken and completed a study regarding the participation of Bumiputera Entrepreneurs in the economic sector of Sabah. From this study we have identified the problems faced by these entrepreneurs and are now working out proposed solutions to assist these Bumiputera entrepreneurs so that they will be able to be successful in the fields of commerce and industry. The combined efforts and synergy of state and federal government agencies will be established soon to lead, coordinate and implement the recommendation made in this study. Nevertheless, I wish to remind the Bumiputera entrepreneurs not to abdicate their responsibilities to the government. Commitments from them will be needed to achieve the desired result.

### **Women and Moulding of Quality Generation**

**Mr. Speaker,**

16. The State Government is concern with the problems and welfare of women and has given recognition to their progress and capabilities to contribute towards the various development and in the moulding of quality generation. The decision to increase the participation of women in decision making to 30 percent will enhance opportunities for women to contribute towards the development process in a more meaningful manner.

**Mr. Speaker,**

17. One of the main strategies in the Ninth Malaysia Plan to achieve gender equality is through gender mainstreaming which takes into account the interest and manpower needs of women. The government will support the Putrajaya NAM Declaration to strengthen women development efforts in this region. This determination will be portrayed through the formulation of Women Development Masterplan for a period of 10 years which will start with the RMK9 as the reference point and guidance for women development in the fields of politics, economic and social. This masterplan will chart the direction for women development.

**Mr. Speaker,**

18. The State Government is committed towards the moulding of quality generation as future leaders of this nation . Hence all parties are responsible in the moulding of quality generation balancing physical development with efforts to eradicate the threat of social ills such as drug abuse and various social ills that are related to moral decadence. The effort to mould quality generation begins with a stable family and holistic education system which indirectly will become a barrier to prevent youths from being involved in social ills. The State Government through the Sabah Women Advisory Council (MPWS) will give due emphasis to education, social and economic affairs and the council will work together with NGOs to get the maximum impact in getting community participation. I hope youth activities and programmes in entrepreneurship training which will be carried out by the government and will be fully participated by the youths.

### **Sports and Youth Development**

**Mr. Speaker,**

19. Youths who will become future leaders will be inculcated with self identity and will be given discipline, leadership and skill training as well as enhancement in knowledge. The government will provide facilities and endeavour to finance the maintenance of youth clubs and sport facilities to facilitate the management of youth and sporting activities. The government will continue to extend the healthy life style culture programme and to attract more youths or the public to participate in the various sports activities and programmes. I urge our youths as well as talented and potential athletes to prepare themselves to participate in various



competitions especially at national or international level with confidence. To achieve this objective, we have reactivated the Borneo Games involving Sabah, Sarawak, W.P Labuan, Brunei Darussalam and Kalimantan, Indonesia.

## **2006 Budget Strategies**

**Mr. Speaker,**

20. Based on the projected revenue for next year and the provision for operational expenditure which is increasing, it is imperative for us to be prudent in our spending but productive to ensure that the fundamentals for economic growth will achieve the desired target. The public and private sectors must move in tandem so as to be effective in stimulating economic growth. Hence, the 2006 Budget strategies are as follows:

- To ensure effectiveness in the provision and management of public finance, delivery system and competitiveness;
- To enhance rationalisation, coordination and consultation through certain mechanism amongst all state and federal implementing agencies;
- To provide economic infrastructure and basic amenities so as to stimulate economic growth (value added), to support sectors stated under the Halatuju;
- To ensure sustainable utilization of natural resources and effective protection of natural environment;
- To develop human capital as agent and catalyst of modern economic growth and moral development; and
- To ensure the people enjoy enhanced prosperity through enhanced quality of living standards.

## **Global Economy**

**Mr. Speaker,**

21. In 2006, growth of the world economy is forecasted to remain unchanged at 4.3 percent. The United States continues to outperform other major industrial countries, and its economy is forecasted to expand at 3.5 percent in 2005 and 3.3 percent in 2006. The European Union economy is forecasted to grow at 1.2 percent in 2005, improving to 1.8 percent in 2006. Japan's economic growth, on

the other hand, is expected to remain unchanged at 2.0 percent in both 2005 and 2006.

22. China and India remain the world's fastest growing economies, and are expected to achieve a growth rate of 9.0 percent and 7.1 percent respectively in 2005. In 2006, their economic growth rate is forecasted to moderate to 8.2 percent in the case of China and 6.3 percent in India's case.

23. Intra-regional trade is also expected to continue at a brisk pace given the robust growth of China and India. As a whole, the ASEAN-4 economy (Indonesia, Malaysia, the Philippines and Thailand) is forecasted to grow at 4.9 percent in 2005, improving to 5.4 percent in 2006.

