

THE 2001 STATE BUDGET SPEECH
BY
THE RIGHT HONOURABLE CHIEF MINISTER/MINISTER OF FINANCE
DATUK SERI PANGLIMA OSU HAJI SUKAM
AT THE STATE LEGISLATIVE ASSEMBLY ON 3RD NOVEMBER 2000

Tuan Speaker,

I beg respectfully to table the State Budget for the year 2001 for the approval of this Honourable House.

2. We thank the Almighty for His will and bountiful blessings; we are able to be present in this Honourable House to fulfill our duties and responsibilities to our state and nation. The Budget for the year 2001 marks the start of the implementation of the Eighth Malaysian Plan (8th Malaysia Plan). The first year of the plan will serve to move and inspire us to further spur the economic growth which we have successfully revived.

3. However we will continue to hold a paradigm shift in our efforts to lay out the strategies in anticipation of the world's economy reality, today. The world economy is under-going rapid changes. The main determinant for a successful economy today and in the future is no longer relying on capital or material alone but knowledge. This is termed as the knowledge economy (k-economy). These changes that are taking place in the context of globalization and liberalization process, are driven by up-to-date technology, in particular the information and communication technology (ICT). In reality such development calls for an improvement and development of human resources, both in terms of quantity and quality. Our aims are not merely as technology users but to participate in producing new technologies. Such culture is responsible in the development of a new era. The new shift will continue to guide us to leap forward in fulfilling the agenda to improve the living standard of the people in order to attain a more meaningful quality of life. For that we must be prepared to face the new challenges through more professional and strategic management, as well as through intelligent and efficient enterprise. We should not dwell on extolling our past achievements although this is important for public knowledge. What is more important now is to enhance and diversify our capacity to ensure that available resources are managed efficiently and productively, at the same time be able to generate new service and products. To attain this goal, we should be resolute to face the challenge. The National Budget for year 2001, with emphasis on moving Malaysia towards knowledge-based economy (k-economy) demands drastic changes from her citizens. All citizens, including those from our state, will have no choice but to accept the k-economy. For those who refuse to accept this reality, they will miss out the gains that could be gotten from this new economy of the 21st century. All citizens of this country must equip themselves with new skills and capabilities.

Tuan Speaker,

4. The approach to the management of the state's rich resources in the 21st century requires a new dynamic approach. There are six inter-related technologies that will shape the new approach in regards to the planning and management process; these are microelectronics, computers, telecommunication, man-made products, robotics and biotechnology. This group of advanced technologies is certain to control and generate new activities that will bring vast changes or re-invigorate old industries in new forms. This is the initial surge of the era of economic growth and wealth creation based on knowledge. The explosion of knowledge is a new force that all of us should acknowledge and appreciate and at the same time learn to tap its benefits. Bearing this in mind, the State Government has launched the electronic government system vide the Sabah Net which is linked to knowledge-based industries. However, more efforts are required to create the necessary environment that would encourage growth as wide as possible so as to contribute to higher productivity and overall development of the state. This has been initiated through the adoption of the Outline Perspective Plan for Sabah (OPPS). These objectives and strategies of the OPPS have been the basis of our policies and budget over the last few years. These strategies have underscored our fiscal policies during the implementation of the Seventh Malaysia Plan and will continue to drive the 8th Malaysia Plan but with a new spirit and outlook.

Tuan Speaker,

5. In order for us to develop an efficient management, the government is committed to focus on three strategies to achieve excellent performance through the public sector. These are;

- (i) to reorganize the functions and responsibilities in decision-making;
- (ii) to match authority (with flexibility) and accountability; and
- (iii) to enhance capacity and to reorganize priorities and resource allocations.

