

**THE 2007 BUDGET SPEECH
BY
THE RIGHT HONOURABLE CHIEF MINISTER/MINISTER OF
FINANCE
DATUK MUSA HAJI AMAN
AT
THE STATE LEGISLATIVE ASSEMBLY
ON
24 NOVEMBER 2006**

“STABILITY AND PROGRESS”

Mr. Speaker,

1. I beg to table the State Budget for 2007 for the approval of this Honourable House.
2. Let us be grateful to Allah SWT for His grace in enabling us to continue performing our responsibilities that have been thrust upon us and endeavour towards upholding the prosperity and the continuous progress of the citizens of Malaysia and the state in particular.

Mr. Speaker,

3. Year 2006, which begins the implementation of the Ninth Malaysia Plan, has taken approaches and steps to realize the purpose of the Plan through the Five Main Thrusts that are underlined in the National Mission. In our effort to make Sabah a developed state in Malaysia by year 2015, that is nine years from now, we will certainly face challenges that could not be

avoided but to overcome it. We should not see the challenges as obstacles, instead to view them as opportunities to take corrective steps to improve on government policies, to improve the performance and capability in the public management system and others, as well as to update economic and social development strategies. With stability in politics and good cooperation between the leaders of the State and Federal Government, and the seriousness of the leadership under the Right Honourable Datuk Seri Abdullah Ahmad Badawi, Prime Minister of Malaysia, the drive for National Development Agenda, governed with sincerity and integrity, therefore it is appropriate that all these are capable to motivate us to strive and work harder. We should not assume that the peace and stability in politics thus far derive or happen by itself.

Mr. Speaker,

4. Alhamdulillah, the state economy shows an upward growth trend, from the range of 5.1 percent under the Eight Malaysia Plan to the range of 6 to 7 percent under the Ninth Malaysia Plan. Though we still experience unemployment rate in the range of 6.0 percent, I am confident this could be overcome with the existence of various development planning in the short and long term. With the cooperation and support given by all the Honourable Members and political leaders at all levels under the Barisan National component and non-government organizations (NGOs) and private sectors as well as the people, this will be our source of strength to continue to drive the process of increment and improvement in the state development as a weapon to overcome all weaknesses. I am also confident that the State *Halatuju Pembangunan dan Kemajuan* Policy, which is in its fourth year,

that focused on three main areas as the engine of growth, that is Agriculture Sector, Tourism Sector and Industry Sector, presently we are on a strengthening path towards continuous progress. Development program such as Palm Oil Industrial Cluster (POIC) in Lahad Datu and Sandakan through the preparation of modern infrastructure followed with the increase in crude palm oil will bring the palm oil industry to greater heights. Likewise, the petro-gas industry in Kimanis, will inject towards the expansion of the state economy under the period of this plan. Sepanggar Port which costs RM400 million, is equipped with modern facilities and equipments, and has a capacity of more than Three Hundred Thousand TEUs (*Twentyfoot Equivalent Unit*), will commence operation in April next year. The tourism sector will also receive a big boost when the expansion of the Kota Kinabalu International Airport is ready. Sabah will continue to be promoted as the premier tourism destination for nature and adventure. Marketing strategy will be enhanced to include strategy to attract tourists who could afford to spend more and stay longer. The arrival of tourists to Sabah from domestic and overseas countries targeted at 2.7 million by year 2007 is capable to expect generating spending of more than RM3.0 billion. The commitment of the state government to continue preparing the basics in the state economy will surely allow Sabah to continuously experience the process of expansion in line with the plan to diversify the state economy besides to ensure a more conducive climate for investment in Sabah.

Mr. Speaker,

5 I realize that the current rapid physical development in basic infrastructure has to be balanced with human capital development, which has

been emphasized seriously under the Ninth Malaysia Plan by the Right Honourable Prime Minister. The approach or methodology taken in this direction not only will it afford to produce people with first-class mindset, discipline, knowledgeable, and rational thinking, particularly amongst the youths, but will be able to increase the level of competitiveness. I am confident this approach will help to expedite the participatory process in the programs of distribution of state wealth more meaningfully either in equity or equality. Therefore, apart from the few institutions of higher learning and technical training for the development of human capital which are located in the Kota Kinabalu vicinity, planning in this direction is also extended to another vicinity, that is Sandakan which has been identified as the “Education Hub’ due to be commenced by next year.

Mr. Speaker,

6 To continue strengthening the public management and administration, management instrument through redressal, rationalization and coordination will be updated to ensure effective delivery system besides supporting prudent spending, optimizing the use of logistic and public manpower with greater quality and result-oriented. This includes the responsibility to coordinate training and socio-economic development program conducted by the government departments and agencies with emphasis on the community from and in the rural area. The government will continue to find ways to increase the capability to meet the ever-increasing yearly supply and development expenditure as to strengthening the state economy platform. Apart from the main revenues, the government will once again give emphasis to revenue from land resources. Therefore, study on Land

Utilisation Policy has been launched to ensure well-planned land utilisation and land management that is so critical to more organized development and contribute to a stable state development. This study will also strengthen the policy on environmental protection especially in those areas declared as protected areas in which also protect the tourism industry that is dependent on “eco-tourism”.