### **Malaysian Economy**

#### **Mr. Speaker,**

24. The Malaysian economy is expected to grow at 5.0 percent this year, improving to 5.5 percent in 2006. Growth is expected to be broad-based, with expansion in all sectors spurred by private investment spending and strong activities in the services sector. The momentum will be supported by sustained private sector activities, favorable external environment and the government's continuing efforts to further diversify the economy through new sources of growth.

25. Per capita income is forecasted to rise by 7.1 percent to RM18,995 in 2006, compared with this year's expected 6.8 percent growth of RM17,741. In Malaysia, aggregate domestic expenditure in real terms is expected to grow by 5.7 percent next year, driven mainly by higher investment spending in the private sector. In 2006, private sector expenditure is expected to increase by 8.1 percent compared with 7.5 percent in 2005, while growth in public sector spending is projected to slow down by 0.8 percent for the same period.

## **State Economy**

### **Mr. Speaker,**

26. Despite slower global growth in 2005 due to high oil prices, slowdown in US economy, occurrence of natural disasters, bird flu and pockets of terrorists attacks; the Malaysian economy and the State's economy in particular were able to weather through these unforeseeable shocks and external challenges.

27. Supported by strong commodity prices and rising exports, the State's GDP is estimated to grow by 5.5 - 6.0 percent in 2005.

### **Mr. Speaker,**

28. Being the last year of RMK8, the year 2005 continues to show positive and strong growth particularly from the agriculture sector especially in the palm oil sector. Production of CPO has risen by 19 percent to reach 2.8 million tonnes in the first 7 months of this year as compared to last year and it is expected to reach more than 5 million tonnes this year. At the beginning of RMK8, the production of CPO was only 3.7 million tonnes. The agriculture sector is also supported by improved growth from higher production of rubber attributed to bullish prices of rubber. The export value of rubber grew from RM46.0 million at the beginning of RMK8 to an estimated export value of about RM200 million at the end of RMK8.

29. Encouraging growth is also seen in the manufacturing sector with exports of manufactured goods registering an increase of 42.3 percent to reach RM1.9 billion in the first 7 months of 2004 and estimated to reach more than RM3 billion by the end of 2004. This represents an increase of 12 percent since the beginning of RMK8.

30. The tourism sector is one of the most vibrant sector of the economy. Significant increase in tourism arrivals is experienced since the beginning of RMK8 from 918,523 to 1.77 million in 2004 and is expected to reach 2 million at the end of this year. Aggressive marketing coupled with more international direct flights to Kota Kinabalu, quality tourism products and committed tourism industry players are some of the major reasons for such unprecedented growth in the tourism sector in the State.

**Mr. Speaker,**

31. Growth can also be seen from higher production of crude petroleum due to the escalating prices. Last year, exports of crude petroleum has risen by 22 percent in the first 7 months of the year to reach RM2.9 billion. The exports of crude petroleum is expected to surpass RM4.5 billion this year from RM3.3 billion at the beginning of RMK8.

32. With encouraging prices of timber-based products, the production of sawntimber is expected to reach 700,000 m<sup>3</sup> this year as compared to 560,000 m<sup>3</sup> at the beginning of RMK8. Last year, the export volume of sawntimber, plywood and wooden moulding has shown positive growth. In the first seven months of 2004 exports of uncoated printing and writing paper grew encouragingly at 38.7 percent.

**Mr. Speaker,**

33. The State registered a healthy trade surplus since the beginning of RMK8. The State's trade balance has grown from RM1.14 billion in 2001 to RM5.37 billion in 2003 and is estimated to surpass RM6 billion in 2004 and 2005. Exports grew from RM12.5 billion in 2001 and is estimated to surpass RM20 billion in 2004 and 2005 in view of the bullish prices of the State's main export commodities. Similarly, imports also grew from RM11.4 billion in 2001 to an estimated RM14 billion to RM15 billion in 2004 and 2005 respectively.

**Mr. Speaker,**

34. It is heartening to note that investors' confidence has improved steadily over the past 5 years. As at 30 June 2005, the total amount of loans extended by commercial banks has reached RM18.5 billion as compared to only RM11.5 billion in 2001. Private investments were channelled mainly to the property sector. Loans extended to the property sector alone was recorded at RM5.5 billion or about 30 percent of the total loans given out. This was followed by the loans extended to the wholesale, retail and hotel sector at 11.2 percent, the manufacturing sector, 7.1 percent and the agriculture sector, 7.6percent. Approved investment into the industrial sector has also shown marked improvement with an approved total investment of RM1.29 billion in the first 8 months of this year as compared to only RM203.4 million in the corresponding

period in 2004. Most of the investments went into the food, chemical and transportation industries.