6. In the 70s and 80s, Sabah was well known for its rich natural resources, especially in the forestry sector, and for its vast tracts of lands and mineral resources. However, with loose and ineffective integration between policy-making and planning and, budgeting and implementation, coupled with the problem of shortages of skilled and unskilled manpower, the use of low-grade technologies and other problems, the development of our state has been lethargic. Despite the efforts put in by all the previous administrations, what is obvious today is that the state is lagging far behind in infrastructure development. However, since the Barisan Nasional took over the helm of government, positive signs of development are visible. Among others, the government has given firm commitments and has been able to achieve success in various medium and long-term development programmes, inspite of the fact that its financing has not been easy. As an example, the implementation of the water supply projects specifically the construction of the Babagon dam and rural water supplies; construction of roads Beaufort-Sipitang, Kota Kinabalu-Kota Belud and Tandek-Pitas; as basic essential and primary requirement for economic growth. This has been a long outstanding problem previously but has now been addressed. Another case

is the implementation of economic infrastructure through the Kota Kinabalu Industrial Project which is oriented towards a new paradigm shift.

Tuan Speaker,

7. Notwithstanding that priority is accorded to the development of the economic sector in the use of resources, social development is given its due attention, especially in the development of rural areas which includes strategies to eradicate poverty. The emphasis is on economic activities which can generate high income for the people. With the improvement in rural infrastructure and the participation of the heads of households and youths, they will now have the opportunity to participate in activities that require managerial techniques. The approach taken is to encourage them to acquire skills motivations and abilities. The new approach will ensure that public expenditure will attain the goals set and public resources are prudently managed.

The World Economy

Tuan Speaker,

8. The world's economy is anticipated to surge ahead with renewed vigour and confidence in the first two years of the new millennium. This is due to several optimistic indicators such as the continued strength of the US economy, a robust expansion in Europe, the consolidation of the recovery in Asia, a nascent recovery in Japan, greater world investment and trade liberalization and the e-commerce phenomenon. With the 1997/98 Asian currency crisis well and truly behind us, the world economy is projected to expand at a rate of 4.7 percent last year.

9. The world's largest economy, the U.S., is projected to continue expanding strongly this year with a growth of 5.2 percent and cooling off to 3.2 percent in 2001 despite a macroeconomic necessity for an 'engineered' soft landing. The continued strength in growth of the U.S. economy is partially linked to the increase in productivity growth due to rising technology gains. This has led some quarters to conclude that the U.S. is now experiencing the "new economy" (k-economy). Nevertheless, given the ongoing recovery in the other regions in the world, the U.S. must ensure that its expansion can be sustained and controlled.

10. Japan's, economy is expected to gather momentum gradually. GDP growth is projected at 1.4 percent and 1.8 percent in 2000 and 2001 respectively compared to 0.2 percent last year.

11. In Europe, growth has been gathering strength due to strong domestic demand and exports as a result of the weak Euro currency. The Euro area is projected to record a growth of 3.5 percent this year and 3.4 percent next year compared to 2.4 percent in 1999. United Germany, the leading nation, is expected to expand by 2.9 percent and 3.3 percent in 2000 and 2001

respectively from 1.6 percent last year, whereas France is forecast to grow at 3.5 percent in both 2000 and 2001 compared to 2.9 percent in 1999.

Malaysia's Economy

Tuan Speaker,

12. We are indeed proud at the way our nation is able to steer out of the economic crisis and has now gained world's recognition. The Malaysian economy continues to perform strongly. The strong external demand, the fiscal stimulus and the positive domestic economic and financial environment continued to support growth and consolidate the Nation's recovery. Further progress in the banking reforms and corporate restructuring as well as the improved employment prospects strengthened domestic demand. Investments expanded further with marked increase in real gross fixed capital formation both in terms of new investment as well as expansion of existing capacity to meet higher demand.

13. Monetary policy is expected to remain accommodative to support economic growth. Inflationary pressure is also expected to be under control despite possible increases in the prices of petroleum products. The strong exports growth is also anticipated to be sustained. Based on government projection, Malaysia's real GDP is expected to expand by 7.5 percent this year compared to 5.8 percent last year. Based on the various strategies tabled in the Nation Budget for 2001 on 27 October this year the country's economy is expected to register 7.0 percent growth in the year 2001.