Mr Speaker,

7. We should be proud of the State’s achievement in the sustainable forest heritage management. Sabah leads in the Sustainable Forest Management (SFM) in Malaysia. The success of SFM Deramakot, certified internationally under the Forest Stewardship Council Standard. This success will be the model to other forest reserve financial management such as the Ulu Segama-Malua and Ulu Kalumpang covering 300,000 hectares and another 80,000 hectares in Tangkulap-Pinangah-Mangkuwagu and other areas under the concession of Yayasan Sabah. Efforts to rehabilitate forest reserves will be further enhanced under the restoration and replanting program under the Ninth Malaysia Plan with the cooperation of the Federal Government. Thus, the production of wood based on forest replanting will once again be the source of forest resources that would contribute significantly to Sabah’s economy in the long run.

Mr Speaker,

Sabah Made Products

8. Following the 2006 Budget, the purchase and consumption of Sabah made products will be encouraged, as well as the use of the services of professional bodies in the state, will contribute towards the expansion of the economic activities through “endogenous growth”. It would not only generate opportunities for the entrepreneurs and the producers but will also create more employment. To ensure that this policy achieved the overall impact, cooperation and participation of the Government, private sector including the local consumers is pertinent. With the cooperation of the Chambers of Commerce as well as other bodies such as the Federation of Sabah Manufacturers (FSM), the Architect Association of Malaysia, Institution of Engineers Malaysia (Sabah Branch), Sabah Products Directory and Logo will be produced this year.

Mr. Speaker,

Bumiputera Entrepreneurs Participation

9. The Government will continue to give due attention to the development and participation of Bumiputera entrepreneurs. The Government has embarked on a study on bumiputera participation in the various sectors of the state’s economy and business where an Action Plan for the period of ten (10) years will be formed as the guidelines in developing the Sabah Bumiputera entrepreneurs in the various economic sectors. The Plan has targeted more or less 14,000 successful Bumiputera Entrepreneurs among the bumiputera population, in the various sectors and industries in Sabah. This step shows the continuous support of the state

government in line with the state's policy on Bumiputera Commerce and Industry Community.

Mr. Speaker,

ICT Development

10. ICT development will continue to be intensified and diversified through the ICT program and activity, which will not only disseminate useful information but will give positive impact towards the delivery system directly and indirectly. An overall total of RM 34.22 million is provided for this program. Efforts to reduce the digital divide among the people particularly the lower income population residing in the rural areas will be continued through the e-Community program. The creation of a total of twenty (20) e-Desa centers will be implemented to cover those areas which are being given less attention by the private telecommunication companies and, this will assist in empowering the rural community to enhance their socio-economic well being. The training on IT literacy and skill advancement in ICT among the target group which was introduced since 2005, hopes to achieve at least 10 per cent. A total of 9,000 people among the Sabah's community have been trained. Attainment of skills in ICT would not only provide the opportunity for the target group in securing employment but will add value to become quality people. Thus, the ICT development program will bring the Government closer to the people as well as to facilitate the public to have access to the services provided by the government departments and agencies via *on line*.

Mr. Speaker,

Women Towards Progress

11. Government endeavors to provide conducive environment and support mechanism to help women to utilize their potentials as partners in the state development and in facing the challenges of globalisation. Under the Ninth Malaysia Plan, the State Government will undertake various efforts to increase the involvement of women in various sectors from the aspects of political, social, economic, education, law and regulations, health and gender equality. The development of Women Information System will form the database for the planning of women development programs in these aspects. The ongoing implementation of Wisma Wanita building which costs RM 12.35 million and is expected to be completed in early 2008, is the landmark of the State Government's commitment to increase women's roles in development. At the same time, plans are in the pipeline in selected districts for the provision of facilities so as to encourage them to participate and undertake activities and programs that are beneficial. The formation of women's cooperative is expected to create employment opportunities for women and their family members particularly among the single mothers who do not have steady source of income. Likewise, the PUANDESA program (Pembangunan Usahawan Wanita Desa Sabah) that focused mainly on agro-related rural economic activities would provide them employment opportunities.

Mr. Speaker,

The Caring Society

12. The Government is very concerned towards the welfare of the unfortunates and will continue to give assistance. Targeted groups in the society that requires social services and public assistance to guarantee better quality of life includes the handicaps, senior citizens, orphans and the poor and those that encountered misfortunes. A total of RM 66.00 million is provided for the welfare and social services programs. **As an addition to these caring programs, I would like to announce that the total amount of assistance for the poor will be increased from RM30,000 this year to RM50,000 next year for each constituency of the State Assemblyman who will manage the fund at their own discretion.** Further to that, towards creating a society clean from drugs the state government will also contribute a total amount of RM240,000 to the state PEMADAM for the operation of its activities, especially in organizing awareness programs on the dangers of drugs. Let us together make the objective Malaysia Bebas Dadah a success by year 2015.

Mr Speaker,

Rural Development

13. The Government will give due attention in its effort to eradicate poverty targeting year 2010 as the year to end the era of hardcore poverty in Sabah which presently registers the highest incidence of poverty in

Malaysia. The State Government will work closely with the Federal Government to take an holistic approach to speed up the process of development not only to increase the provision of basic infrastructures such as electricity and rural water supplies but also the provision of basic amenities such as housing, schools and health centers as well as to increase literacy through the provision of rural libraries and e-Desa. Through this approach and to achieve a 100 per cent literacy rate, the government has targeted to develop branch libraries in each district and two rural libraries in each constituency of the State Assemblyman.