**Mr. Speaker,**

35. With higher revenue collected by the State Government this year and being the last year of RMK8, public investment is anticipated to expand further in order to maximise the utilisation of funds allocated under the RMK8. As at September 2005, the State Government has already spent RM1.69 billion while the Federal Government has already spent RM7.41 billion on various development projects in the State. Expenditure in the first ten months of 2005 for the State Government amounted to RM343.6 million while the Federal Government has spent RM1.08 billion for the first nine months of 2005. Public consumption continued to register steady growth in consonant with the natural rise in recurrent expenditure including emoluments. Private consumption improved substantially in 2005 with strong growth seen in the purchase of vehicles as reflected by the substantial increase in loans for the purchase of vehicles amounting to RM3.15 billion as at 30 June 2005. Similarly, both credit consumption and credit card spending have also increased markedly to RM829.8 million and RM435.8 million respectively in the corresponding period on account of low interest rates, encouraging performance in the external sector and increased consumers' confidence in the performance of the economy.

**Mr. Speaker,**

36. For the year 2006, some of the challenges threatening the global economic growth include soaring oil prices, asset bubbles and trade imbalance. Concerns over inflation rate has also risen as oil prices continue to soar. In Asia, interest rates is expected to rise. Amidst these challenges, the Malaysian Economy is expected to be resilient supported by strong economic fundamentals. The State's economy is expected to continue its positive growth momentum at 6.0 - 6.5 percent in the light of favourable commodity prices and prevailing strong external demand for the State's major exports. China and India being the State's biggest export markets are projecting strong growths of 8.2 percent and 6.4 percent respectively in 2006.

## **New Sources of Growth (RMK9)**

**Mr. Speaker,**

37. With more new oil discoveries in the State, the oil and gas sector is poised to become one of the key growth sectors in the medium to long term. Other potential key drivers of growth are the upcoming Palm Oil Industrial Cluster (POIC). To develop the economic infrastructure of the POIC is one of the major challenges for the state financial management. Expansion in the tourism sector will also spur towards higher growth in 2006. Private investment is envisaged to be concentrated in the property sector with construction of more commercial and residential properties next year.

38. As we enter into the first year of RMK9, public investment is expected to further boost the economy as the Federal Government has promised to pump a total of RM2.3 billion into the State's economy in 2006. This represents an increase of more than RM200 million as compared to the amount injected in the first year of RMK8 of RM2.08 billion.

## **STATE REVENUE**

**Mr. Speaker,**

39. From 2006 onwards, the format for the revenue estimates will follow that of the modified Budgeting system as in the other states. In this new format, the revenue estimates are divided into three main categories: Tax Revenue, Non-Tax Revenue and Other Receipts.

40. For the year 2006, State revenue is estimated at RM1,586.87 million. The revised estimate for 2005 amounts to RM1,575.17 million as compared to the original estimate of RM1,505.94 million, showing an excess of 4.6 percent. For 2006, as there is no 'one-off' item or additional income either from new source or revision of the present tax structure, the State government is estimating a revenue of RM1,586.87 million out of which RM504.26 million or 31.78 percent is in the Tax Revenue category; RM883.77 million or 55.69 percent in the Non-Tax Revenue category and around RM198.84 million or 12.53 percent in the Other Receipts category.

## **Tax Revenue**

**Mr. Speaker,**

41. In the Tax Revenue category for the year 2006, Sales Tax is the major component. Last year, a total of RM442.97million was recorded from Sales Tax. The revised figure for this year is RM461.50 million as compared to the original estimate of RM416.00 million. For 2006, it is estimated the same amount, that is RM461.50 million, will be collected from Sales Tax, or about 29 percent of the total state revenue.

42. Sales Tax on Crude Palm Oil (CPO) continues to provide the highest collection in the Sales Tax component. With the favorable variances in respect of prices, the estimate for 2005 is revised to RM400.00 million, an increase of about 11 percent from the original estimate of RM360.00 million. The amount of RM400.00 million projected for 2006 is on the assumption that the price of CPO is expected to be in the region of RM1,300.00 to RM1,400.00 per metric tonne. This item alone will contribute 87 percent of the Sales Tax component for 2006 with the contributions from the other two items namely, Sales Tax on Lottery Tickets and Sales Tax on Sales of Bets through Slot Machines estimated at RM55.00 million and RM6.50 million respectively.

43. The collection of Land Rents for the year 2005 has to be revised downwards to RM36.00 million from the original estimate of RM41.00 million. I am confident that when Lands and Survey Department implements the enforcement exercise fully next year, expected collection of land rents can be maximised to reach RM41.00 million whereas Harbour and Wharf Dues is estimated at RM1.76 million for the year 2006 as compared to the revised estimate of RM1.19 million for the year 2005.