Sabah's Economy

Tuan Speaker,

14. The strong recovery of most of the State's major trading partners is one of the significant factors which leads to a favourable growth projections of Sabah's export-oriented economy. Sabah's real GDP growth rate is estimated at 4.3 percent in 1999 compared to a contraction in the previous year. The improvement is generally due to the recovering Asian and Malaysia economies after the currency meltdown in 1997 and 1998. Agriculture and livestock, and mining and quarrying continued to be the principal engine of growth of Sabah's economy. Both sectors combined make up more than 40.0 percent of the State's total real GDP.

15. The expansionist policy of the government coupled with a more relax exchange controls has revived both consumers' spending and investors' confidence, as well as spurred more infrastructure development especially in less developed states like Sabah. Strong State-Federal relationships have resulted in a substantial increase in Federal development funds to the State.

16. Given these factors, and the present aura of optimism in the world, especially with the advent of the Information age, as well as the expected strengthening of the Malaysian economy boosted by the current cyclical

electronics boom, Sabah's economy is projected to record an encouraging growth rate of 4.5 percent this year, and strengthening to 5.0 percent in 2001, compared to 4.3 percent last year.

17. In the first eight months of this year, the State continues to register encouraging trade surplus with the balance of trade at a healthy RM1.21 billion. During the period January to August 2000, our exports increased by 3.1 percent to RM8.53 billion from RM8.27 billion during the same period of 1999.

18. Agriculture will continue to be the leading engine of growth of the State's economy, albeit at a slower pace given the current depressed commodity prices in the international market. During the period January to August 2000, export volume of palm oil products rose by a significant 15.3 percent to 1.70 million tonnes from 1.48 million tonnes during the same period last year.

19. Mining and quarrying is envisaged to be boosted significantly by the record oil prices in the global market. In the first eight months of this year, export of crude petroleum registered a 2.2 percent increase to 2.84 million tonnes from 2.78 million tonnes in the corresponding period last year, whereas its export value rose by a remarkable 91.2 percent to RM2.20 billion from RM1.15 billion.

Tuan Speaker,

20. Services and tourism-related sector is also likely to be one of the main contributors to the State's GDP. This is evinced by the impressive jump in the number of arrivals to the State during the first eight months of this year, which increased by 56.3 percent to 409,851 from 262,158 during the same period of 1999. This is mainly due to the overwhelming increase in the number of domestic visitors from the other states in Malaysia and foreign tourists which rose by 248.0 percent and 17.1 percent respectively during the first eight months of this year.

21. Manufacturing, one of the severely crisis-hit sectors is anticipated to improve given the healthy economic climate in the country and region. The export figures of the leading manufacturing-based commodities indicate a positive turnaround in manufacturing, In the first eight months of this year, export volume of sawntimber improved by 11.2 percent, veneer sheets 3.7 percent, wooden mouldings 8.5 percent, methanol 63.6 percent, and HBI 14.2 percent. However, plywood registered a decline in export volume by 3.3 percent in the same period.

22. On the other hand, forestry and logging is forecast to decline albeit at a lower rate. The State government will continue to adhere to annual coupe for logging from permanent forest reserves as well as step up efforts to protect the remaining tropical forest especially from over-logging and illegal logging activities. Issuing of the logging permits will continue to be temporarily stalled. Log production for 2000 is estimated to around the 3.0 million cubic

meter mark similar to last year. During the first months of this year, log production reached 1.24 million cubic meter, which is 19.0 percent higher than last year's figure of 1.04 million cubic meter recorded in the same period under observation.

23. The State government has also successfully kept inflationary pressure checked through the various strategies and measures adopted by the State in line with policies of the nation. During the period January to August this year, the consumer price index of Sabah rose by a slight 0.4 percent to 115.6 compared to 115.1 in the corresponding period of 1999. The State government will persist to ensure that inflation remain at a low level.

Revenue Estimates

Tuan Speaker,

24. The actual revenue collected as at the end of 1999 was higher with the amount of RM1,258.01 million being an increase of about 3.7 percent over the original estimates. The current scenario allows the revenue target of RM1,345.36 million this year to be adjusted to RM1,361.03 million with an increase of 1.16 percent, whilst State revenue is expected to be only RM1,236.77 million for the year 2001.