Mr Speaker,

14. To empower the implementation of development programs and projects under the supervision of the respective State Assemblyman, especially in the rural areas such as the provision of basic needs particularly those contribute towards the efforts of poverty eradication, I would like to inform this Honourable House that an additional amount of RM 10.06 million under the Special Allocation will be provided to all constituencies of the State Assemblymen. This will amount to a total increase from RM36.06 million next year as compared to RM 26.00 million in 2006. This means each constituency of the State Assemblymen will receive an additional amount from RM350,000 to RM 500,000.

15. The Penempatan Masyarakat Setempat program is to enable the target group to enjoy social enhancement and other basic amenities that have been implemented to overcome the “pockets of poverty”. To ensure that the poor enjoy a sustainable prosperous living, economic programs such as the Mini

Estet Sejahtera (MESEJ) will be developed in thirty locations that experienced incidence of hardcore poverty. Apart from that, large scale and high impact programs will continue to be the framework for the eradication of poverty in Sabah. The development of 10,000 hectares of rubber plantation in Bengkoka, Pitas will be continued which has been allocated a sum of RM 13.00 million by the Federal Government next year. To accelerate this effort, an amount of RM 154.43 million is provided by the Federal Government under the Ninth Malaysia Plan for the Projek Berimpak Besar in Pulau Banggi covering an area of 4,500 hectares comprising a number of components such as rubber plantations, housing, infrastructure amenities including caged fish rearing. The State Government is also thankful to the Federal Government for approving an additional assistance of RM140.00 million under the Ninth Malaysia Plan specially for the eradication of poverty program in Sabah, that is coordinated by the State Economic Planning Unit and implemented by the Rural Development Ministry, Department of Fisheries, Department of Veterinary Services and Livestock, Ko-Nelayan and Yayasan Usaha Maju.

Mr Speaker,

Youth And Sports Development

16. Various programs will continue to be organised to train both the male and female youth groups under the youth development programs as well as in the advancement of sports. The government will continue to give support and assistance in funding these programs. In particular, emphasis will be given for training and for self-development so that they could think for

themselves and are not easily influenced by negative elements exposed by the mass media which include cheap internet and having negative impact that will lead them into social upheavals. The provision of training should focus on self disciplined, skill enhancement, self sustainable and independent and most importantly to respect their parents, teachers and rules and regulations. Healthy life style through sports, whatever sport activities are useful for healthy body and mind besides those that instill harmony among the various groups in the society in the state. Similarly, the diversified culture of the various ethnic groups of Sabah would be the knot towards culture tolerations that will instill cooperation and unity.

Mr Speaker,

Towards A Vibrant Public Agency

17. All Statutory Bodies and Government Agencies including GLCs, are encouraged and reminded to double their efforts in improving their revenue by looking into other sources of finance so as not to be too dependent on the assistance of the State Government. Presently, there are few government agencies that command a good credit standing and are able to obtain alternative sources of finance from private financial institutions apart from the government. This achievement has opened up a new chapter on agencies like, the Sabah Development Bank which has successfully issued bond while Sabah Credit Corporation has gained confidence to issue commercial papers. This is an achievement because both agencies are able to play their roles in not only providing finance for their planned commercial projects but able to assist other agencies including private or individuals.

On the other hand, there are also agencies that had made profits and were able to pay dividends and state loans. These agencies are Sabah Development Bank, Sabah Credit Corporation, Sabah Energy Corporation Sdn. Bhd., Warisan Harta Sabah Sdn. Bhd., Progressive Insurance Bhd., Sabah Land Development Board, Sawit Kinabalu Bhd., SEDCO and GLCs like Suria Capital Holdings Berhad and Angkatan Hebat Sdn. Bhd.

Mr Speaker,

18. We will like to see all government agencies to work harder and become financially independent in carrying out all their activities and project implementation. Such a state is not an impossible task to achieve if these agencies are able to stabilize their financial position through emphatic application on discipline and the realization of the importance of good administrative management. The State Government will continue to give due attention and assistance to other agencies through capacity building programme like, SAFODA, Yayasan Usaha Maju, Korporasi Pembangunan Desa and KO-Nelayan. It is the Government intention and responsibility to address the efficiency of those state agencies which are still problematic through its open door policy. In this context, KO-Nelayan and SAFODA have emerged as those agencies which are successful in discarding the financial dependency syndrome from the government. Both agencies and the Lembaga Sukan Negeri have been able to produce their updated annual reports or financial statements. These achievements should be emulated by other agencies. It is disheartening to see good agencies suddenly fail to produce their financial statements according to schedules as stipulated.

Mr Speaker,

19. In line with strategic formulation towards vibrant efficiency in all government agencies, it is clear that based upon the observation and findings from analysts, it is found that companies which practice good and transparent corporate governance are able to reap success in terms of profit as compared to those companies that do not practice good corporate governance. However, a good administration that only follows strictly with the law is not sufficient but must have good ethical conduct on individuals and as well as team work and personal responsibility. As such, the Ministry of Finance being the driving force in the implementation of good corporate governance has engaged the service of consulting firm to implement good corporate governance practices in all Statutory Bodies and GLCs. As an introduction, three committees will be established and given focus, namely, ‘the Nomination Committee’ “the Oversight Committee”, and “the Remuneration Committee”.