## **Non-Tax Revenue**

**Mr. Speaker,**

44. In the Non-Tax Revenue category, Royalties are the major contributors, estimated at RM526.11 million and also the overall top earners contributing about 33 percent of the total revenue for 2006. The Forestry Department has estimated RM287.92 million to be collected from Royalty and Fees on Forest Produce for 2006 and RM329.90 million for the revised estimate this year. The estimate for

next year is lower because logs production is expected to be only about 4.2 million cubic metres, with 0.80 million cubic metres for exports as compared to 4.9 million cubic metres, with 1 million cubic metres to be exported for 2005. Likewise, Export Royalty on Timber Products is also expected to decrease from the revised estimate of RM14.20 million this year to an estimate of RM11.65 million next year.

45. The estimate by PETRONAS for Petroleum Royalty is RM226.54 million for 2006. The revised estimate for this year amounts to RM276.65 million, an increase of 42 percent compared to the original estimate of RM194.87 million. This has been expected in view of the surging oil price, reaching above USD70 per barrel in August this year. As usual, PETRONAS is very conservative in its estimation but this is unavoidable because of the uncertainty in the trend of oil prices.

46. Proceeds from Sales of Goods is another main contributor with an estimate of RM115.61 million, or 7 percent of the total state revenue, to be collected in 2006 as compared to the revised estimate of RM108.42 million for this year. The highest source in this component will be from Sale of Water with an amount of RM96.48 million. Sources in this component which are expected to bring in more than RM1.00 million include Sale of Birds Nests contributing RM13.50 million and RM1.50 million from Sale of Kernels and Palm Oil with the balance of RM4.13 million from other less significant sales.

**Mr. Speaker,**

47. Another important contributor in the Non-Tax Revenue category is Premium. For 2006, collection from Premium is estimated at RM113.60 million or about 7 percent of the total state revenue. It consists of Premium on Round Logs which is estimated at RM33.60 million and Premium from Land Sales which is estimated at RM80.00 million.

48. Interests and Proceeds from Investment is expected to contribute RM43.59 million next year. In this component, Dividends (Public Corporation) tops the list with an estimate of RM25.00 million and Interest on Cash Balance and Short Term Deposits with RM10.00 million. Others include Interest on Loans to Statutory Bodies RM4.00 million, Interest on Loans to Public Corporation RM2.00 million and Interest on Other Loans RM2.00 million.



49. From Rents RM22.08 million is estimated for next year, about the same amount as the revised estimate of RM21.84 million this year. The highest contributor is from Building Rentals with an estimate of RM17.27 million. Of this amount, RM15.40 million will be from the Rent of Sabah Government owned Wisma Sime Darby. However this amount is for accounting purpose only as there are no actual payment to be received until the end of 2007. Sabah State Government has made an agreement with Wisma Sime Darby Sdn Bhd (as a tenant) to repair and renovate the building at the cost of RM25.70 million, whereby this amount is to be deducted from rental payment. Meanwhile, RM1.52 million is estimated from the Rent of the Wisma Tun Fuad for the year 2006.

**Mr. Speaker,**

50. Fees and Services Payments amount to RM14.82 million for 2006 consisting mainly of payments for services by Forestry Department RM4.00 million; Railway Department RM0.825 million; Veterinary Department RM0.55 million; Printing Department RM1.40 million; Water Department RM1.52 million; Public Works Department RM5.00 million and Treasury Department RM1.42 million.

51. The Miscellaneous component of the Non-Tax Revenue is expected to contribute RM43.04 million or 2.7 percent of the state revenue. The largest item under this component is Proceeds form Transfer of Loans to Statutory and Other Bodies Fund, which is expected to contribute RM20.00 million in 2006. This item is meant to account for the loan repayments by Statutory Bodies and Government Agencies. The balance of RM23.04 million of this component consists of miscellaneous revenues of the various departments.

**Other Receipts**

**Mr. Speaker,**

52. Under the Other Receipts category, Federal Grants and Contributions make up the larger part of this category consisting of Grant in aid of Operating Expenses of Departments Under the Concurrent List amounting to RM49.30 million; Capitation Grant RM41.77 million; Special Grant RM26.70 million; Contributions Towards Implementation Cost of Federal Development Projects RM25.31 million; Revenue Growth Grant (Part 1) RM4.00 million; and Grant in aid of Operating Expenses of Sabah Museum RM1.4 million.

**Mr. Speaker,**

53. In respect of the item 'Grant to Replace Import/Excise Duty on Petroleum' the Federal Government has yet to make decision on proposals that have been submitted so far. Meetings and discussions are still on-going and every effort will be made by the State Government to convince the Federal Government to approve what has been proposed. Nevertheless, this outcome is likely to take some time because of the complexity of the case. Whilst the State Government may receive some interim payment, there has not been any confirmation as to the specific amounts that will be released. Based on the Federal Budget for the year 2006 in which the estimated amount of RM150.00 million has been provided to be shared between Sabah and Sarawak for this purpose, the State Government expects to receive at least RM50.00 million for 2006.