25. It was announced in the Budget speech last year that Customs Duties would be the biggest contributor to the State Revenue with an estimated revenue of RM290.08 million or 21.56 percent of the total revenue for the year 2000. Most of this is collected through import and excise duties on petroleum products. In line with the commitments of the Malaysian Government under the Asean Free Trade Area the estimated revenue from this source can no longer be achieved because of the abolishment of import and excise duties on petroleum products effective 1st January 2000.

Tuan Speaker,

26. In support of the nation's policy, the State Government has consented to the abolishment of the import and excise duties on petroleum products with the stand that item 1 in part V, of the Schedule Tenth of the Federal Constitution would not be reviewed. The State Government would still be getting the revenue accruing from this item by way of compensation to be paid by the Federal Government. For this year the Federal Government is anticipated to make an interim payment of at least RM150.00 million to the State Government.

27. It is appropriate to explain further that even if there is no abolishment of the import and excise duties on petroleum products, the revenue collection from customs this year will still be significantly reduced. With the hike in oil prices, the Federal Government is forced to subsidize heavily on petroleum products by giving maximum rates of exemption so as to allow the rakyat to enjoy relatively low prices on petrol and diesel which are the two main petroleum products. In the past, the State Government could collect an

average of RM200 million through Customs Duties every year. Nevertheless, for the year 2000, revenue received from the Federal Government in the place of import and excise duties on petroleum products would still be accounted for under Customs Duties. Custom Duties for the year 2001 will be limited to export duty on timber and forest produce only.

Tuan Speaker,

28. As mentioned earlier, the revenue forecast for the year 2001 is expected to be lower than the revised forecast for the year 2000 by 9.13 percent. The State Government was hoping that the downward trend of the State Revenue caused by declining Forest Revenue could be reversed with the introduction of the State Sales Tax Enactment in 1998. Unfortunately, the collection of sales tax particularly on crude palm oil was short-lived due to factors beyond the State Government's control. As provided under the State Sales Tax Order 1999, the sales tax of RM50.00 per metric tonne is collectible when market price of Crude Palm Oil is at RM1,000 per metric tonne from June this year, the State has not been able to collect any revenue. As it is apart from the RM60 million already received, no revenue is expected from this source for the rest of the year. It is anticipated that this situation will remain given the high stock level, high production and bearish export demand. Therefore only a token sum of RM10.00 is provided for this item next year.

29. It is expected that the Federal Government will be the biggest contributor delivering RM344.29 million or 27.8 percent of the total revenue for 2001. Under this class of revenue, a new item has been introduced to reflect the grants likely to materialize following the compensation for the loss of revenue for import and excise duties on petroleum products. The State Government had requested for an annual compensation to be paid perpetually with effect from this year with RM200.0 million as a base. For the year 2001, it is anticipated that the Federal Government will make a payment of RM250 million in respect of this compensation. The balance of RM94.29 million from this class will consist of the normal contributions expected from the Federal Government each year such as capitation grant, special grant, revenue growth grant, grant in aid of operating expenses for departments under the concurrent list and others.

30. Revenue from Lands and Forest shared the honour of being the second biggest contributor to the State's Revenue with the expected revenue of RM241.03 million and 241.25 million respectively for the year 2001. Land revenue has performed well since 1997. For the year 2000 it is expected to cross the RM200 million mark with the revised revenue of RM241.1 million. This amount is 105 percent over the actual 1999 land revenue of RM117.43 million. It is hope that this momentum can be sustained, and with the full cooperation from the public land revenue for 2001 estimated at RM241.03 million should be achievable.