Mr Speaker,

2007 BUDGET STRATEGIES

20. Policy on the economic sector expansion that is fast growing needs the support through preparation of basic infrastructure, development of human capital and resources, enhancement of the public management in all aspects and social programs. Hence, the allocation of funds for the aspects of management and development will increase. In line with this, deficit

budget as a fiscal instrument is deemed appropriate and expenditure to be made through the process of balancing the main traditional revenues, taxes and loans. Nonetheless, the state government does not solely shoulder the burden for the development expenditure. Government includes the Central Government and the private sector need to be enhanced and move in the same direction, to play an effective role in expanding the state economy. To ensure continuity, 2007 State Budget Strategies will adopt the strategies of the 2006 Budget for a period of three years to the Mid-Term Review of the Ninth Malaysia Plan:

- To ensure effectiveness in the public service institution and a vibrant financial management in supporting the delivery system and enhancing competitiveness;
- To increase the rationalization, coordination and consultation system through certain mechanism amongst all state and federal implementing agencies;
- To provide and enhance economic infrastructure and basic amenities, fundamental towards stimulating economic growth (value-added and value-chain), and catalysts to the involvement of the private sector in the Halatuju sectors;
- 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 participation and moral development; and
- To ensure the people continue to enjoy enhanced prosperity through programs in quality living

WORLD ECONOMY

Mr Speaker,

21. Growth of the global economy remained broad-based and buoyant for most of 2006, with most regions registering strong growth. In 2006, world economy growth is forecast at 5.1 per cent, a 30-year high and an improvement over 4.9 per cent achieved in 2005. Most advanced economies are expected to register a strong growth rate in 2006 compared with 2005, with the USA leading the way at 3.4 per cent (2005: 3.2 per cent), followed by the Euro area at 2.4 per cent (2005: 1.3 per cent) and Japan at 2.7 per cent (2005: 2.6 per cent). China and India, on the other hand, can expect a slight moderation in economic expansion, and are projected to register a growth rate of 10.0 per cent and 8.3 per cent respectively in 2006, down from 10.2 per cent and 8.5 per cent achieved in 2005.

22. In 2007, growth of the global economy is expected to moderate, given the impact of oil prices and geopolitical tensions. As such, the world economy is projected to grow at a slightly lower rate of 4.9 per cent in 2007 as compare to 5.1 per cent in 2006. In 2007, the U.S. economy is forecasted to expand at 2.9 per cent, while that of the Euro area and Japan, at 2.9 per cent and 2.0 per cent respectively. Economic expansion in China is expected to hold steady at 10.0 per cent in 2007, while India can expect a lower growth rate of 7.3 per cent.

THE MALAYSIAN ECONOMY

Mr Speaker,

23. The Malaysian economy is projected to grow at 5.8 per cent in 2006, improving on the 5.2 per cent achieved in 2005. Growth in 2006 remains largely broad-based, led by the services, manufacturing and agriculture sectors. The Malaysian economy is expected to strengthen in 2007, despite a more challenging external environment. Growth in 2007 will continue to be broad-based with positive contribution from all sectors of the economy. For 2007, real GDP growth is projected at 6 per cent, consistent with the growth targets outlined in the Ninth Malaysian Plan. Nominal GNP per capita is projected to rise by 7.2 per cent to reach RM21,168 (2006: 9.4 per cent; RM19,739), reflecting improvements in the wellbeing of the *rakyat*. In terms of purchasing power parity, per capita income is expected to increase by 6.7 per cent to reach USD12,666 (2006: 11.8 per cent; USD11,871).

24. Consistent with the favourable economic growth prospects, aggregate domestic expenditure in real terms is expected to increase by 7.1 per cent in 2007 (2006: 7.8 per cent), underpinned largely by higher investment spending and sustained consumption. In 2007, private sector expenditure is forecasted to grow by 7.2 per cent (2006: 7.6 per cent), while public sector expenditure is expected to moderate to 6.7 per cent (2006: 8.0 per cent). Private investment expenditure is projected to post a strong growth rate of 10.5 per cent in 2007 to account for 13 per cent of GDP (2006: 10.1 per cent; 12.5 per cent of GDP), and private consumption is projected to increase by 6.4 per cent (2006: 7.1 per cent). Public consumption, on the other hand, is projected to remain firm at 5.4 per cent (2006: 5.5 per cent) for 2007, while public investment is forecast to increase in real terms by 8.0 per cent (2006: 10.6 per cent).

SABAH ECONOMY

Mr Speaker,

25. This year has been a challenging year given the growing uncertainties in the global environment. From the economic perspective, the prevailing instability in the Middle East, instability in the oil prices, interest rates and global trade imbalances are some of the key concerns undermining world economic growth.

26. Despite such adverse external environment, it is comforting to know that the growth momentum of the State's economy continues to be sustained with expected growth of 5.5 per cent this year and about 6.0 per cent next year. This encouraging performance is accompanied by rising commodity prices, improved public investment, private investment and domestic consumption.

27. The agriculture sector which is strongly supported by the performance of the oil palm and rubber sector continue to experience positive growth. The production of crude palm oil is estimated to reach 5.4 million tonnes this year from 5.2 million tonnes last year. Similarly, the rubber sector has seen robust growth with exports estimated to reach 58,000 tonnes from 49,000 tonnes two years ago. Investment into the agriculture sector will continue to rise as reflected by the double digit growth of 15 per cent in the loan extended to this sector in the first half of this year as compared to the same period last year. Apart from the oil palm subsector, greater investment

will be poured into the rubber and food subsectors in line with the agriculture development direction of the Ninth Malaysia Plan. High value added palm oil based products will be produced with the establishments of technology intensive oleochemical plants, biodiesel plants, fertilizer plants and refineries. With the recent compulsory trans-fat labelling in the United States and the upsurge in demand for biofuel in Europe, the prospects of the palm oil based industries are bright.