## **SUPPLY AND DEVELOPMENT EXPENDITURE**

**Mr. Speaker,**

54. In line with plans to ensure the continuation of development, I propose a sum of RM1,839.76 million to be allocated for the 2006 budget, which is an increase of RM64.84 million or 3.65 percent as compared to the revised estimate for the year 2005 amounting to RM1,774.92 million. Taking into consideration the estimated revenue for the year 2006 which amounting RM1,586.87 million, the State estimate for next year will face a deficit amounting to RM252.89 million.

## **SUPPLY EXPENDITURE**

### **Emolument**

55. The proposed estimate for emolument amounting to RM499.61 million or 27.16 percent of the overall expenditure shows a reduction of spending amounting to RM4.52 million or 0.89 percent as compared to the revised estimate for the year 2005 which is RM504.13 million. This reduction is due to the controlled intakes to fill excessive vacant posts. Annual salary increment and revision of salary following the restructuring of grades and posts under the Sistem Saraan Malaysia (SSM) has been taken into consideration but it however does not include payment of other perks and labourer's salaries. If labourer's salaries under the Recurrent

Expenditure are taken into account the overall of total Emolument will amount to RM520.26 million.

## **Recurrent Expenditure**

**Mr. Speaker,**

56. An allocation amounting to RM605.98 million for the Recurrent Expenditure shows an increased amount of RM5.73 million or 0.95 percent as compared to the revised estimate amounting to RM600.25 million for the year 2005. Among the other components of expenditure which contributes to the increase includes the capacity management for the operation including the enforcement management at Land and Survey Department amounting to RM55.13 million, Forestry Department amounting to RM67.88 million and Water Department amounting to RM105.41 million related to supply activities and revenue collection; implementing research and development in the forestry sector and biodiversity development amounting to RM2.92 million and contribution to Municipal Councils, District Councils and Local Authorities amounting to RM39.69 million for environmental conservation including park areas, sewerage scheme, development of management and collection of garbage, training in health inspection and payment of street lighting bills, for the prosperity of the people.

**Mr. Speaker,**

57. An allocation amounting to RM25.08 million is allocated for transport and travelling to ensure the smooth and effective management of public sector following the increase in rates of subsistence for various posts, and the increase in diesel prices. Expenditure for the repair and maintenance of vehicles amounted to RM19.12 million; for repair and maintenance of government buildings and offices, and office furnitures amounted to RM30.78 million, maintenance and upgrading of roads and bridges amounted to RM24.00 million; maintenance and operation of main drainage system including drainage and irrigation amounted to RM25.50 million; and RM11.15 million for restoration of land slips and washouts; maintenance of sea walls and to prevent, improve and restore damages caused by storms and floods. Apart from that, a sum of RM20.65 million has been allocated for Agriculture, Forestry, Fisheries and Veterinary Services and Animal Husbandry and Museum to ensure smooth operation in logistic and field work.

**Mr. Speaker,**

58. For human resources development and development of ICT programme under the responsibility of the relevant Ministry and Department, a total of RM21.4 million is provided. That amount shows an increase of RM11.90 million which is more than 100 percent compared to this year's allocation of RM9.5 million. Among the new programmes which will be introduced are IT Master Plan Update, E-Commerce, Call Centre Project, Job Portal and a few other projects which I believe will be explained further later by the Minister concerned. It is hoped that programmes under the ICT plan toward the management of electronic government will enhance further in tandem with the development of human capital which is knowledge intensive in the era of modern economy. As for the other expenditure under the State Public Service Department, Public Sector Training Institute and Individual Department which include the granting of scholarship, training, seminar and in-service courses; and Forestry Vocational training an amount of RM27.4 million is provided.

**Mr. Speaker,**

59. Welfare Services programmes will be given continued attention. Hence, the government has allocated an amount of RM24.0 million under its public assistance, old age and orphans and children in need scheme. With this amount, the increase rates for public assistance including the recipients' needs has been taken into consideration. The quality of food for students in hostels, trainees in training centres managed by the Government has also been raised with new price rates. To ensure the success of programmes for Youth Development and Sports activities, an amount of RM7.9 million has been allocated including RM2.50 million for Sabah's contingent to participate in SUKMA next year.