31. Forest Revenue for 2001 is estimated at RM241.25 million. This amount is 19.50 percent less compared to the revised estimate for the year

2000 of RM300 million. This is due to the reduction of the planned harvesting of timber from 3 million cubic meters for 2000 to just above 2 million cubic meter for 2001. As it is timber royalties to be collected are expected to be lower being RM161.84 million for 2001 compared to the revised figure of RM267.0 million for the same item this year. In relation to this, the present situation of the timber industry is far different than before where at that time, Sabah was well endowed with timber resources. In the year 1978 and 1987, timber extractions were indiscriminately carried out and recorded the highest point; 13.28 million cubic meter obtaining revenue of RM510.30 million, and 12.0 million cubic meter securing a amount of RM1,000.70 million respectively. The excitement of logging activities at that time failed to consider for the necessity future planning, resulting in shortfalls in funding basic facilities which is greatly needed now. Nevertheless, Jabatan Perhutanan is anticipating higher revenues from two other items namely Premium on Round Logs and Forest Rehabilitation Fee being RM60.774 million and RM10.129 million respectively. Revenue from Premium on Round Logs is projected to be higher in the year 2001 because Yayasan Sabah which is responsible for 50 percent of log productions will no longer be exempted from payment of premium. Following the State Government's approval for the development of Industrial Tree Plantation (ITP), it is expected that collection of revenue from Forest Rehabilitation fee will increase.

Tuan Speaker,

32. Revenue from Petroleum Royalty is expected to be RM134.59 million or contributing 10.88 percent of the total State Revenue for 2001. The prices of crude petroleum have risen to a record high during this period. This makes it possible for this revenue item to be revised upwards from RM109.35 million to RM170 million for the year 2000. There are indications that the OPEC countries and USA are willing to increase oil supply to stabilize international markets therefore prices of crude petroleum may fall next year to a more acceptable level. Backed by this scenario, a lower amount of revenue of RM134.59 million is projected for next year.

33. Receipt from sales of water is an important item in revenue contribution for the State. For 2001, an amount of RM80.7 million is estimated for this item. This amount is 32.8 percent higher compared to the revised estimate for the year 2000 of RM60.77 million. The State Government is providing all that is necessary for Jabatan Air to be more efficient and effective in collecting revenue from sales of water. Review of the existing laws and regulations on water matters is also in the process with amendments to be made which will facilitate better enforcement to control the loss of water revenue. The public is reminded to settle water bills and to refrain from illegal water connections as such action contravened the laws.

34. Other than these revenue item from "proceeds, dividends and interest" is expected to contribute a sum of RM69.81 million. This indicates a slight reduction of 3.26 percent as compared to the revised estimate of RM72.16 million for the year 2000 due to the decline in revenue from interest on loans to public corporations. Since market interest rates on deposits are low and

expected to remain so next year, earnings from the cash balances and deposits of the State Government are not expected to change much.

35. Last year the State Government had announced the levying of sales tax on sale of lottery tickets. The expected contribution of RM45 million of this sales tax is on target and therefore the revised figure for this year has been maintained at RM45 million. For the year 2001, the same amount of revenue will be expected.

36. Other revenue items for next year consists of Licences and Internal Revenue – RM2.66 million; receipts for and in aid of Specific Government Services RM1.82 million, Railway RM1.2 million, Rentals on Government Building RM18.99 million, Ports and Harbour RM1.59 million and miscellaneous RM53.81 million.

Supply Expenditure

37. The proposed allocation for the year 2001 supply expenditure is estimated at RM1,236.13 million, represents a decrease of 8.77 percent as compared to the revised estimates of RM1,355.03 million this year. Of this amount, RM406.65 million is provided for emolument, RM361.38 million for Recurrent Expenditure, and a sum of RM468.10 million for special expenditure represents an increase of RM27.12 million or 7.14 percent. The increase will take into account the additional 10 percent basic salary hike for civil servants as well as the yearly increment. An allocation of RM361.38 million for Recurrent Expenditure represents a slight reduction as compared to the revised estimates of RM364.99 million for the year 2000. A sum of RM468.10 million is provided as Special Expenditure which includes contribution to Statutory Fund and other expenditures related to meet essential services.