28. Growth in the manufacturing sector will also emanate from the expansion of the Methanol plant and the upgrading and increased capacity of the pulp and paper mill. Whereas the Kota Kinabalu Industrial Park (KKIP) will see another twenty five (25) plants coming onstream and providing employment. Furthermore, the completion of two institutions (namely INTAN Sabah and Malaysia Cocoa Board) will add to the existing seven R&D and training institutions supporting the industries at KKIP.

Mr Speaker,

29. Growth prospects in the tourism sector remains unlimited. The formulation of Local Tourism Concept Plans to further explore the tourism assets by region/district and to identify specific investment opportunities are being carried out. Some of the new tourism destinations which are currently being developed by the State Government include Padang Teratak Wildlife Sanctuary, Lok Kawi Zoological and Botanical Park, Tun Saakran Marine Park in Semporna, Tun Mustafa Marine Park, in Kudat, and Tawau Hills Park. At the same time, homestay programs are being introduced in the culturally richer regions. To propel the tourism industry further, international

direct flights have increased to 81 flights per week (to nine countries) with seat capacity of 13,388 as compared to 78 flights per week with seat capacity of 11,952 in first half of the year. Increased international air accessibility and active promotional activities coupled with better services have attracted more tourists into the State. This sector continues to enjoy strong growth with arrivals registering 9.5 per cent growth in the first seven months of this year surpassing the one million mark recorded in the same period last year. The hotel industry is booming with average occupancy rate of 75 per cent. The prospects are bright with the opening of more five star hotels and the mushrooming of budgeted hotels. The total number of tourism spots have also increased. Activities in the mining sector is expected to pick up following the numerous new oil fields discovered offshore of Sabah in the past few years.

Mr Speaker,

30. Despite the underlying currents of globalisation and greater international competition, investors confidence in the State has improved. Total loans extended by commercial banks rose by 17.7 per cent to reach RM21.7 billion in the first half of this year. Double digit loan growths were achieved in all the productive sectors such as the manufacturing, agriculture, mining and quarrying, wholesale and retail and restaurants and hotels sectors. Investments into landed properties constitute the highest share of 30 per cent of the total loans given out. This is followed by loans extended for

working capital which comprises 26.5 per cent. Such upbeat business confidence also brings about improved private consumption.

Mr Speaker,

31. As the State enters into the second year of the Ninth Malaysia Plan, more development projects will be implemented with the finalisation of tenders and structure designs undertaken in the first year. Public consumption is projected to increase steadily by 3 to 4 per cent due to the gradual rise in expenditure on emoluments, supplies and services. The State's external sector remains buoyant with estimated trade surplus of about RM5.5 billion-RM6 billion this year. Both exports and imports have been registering encouraging growths. Palm oil is the largest export contributor followed by crude petroleum, plywood and palm kernel oil while petroleum products, motor vehicles, heavy equipment, fertilizers, iron and steel are the main import items. The inflation rate rises in tandem with the national inflation attributed mainly to cost push inflation emerging from rising oil prices. In the first seven months of this year, the inflation rate edged up to 4.1 per cent as compared to 2.9 per cent experienced last year. However, the inflation rate is anticipated to ease in the last quarter of this year as oil prices stabilizes. And at 6.0 per cent unemployment rate registered this year, the labour market conditions has improved slightly from last year's figure of 6.3 per cent.

REVENUE

Mr Speaker,

32. The State revenue for 2007 is estimated at **RM1,899.49** million. The revised estimate for 2006 amounts to **RM1,952.38** million, showing an increase of RM365.51 million, or about 23 per cent of the original estimate of **RM1,586.87** million. From the estimate, RM620.30 million or 33 per cent is in the **Tax Revenue** category; RM1,082.22 million or 57 per cent in the **Non-Tax Revenue** category and around RM196.97 million or 10 per cent in the **Other Receipts** category.

33. Sales Tax continues to lead the Tax Revenue category. Last year, the income from Sales Tax reached RM588.20 million. The revised figure for this year is RM511.50 million as compared to the original estimate of RM461.50 million, showing an increase of almost 11 per cent. For 2007, RM579.00 million is estimated to be collected from Sales Tax, or about 30 per cent of the total state revenue. Sales Tax on Crude Palm Oil (CPO) is the highest contributor for a single item with an estimate of RM517.00 million, or about 27 per cent of the total state revenue for next year. With the favorable price and volume, the estimate for 2006 is revised to RM450.00 million, an increase of more than 12 per cent from the original estimate of RM400.00 million. The other two items in this component are Sales Tax on Lottery Tickets and Sales Tax on Sales of Bets through Slot Machines each estimated at RM55.00 million and RM7.00 million respectively.

34. The other regular contributor in the Tax Revenue category is Land Rents. The revised estimate for 2006 is RM38.00 million, a slight decrease as compared to the original estimate of RM41.00 million. However, the

restructuring in the Land and Survey Department with new strategies and steps currently undertaken, it is expected that the collection of land rents can at least reach RM40.00 million in 2007. A total of RM1.30 million is estimated to be collected from Harbour and Wharf Dues, showing a slight increase compared to the revised estimate of RM1.24 million for this year.