### **Special Expenditure**

**Mr. Speaker,**

60. A total sum of RM734.17 million is allocated for Special Expenditure which is an increase of RM63.63 million or 9.49 percent as compared to the revised estimate of RM670.54 for 2005. Among the components in this Special Expenditure is Contribution to Statutory Funds, which includes a Contribution to Development Fund amounting to RM300.00 million, Loans for Statutory and

Other Bodies Fund amounting to RM7.00 million, and Water Supplies Trust Fund amounting to RM5.00 million.

**Mr. Speaker,**

61. An allocation amounting to RM19.31 million is for rental and purchase of vehicles and equipment with the purpose of replacing old vehicles and office equipment to avoid high cost of maintenance, and to ensure the smooth running and comfort in working environment to increase efficiency and productivity. In line with the promotion of a caring society, this amount also takes into account the purchase of orthopedic equipment for inmates in welfare centre to ensure that their welfare is taken care-of.

**Mr. Speaker,**

62. To enhance competence in office management and knowledge in ICT, an amount of RM5.72 million has also been allocated for Electronic Data Management System (EDMS), purchase of software and technical manuals and purchase and installation of computers.

63. Provision of clean and sufficient water supply for the convenience of the public and also for foreign investors and to ensure the generation of high revenue, an allocation is provided for the management of water supply and non-revenue water amounting to RM6.00 million, payment of Bulk Supply rates under the Privatisation of Water Supply programme amounting to RM55.0 million , arrears payment to water consessionaires and operation of sedimentation facility in Kinabatangan amounting to RM15.2 million.

**Mr. Speaker,**

64. The State Government is gravely concerned with the recent increase in social ills like drugs abuse, baby dumping and various social ills as reported in the media. As such spiritual development and religious guidance programmes is believed able to eradicate these social ills. As such, a sum of RM20.00 million has been allocated to Non-Muslims Religions Organisations. Apart from that, assistance amounting to RM8.00 million has been allocated for schools with the intention to give comfort to students seeking knowledge and to enjoy physical facilities and a better school enviroment.

**Mr. Speaker,**

65. Other components under the Special Expenditure includes RM6.00 million to be distributed for office fixtures for the Land and Survey Department building which is under construction, and expenditure for the construction of the Chief Minister's Department Complex which has long been planned for. Special fund for POIC has been allocated RM15.00 million, while equity investment in POIC Sdn Bhd, KKIP Sdn Bhd and Sabah International Dairies (SaDAR) amounts to RM30.00 million, this however does not involve cash.

## **DEVELOPMENT ESTIMATES**

**Mr. Speaker,**

66. Expenditure under State Fund for development in 2006 involved a total amount of RM550.19 million which is RM40.75 million or 7.99 percent more as compared to the revised estimates of RM509.44 million this year. This amount includes, RM5 million for contingencies reserves. Of that amount RM357.37 million or 64.9 percent is for continuation projects, and RM192.82 million or 35.1 percent for new projects.

67. In terms of allocation by sector, an amount of RM367.51 million or as much as 66.80 percent is for the implementation of development projects and programmes under the Economic sector. This sector is divided into several subsectors such as public utilities; Agriculture and Rural Development; Infrastructure and Communication; Industry and Finance, and some other smaller subsectors.

68. Development under Public utilities is allocated a sum of RM148.70 million of which RM126.40 million is for the implementation of water supply projects, and RM22.30 million for construction of sewerage. The RM65.54 million for the development of Infrastructure and Communication is allocated to the Ministry of Infrastructure Development for the implementation projects, such as roads and bridges; railway, and ports and harbours services, that will be carried out by the various departments under the Ministry. Such projects certainly will further enhance the provision of public facilities and at the same time supports the development of the other sectors.

**Mr. Speaker,**

69. Agriculture and Rural Development is provided a sum of RM107.94 million. Out of this amount, RM27.41 million is for drainage and irrigation projects, RM21.33 million for agriculture development projects, RM14.15 million for forestry, and the balance amounting RM45.05 million for agencies such as veterinary services, rubber industry, fisheries, other agencies under the Ministry of Agriculture and Food Industry, and SAFODA.

70. Allocation amounting RM30.94 million provided for development under the Industry and Finance sector is to meet requirements of economic Industrial projects such as the palm oil industrial cluster projects in Lahad Datu; Kota Kinabalu Industrial Park; construction of shophouses in the rural areas, and small scale entrepreneur activities for the rural people that will be supervised by the Ministry of Rural Development. The balance of RM14.38 million under the Economic sector is allocated for the development of tourism, Culture and environment RM9.80 million, feasibility studies, RM2.78 million, and human resource development, RM1.8 million. Amongst the feasibility studies is the study on Sabah Land Utilisation which aims to produce guidelines on policy for the utilisation of land resources.

**Mr. Speaker,**

71. A sum of RM137.78 million or 25 percent of the total 2006 Development Expenditure estimates is appropriated for the social sector. Of this amount RM68.63 million is for social and rural development. This fund which will be managed by the Ministry of Rural Development and the Chief Minister's Department is mainly geared towards poverty eradication and uplifting the standard of living of the people in the rural areas. A sum of RM28.49 million is provided to finance low cost housing and new township projects, RM12.18 million for city development and local authorities. RM18.39 million is allocated for the development of sports, construction of libraries and cultural buildings. The balance of RM10.09 million is allocated for the development of religious facilities, buildings as well as programmes and activities in regards to the development and welfare of women and the younger generation.

72. The general administration sector is provided a sum of RM39.9 million. This allocation is to finance for the construction and renovation of government buildings such as Syariah Courts, Government Quarters, and for running the activities of the Land and Survey Department, and the Government Printers.

**Mr. Speaker,**

73. In terms of distribution by ministries, the Ministry of Infrastructure Development is the largest recipient amounting RM217.24 million or as much as 39.48 percent. This is followed by the Ministry of Agriculture and Food Industry, and the Chief Minister Department which gets a sum of RM93.29 million or 16.96 percent, and RM91.07 million or 16.55 percent respectively. The Ministry of Rural Development is allocated a sum of RM44.83 million or as much as 8.15 percent. The special allocation programme for all the State legislative areas under this Ministry is allocated a sum of RM26 million. Of this amount, a sum of RM1.8 million is specifically allocated for the hard core poor throughout the state. On the basis that a sum of RM30,000 of the fund is therefore earmarked for each legislative area.

## **FEDERAL CONTRIBUTION**

**Mr. Speaker,**

74. Aside from receipt under the State Development Fund amounting RM300 million and other development revenues totalling RM53.52 million, the Federal Government will also provide us assistance in the form of Federal reimburseables grants and loans amounting RM247.00 million. These assistance would be for various programmes as follows:

<b>Federal Reimburseable</b>						<b>RM (million)</b>
Agriculture	...	...	...	...	...	25.20
Veterinary	...	...	...	...	...	71.30
Drainage and Irrigation	...	...	...	...	...	<u>20.94</u>
						<b><u>117.44</u></b>



### Federal Loan

Sewerage DBKK	...	...	...	10.00
Water Supply	...	...	...	<u>119.56</u>
				<u>129.56</u>

With that amount the overall State Development Budget for 2006 totalled RM797.19 million.

#### Mr. Speaker,

75. I wish to record my appreciation to the Federal leadership especially to YAB Dato' Sri Abdullah bin Hj. Ahmad Badawi, Prime Minister of Malaysia, for his deep concern towards the development of this state. The special allocation for Sabah amounting RM2.3 billion in 2006 to improve our basic infrastructures and social amenities will surely bring about significant impact on the socio economic and quality of life in Sabah. The sum given includes allocation to upgrade the Kota Kinabalu International airport, expansion of Queen Elizabeth Hospital and Universiti Malaysia Sabah as well as the construction of the Sapulut to Kalabakan and Sipitang to Tenom roads. This is the benefits of having a cordial relationship between the state and the Federal Government. I would also like to record my thanks to the various Federal Departments and agencies operating in Sabah. Especifically to the Federal Development Department which have provided cooperation and improved coordination in the administration state machineries in regards to planning and implementation of Development programmes. At this point in time the Federal Development Department is also providing assistance to maintenance works on public infrastructures such as District Offices, Mosques and Balai Raya. This assistance also involves construction of basic infrastructures in the rural areas such as kampung roads, walkways, jetties, water supply and also rural electricity supply.

#### Mr. Speaker,

76. Besides that, Federal allocation amounting RM20 million for the state to address poverty next year will undoubtedly help us in our efforts to overcome issues of poverty in Sabah and hopefully achieved our target of zero poverty rate. Hard core poverty has also been given serious attention whereby the State

Government together with the Central Government will set a target to reduce the poverty level in Sabah to 6.0 percent from 16.0 percent by the year 2010. All this plans should be fully realized through smooth and excellent implementation process for the benefits and interest of the people at large.

## **CONCLUSION**

**Mr. Speaker,**

77. With the ending of RMK8 this year we would have learnt many important lessons related to the management and implementation of social and economic development. We cannot be slow in addressing problems that need immediate attention and fast remedial action in the context of the implementation of the Strategic Development Direction. As such, I urge all leaders starting from State Cabinet Ministers to the ordinary people at the grass root level to cooperate and to place state interests above individual interests. Development means change. Hence we cannot be at the same level either in our manner of working, manner of thinking or manner of action. We need to embrace new approaches based on science and technology in matters that are affected by global competition of which Sabah is also exposed to.