35. In the Non-Tax Revenue category, Royalties with an estimate of RM637.83 for next year are the overall highest earners contributing about 33 per cent of the total revenue for 2007. An amount of RM300.40 million is estimated by the Forestry Department to be collected from Royalty and Fees on Forest Produce in 2007 and RM319.20 million for the revised estimate this year. Logs production this year is revised to 4.6 cubic metres, with 1.0 million cubic metres for exports whereas for next year, it is estimated to be only 4.2 million cubic metres, with 0.80 million cubic metres to be exported. Export Royalty on Timber Products is estimated at only RM6.64 million for next year as compared to the revised figure of RM11.65 million this year.

36. PETRONAS has estimated RM330.80 million as payment for Petroleum Royalty to the State Government next year. This contributes about 17 per cent of the total state revenue for 2007. The revised estimate for 2006 is RM409.73 million, an increase of almost 81 per cent compared to the original estimate of RM226.54 million. Three important factors play main role in determining the total payment of Petroleum Royalty, they include volume of productions, price of crude oil and foreign exchange rate.

37. Premium payment is another important contributor in the Non-tax Revenue category. A total of RM143.00 million, or more than 7 per cent of the total state revenue, is expected to be collected from Premium next year. There are two items under the Premium, namely Premium from Land Sales with RM80.00 million and Premium on Round Logs with RM63.00 million estimated for next year.

Mr Speaker,

38. Proceeds from Sales of Goods is expected to contribute about RM128.25 million, or almost 7 per cent of the total state revenue in 2007, as compared to the revised estimate of RM120.40 for this year. The main contributors in this component are expected from Sale of Water with an estimate of RM101.48 million, followed by Sale of Birds Nests with a contribution of RM17.10 million, Sale of Fresh Milk with RM5.00 million, RM1.50 million from Sale of Oil Palm, and RM1.00 million from Sale of Planting Materials.

39. Interests and Proceeds from Investment is expected to contribute RM93.13 million next year. In this component, Dividends from Public Corporations including the GLCs tops the list with an estimate of RM70.00 million for 2007 while the revised estimate for this year is expected to be around RM115.00 million. The higher revised estimate is because of a RM65.00 million dividend declared by Sabah Development Bank in late 2005, but only received this year. From this dividend, the State Government earns RM25.00 million as tax rebate. For next year, Interest on Cash Balance and Short Term Deposits is estimated at RM15.00 million. Others include

Interest on Loans Statutory Bodies (RM4.00 million), Interest on Loans to Public Corporation (RM2.00 million) and Interest on Other Loans (RM2.00 million).

Mr Speaker,

40. In the Rents component, RM21.85 million is estimated for 2007, while the revised estimate is RM22.16 million this year. Building Rentals is the highest contributor with an estimate of RM16.95 million. Of this amount, RM15.40 million will be from the Rent of Sabah Government owned Wisma Sime Darby. Rent collection from the Wisma Tun Fuad Building is estimated at RM1.2 million in 2007. From Fees and Services Payments, a total of RM12.25 million is estimated for 2007, a slight decrease compared to the revised estimate of RM14.13 million for this year. Among the contributors in this component are Forestry Department (RM4.00 million), Printing Department (RM1.98 million), Water Department (RM1.52 million), Public Works Department (RM 1.20 million), Railway Department (RM0.77 million) and Veterinary Department (RM0.75 million).

41. The Miscellaneous component of Non-Tax Revenue is expected to contribute RM40.95 million next year. The largest item under this component is Proceed from Transfer of Loans to Statutory and Other Bodies Fund, which is expected to contribute RM20.00 million in 2006. Other miscellaneous consists of revenue of Other Land and Survey Revenue (RM8.00 million), Forest (RM7.00 million), Water (RM2.00 million), Overpayments Recovered (RM1.00 million) and others. Other Receipts are

expected to contribute RM196.97 million, or about 10 per cent of the total state revenue for next year. All the Federal Grants and Contributions are included under this category. They are Grant in aid of Operating Expenses for Departments Under the Concurrent List with RM50.60 million, Capitation Grant (RM42.95 million), Special Grant (RM26.70 million), Contributions Towards Implementation Cost of Federal Development Projects (RM20.95 million), Revenue Growth Grant (Part I) (RM4.00 million) and Grant in aid of Operating Expenses of Sabah Muzeum (RM1.4 million).

Mr Speaker,

42. In respect of the item 'Grant to Replace Import/Excise Duty on Petroleum' which was abolished in 2000, the State Government has estimated RM50.00 million for next year. This is based on the Federal Budget for 2007 where an amount of RM100.00 million has been provided to be shared between Sabah and Sarawak. The State Government believes that the Federal Government is still considering the proposal put up by Sabah Government to reach a decision next year to compensate for the loss of a main revenue.

SUPPLY EXPENDITURE

Mr. Speaker,

43. To continue to support the momentum of development and also to take into account the strengthening and stable financial position of the State, I propose a sum of RM1,998.33 million to be allocated for the 2007 Budget

to fulfill the responsibility of developing the society, economy and infrastructure to a higher level as we desire. This amount shows an increase of RM63.96 million or 3.3 percent as compared to the year 2006 Budget. Taking into account the Revenue Estimate for 2007 amounting to RM 1,899.49 million, the State Estimate for next year will face a deficit amount of RM98.83 million.

44. The proposed estimate for emolument amounting to RM515.85 million involves an increase in expenditure amounting to RM14.43 million or 2.88 percent as compared to the 2006 revised estimate which amount to RM501.42 million. The increase is due to the filling of vacant posts, annual increment and revision of salary. The government will strive to control emolument expenditure.

45. An allocation amounting to RM641.13 million is proposed for the Recurrent Expenditure which shows a decrease of RM10.4 million or 1.6 percent as compared to the revised estimate of 2006 amounting to RM651.53 million. Component of Recurrent Expenditure covers capacity management in the public sector, development of human resource, welfare programs, consolidation of district offices and others.

46. The proposed amount of RM841.34 million for Special Expenditure for the year 2007 shows an increase of RM59.93 million or 7.67 percent as compared to the revised estimate of 2006 amounting to RM781.41 million. The biggest allocation amounting to RM105.00 million is appropriated for the three (3) water concessionaire in accordance to minimal rate payment. I wish to inform that the process to corporatise the Water Department is presently being planned and when implemented fully, the financial burden of

the State can be reduced in the long run. Besides this, other component of expenses that contributed to the increase in Special Expenditure are Contribution to Statutory And Other Bodies Fund; Contribution to Development Fund; relocation expenditure; purchase of vehicles to replace old ones; special assistance to fishermen, farmers and breeders; general repairs of jetties; purchase of communication equipments; installation of railway level crossings; grant for construction and maintenance of public facilities; payment of arrears of electricity bills; expenses on graduates attachment and training scheme; purchase of survey equipment including purchase of equipment and computer rental, software manuals and technical equipment to improve the administrative capacity.

Mr. Speaker,

47. In our endeavour to achieve progress, our workers be it in the public or private sectors should not be forgotten. Educational opportunity, enhancement of knowledge and skills is a factor that will determine the success of the government Halatuju. As such, emphasis on the development of human resource will be a continuous responsibility. With this, a sum of RM70 million will be provided whereby RM23 million is for scholarship; RM30 million for schools and public sector training and RM17 million for in service training.

48. The appropriation of the Supply Expenditure according to ministries and department is as follows:-

	Ministry	RM Million	Percentage
1	Ministry of Finance	634.95	31.77
2	Ministry of Infrastructure Development	416.29	20.83
3	Chief Minister's Department	315.28	15.78
4	Ministry of Agriculture & Food Industry	208.23	10.42
5	Ministry of Community Development & Consumer Affairs	84.41	4.22
6	Ministry of Tourism, Culture & Environment	80.32	4.02
7	Ministry of Rural Development	55.52	2.78
8	Ministry of Local Government & Housing	53.09	2.66
9	Ministry of Resource Development & Information Technology	37.58	1.88
10	Ministry of Youth & Sports	23.58	1.18
11	Ministry of Industrial Development	6.49	0.32
12	Expenditure not listed under ministry	18.69	0.94
13	Charge Expenditure	63.90	3.20
		1,998.33	100

DEVELOPMENT ESTIMATES

Mr. Speaker,

49. State expenditures for development in 2007 involves a total amount of RM1,363.56 million which is RM10.79 million or 0.8 per cent more as compared to the 2006 revised sum of RM1,352.77 million. Of that amount RM755.63 million is financed from State Fund, RM74.93 million from Federal Reimbursable and RM533.00 million from Federal Loan. For those

projects financed by the State Government, RM441.3 million is for continuation projects whereas RM314.3 million is for new development programs and projects. A major breakdown of expenditures under the latter 2 items are identified as follows:-

<u>Federal Reimbursable</u>	<u>RM</u>
Agriculture	17.40 million
Veterinary	23.13 million
Drainage and Irrigation	<u>34.40 million</u>
Total:	<u>74.93 million</u>

<u>Federal Loan</u>	<u>RM</u>
Sewerage, DBKK	13.00 million
Sewerage, PWD	41.00 million
Water Supply	310.00 million
Ministry of Industrial Development	169.00 million
Total :	----- 533.00 million =====

50. In terms of distribution by sectors a sum of RM495.00 million or as much as 66 per cent are for the implementation of development programs and projects under the economic sector. This is followed by the Social Sector which will receive a sum of RM192.38 million or as much as 25 per cent, whereas RM59.75 million or 8 per cent is proposed for the general administration sector. The balance of RM8.5 million or about 1 per cent is set aside for contingency purposes.

51. The distribution of the proposed fund for development expenditures in 2007 by ministries and department are as follows:-

	Ministry	RM million	Percentage
1	Ministry of Infrastructure Development	311.83	41.30
2	Chief Minister's Department	135.05	17.90
3	Ministry of Agriculture & Food Industry	124.76	16.50
4	Ministry of Rural Development	59.12	7.80
5	Ministry of Local Government & Housing	44.69	5.90
6	Ministry of Tourism, Culture & Environment	16.81	2.20
7	Ministry of Community Development & Consumer Affairs	17.10	2.30
8	Ministry of Finance	13.46	1.80
9	Ministry of Youth & Sports	13.25	1.80
10	Ministry of Industrial Development	8.82	1.20
11	Ministry of Resource Development & Information Technology	2.24	0.30
12	Contingency	8.50	1.00
	TOTAL	755.63	100

52. As in previous years the Ministry of Infrastructure Development is the largest recipient of the development fund allocation amounting RM311.83 million or as much as 41.3 per cent. This is followed by the Chief Minister's Department and the Ministry of Agriculture and Food Industry with an allocated sum of RM135.05 million or 17.9 per cent, and RM124.76 million or as much as 16.5 per cent respectively.