**Mr. Speaker,**

78. To ensure continuous progress, we have to enhance competitiveness in all aspects and strive to increase productivity and enhance the delivery system which is very critical indeed.

**Mr. Speaker,**

79. As we all know, the revenue resources for Sabah are limited as compared to the yearly increasing expenditure. Other than to be prudent in our spending, the government has looked in depth into revenue collection and to reduce arrears in revenue collection. 'The Task Force On Revenue Collection' which is headed by Ministry of Finance has been formed for this purpose. With the issuance of guidelines on management of revenue collection, it is hoped that the revenue collection can be further improved. At the same time, due attention is also given to the convenience of the public while making payments by diversifying the channel and methods of payment.

**Mr. Speaker,**

80. Public agencies and State Government companies which are involved in commerce and business will need to adopt excellent corporate practice and to support corporate governance and good practices. I wish to record my appreciation to a number of agencies and government companies such as Yayasan Sabah, Sawit Kinabalu Berhad, SEDCO, Sabah Energy Corporation Sdn. Bhd., Sabah Development Bank, Sabah Credit Corporation, Warisan Harta Sabah Sdn. Bhd., Progressive Insurance Berhad, Sabah Land Development Board, Sabah Tourism Board and a few others which not only have good financial performance but able to contribute to the state consolidated fund through loan or dividend payment. In 2004, dividend payment amounted to RM36.46 million while loan payment amounted to RM64.58 million. Thus, I hope other state government agencies and companies will continue to flourish next year and will become model for the others.

**Mr. Speaker,**

81. At every tabling of the annual budget the government strives to enhance the quality and living standard of the people so that everybody whether one is living in the urban or rural area will benefit fairly from the accelerated economic development and progress thus reducing pockets and incidence of poverty. The development that we want to achieve will not be focused on material development only but include spiritual development also. In line with Islam Hadhari, the government endeavours to mould society with strong religious and spiritual values who are progressive and have self respect, united regardless of ethnicity, race and religion.

**Mr. Speaker,**

82. In line with the decision of the Federal Government, the State Government has also agreed to pay bonus in 2005 at the rate of RM1,500.00 to all members of the state civil service who are qualified as appreciation of their services to the development of the state. It is my hope that this bonus will not be treated as the absolute right but more as a token of appreciation by the government, The members of civil service must continue to enhance their professionalism and integrity in carrying out their responsibilities.

**Mr. Speaker,**

83. As we are aware, the effectiveness of implementing government programmes as tabled in each Budget does not depend on increased public expenditure, but more than that, it depends on discipline in the utilisation of public fund and effective delivery system. I am confident that with close rapport and cooperation and understanding from all parties, our shared task will be made easier to achieve the goal of making Sabah a successful and progressive state.

**Mr. Speaker,**

84. I beg to propose.

### DISTRIBUTION OF SUPPLY EXPENDITURE BY MINISTRIES

	<b>Ministry</b>	<b>RM Million</b>	<b>Percentage</b>
1	Ministry of Finance	544.27	29.58
2	Ministry of Infrastructure Development	401.50	21.82
3	Chief Minister's Department	307.24	16.70
4	Ministry of Agriculture and Food Industry	197.96	10.76
5	Ministry of Community Development and Consumer Affairs	84.22	4.58
6	Ministry of Tourism, Culture and Environment	75.47	4.10
7	Ministry of Local Government and Housing	56.62	3.08
8	Ministry of Rural Development	49.29	2.68
9	Charged Expenditure	43.86	2.38
10	Ministry of Resource Development and Information Technology	32.40	1.76
11	Ministry of Youth and Sports	21.20	1.15
12	Expenditures not included under Ministerial portfolios	18.97	1.03
13	Ministry of Industrial Development	6.76	0.37
	<b>TOTAL</b>	<b>1,839.76</b>	<b>100.00</b>

**DISTRIBUTION OF DEVELOPMENT EXPENDITURE BY MINISTRIES**

	<b>Ministry</b>	<b>RM Million</b>	<b>Percentage</b>
1	Ministry of Infrastructure Development	217.24	39.48
2	Ministry of Agriculture and Food Industry	93.29	16.96
3	Chief Minister's Department	91.07	16.55
4	Ministry of Rural Development	44.83	8.15
5	Ministry of Local Government and Housing	33.42	6.07
6	Ministry of Finance	20.00	3.64
7	Ministry of Community Development and Consumer Affairs	12.89	2.34
8	Ministry of Tourism, Culture and Environment	11.41	2.07
9	Ministry of Industrial Development	9.74	1.77
10	Ministry of Youth and Sports	9.50	1.73
11	Ministry of Resource Development and Information Technology	1.80	0.33
12	Contingency	5.00	0.91
	<b>TOTAL</b>	<b>550.19</b>	<b>100.00</b>