FEDERAL CONTRIBUTION

Mr. Speaker,

53. The State Development Budget for the year 2007 will also reflect contribution from the Federal Government that will be spent in Sabah through its administrative machineries. An amount of RM856.75 million Federal direct grant is allocated to undertake several development programs/projects as follows:-

<u>Federal Direct Grant</u>	<u>RM</u>
Forestry Development	22.30 million
Planting of Rubber	21.10 million
Fisheries	20.70 million
Roads and Bridges	641.40 million
Rural Electricity	78.50 million
Rural Water Supplies	72.75 million
Total	856.75 million

Mr Speaker,

54. The State government is indeed grateful for such contribution. Certainly with this assistance achieving a higher level of attainment in regards to the people's welfare in the state will be much more guaranteed, Insyallah.

CONCLUSION

Mr. Speaker,

55. State development agenda under the Ninth Malaysia Plan is based on the economy sector which is expected to experience upturn growth, sustainability and competitiveness. We have targeted the Gross Domestic Product to grow in the range of 6 to 7 percent under the Ninth Malaysia Plan period. This growth rate, though a useful indicator, however is not the ultimate purpose. Issues such as poverty, housing, electricity and water supplies for the rural area especially still command deeper attention and specific strategy to ensure allocation of fund confirms to its targets and in accordance to the required schedule. Pockets of poverty in this state, which cause the highest hardcore poor families in Malaysia, will be eradicated through development of idle lands with commercial crops such as palm oil, rubber and herb. Involvement of public agencies in the like of Rubber Industry Board, Ko-Nelayan, Sabah Land Development Board, Yayasan Usaha Maju, FELCRA program in Banggi Island will directly act as catalysts, towards achieving this strategy, together with the administrative operation of all government departments.

Mr. Speaker,

56. Although since three years lately, state revenue collection has shown positive upward trend, this does not mean that the State Government is satisfied with this achievement. Effort to enhance state revenue needs to be improved. In this regards, the revenue collection system will be improved so as to optimize the revenue collection, to prevent loss of revenue, to reduce arrears of revenue and to improve on the efficiency and effectiveness of enforcement. At the same time, steps and practices to prudent spending

emphasized by the State Government at all times will be given serious attention.

Mr. Speaker,

57. It is our responsibility to ensure asset management and investments owned by the State Government not to be simply handed over to individual or company. This problem has caused losses in millions of ringgit for the Government and people, besides having to pay compensation resulted from the “bad deals”. Hence, I request and invite all concerned people of this state, to give their undivided cooperation to the Government to develop once again the wealth of the state to be benefited and enjoyed together, and for the future generation. The consolidation process is one of the approaches taken to enhance the management of state resources, asset and equity towards achieving this purpose.

58. To maintain the development momentum, the State Government has started financial planning to obtain alternative sources of funding through the bond market or other financial packages that are in the financial market. This is because the state financial management has been accredited “Good Credit Rating” by the International Rating Bodies. I am confident this approach will brighten investment climate in Sabah.

Mr Speaker,

59. More effort is made to improve the well being of the people with programs introduced by the Federal Government that are contained in the National Budget 2007. For example, subsidy grant for agriculture, and various assistance schemes and loans for the small to medium businesses need to be tapped. Therefore, the State Economic Planning Unit together with the relevant ministries and departments need to play their respective roles more actively in their responsibilities to coordinate the needs with their counterparts at the federal level. This includes the various trainings in services, skills and higher learning, which are being offered by the central agency so as to fully benefit from it.

Mr. Speaker,

60. In our effort to rehabilitate the financial status of agencies which are still burdened with high overhead expenditure, rehabilitation program is recommended. They are encouraged to look for idea or way to improve their respective performances. Company such as Sabah Air has taken steps to re-focus on their business activities. The State Government will also look at option to privatize the activities of the government agencies as one of the opportunities to obtain capable partner to inject new capital.

Mr. Speaker,

61. Touching on the quality of life, it is hoped that the material benefits followed from the smooth implementation of development projects and programs will not only improve the standard of living economically but able to improve the quality of lives in all aspects. In line with the concept of Islam Hadhari, we do not wish to see the people progress economically but backward in other aspects such as moral behaviors, spiritual values and good conducts. This includes ensuring a clean and friendly environment and includes the rehabilitation of open spaces for recreation and basic amenities for relaxation, suitable learning places, development of places of worship.

Mr. Speaker,

62. Step to introduce the Key Performance Indicator (KPI) is well received by the State Government, in line with the Federal Government proposal to expand the implementation of KPI in all government ministries and agencies under the Ninth Malaysia Plan. The State Government follows the progress of this implementation and most probably will adopt it at the state level. Members of the civil service have thus far shown good commitment in their works and it is hoped that they will continue to inculcate excellent work culture at anytime. To appreciate the effort and contribution of members of the civil service, I propose one month bonus with a minimum amount of RM1,500.00 to all members of the state civil service.

Mr. Speaker,

63. I think with the faithfulness and understanding of the leaders at every level, the committed and professional public civil service, dynamic private sector together with all people who possess the sense to cooperate and the desire to progress, I am confident that we could form a progressive state and community that is united, progressive and responsible as well as rich in religious and spiritual values. Hence, I like to repeat that the excellent performance of members of the civil service is very critical for the achievement of the State Development Agenda. Increasing expenditure is not a measurement but discipline in spending public funds and successfully achieving an effective delivery system are our biggest hope for all.

Mr. Speaker,

64. I beg to propose.