38. The proposed operating expenditure for Ministry of Finance is estimated at RM295.83 million. Of this amount, 55.09 percent is earmarked as contribution to the Statutory Fund which includes RM150.00 million for the contribution to the State Development Fund, another RM13.0 million for the State Loan Fund. Under the Expenditure Head of Treasury General Services, a total of RM109.55 million is made available, of which the allocations include RM35 million for equity in Sabah Electricity Sdn. Bhd., RM15 million for rental for private vehicles. A sum of RM23.27 million is also provided for financing the operating expenditure for Ministry of Finance, State Treasury Department and Department of State Computer Services. The State Government will continue to provide financial assistance to all major religious bodies as well as schools. I would like to stress here that even though the state's revenue are limited, the State Government will continue to implement various development programmes which have been planned through the financial assistance and loan facilities from the Central Government. This financial assistance will be utilized based on priorities specifically on the development of economic infrastructures.

39. The Chief Minister's Department which covers important functions on Forestry, Land and Survey, the State Public Services Training, Printing, Islamic Affairs, State Liaison Office and State Archives, is provided with a total allocation of RM224.49 million. A major portion of the allocation of RM41.60 million is set aside to meet the operating expenditure for the Chief Minister's Department; RM50.63 million for Forestry Department; RM45.62 million for the Land and Survey; RM43.52 million is provided for the Department of Islamic Affairs and another RM33.17 million for the State Public Services which includes scholarship awards as well as reinventing government (RG) programme in the public sector.

40. The Ministry of Infrastructure Development which is responsible for the Public Works, Water, Railways and Ports and Harbours is allocated at RM328.39 million for the year 2001. Of this amount, RM156.02 million is made available to the Water Department, RM148.83 million for Public Works Department, RM10.16 million for State Railway Department and the balance of RM2.91 million for the operating expenditure of the Ministry concerned.

Tuan Speaker,

41. The Ministry of Agriculture and Food Industry and the departments and agencies under its control will receive an allocation of RM126.65 million. Of this amount, RM43.41 million will be made available to the Department of Drainage and Irrigation, RM9.62 million for Fisheries Department, RM15.10 million for Veterinary Services and Animal Husbandry Department, RM40.18 million for Agriculture Department and RM18.33 million for the Ministry's office and four other agencies under its control. It is hoped that the current agriculture policy will be more effective to achieve its objectives especially in the production of strategic products which could lead to reduction in the importation of food stuffs.

42. A sum of RM33.01 million is proposed for the operating expenditure of the Ministry of Tourism Development, Environment, Science and Technology. This represents an increase of 9.34 percent compared to the revised estimate RM30.19 million this year. With rich natural resources coupled with cultural heritage, and environmental resources which have the potential to produce new state products that we can be proud of, it is hoped that the Ministry concerned will be able to continue planning for the expansion of the tourism and the services industry in the state. In addition, Sabah has now been identified by scientists as one of the world's destination for its unique biodiversity. As excellent environmental management has been accorded top priority by the Government, this will reaffirm and guarantee a balance management in the development and the usage of our natural resources that is in line with conservation needs and the protection of natural habitats.

43. The Ministry of Social Services and Consumers Affairs is to receive an allocation of RM75.07 million or 6.07 percent of overall total expenditure. Whereas a sum of RM35.57 million is allocated to the Ministry of Local Government and Housing. The ministry concerned is expected to play its role in ensuring that the local authorities improve their financial position

without depending on yearly grant for their operations and other financial requirements from the state government.

44. The improvement of sports and development of youths is important in the development of a disciplined society, in the same way with other management areas in leadership training and not just solely for physical health. In respect of this, a sum of RM22.92 million is set aside next year. Dynamic youth programmes can prevent unhealthy activities to pollute the mental development among the youths. With increased allocation given to the ministry concerned it is also hoped that early preparation of our state athletes for the SUKMA games championship when Sabah became its host in the year 2002 will bear fruit. Further, this programme will bring benefits to our domestic tourism activities.

Tuan Speaker,

45. The Ministry of Industrial Development and its department is to receive an allocation of RM4.71 million. Whereas a sum of RM43.87 million is set aside for the Ministry of Rural and Entrepreneur Development to enable it to implement socioeconomic development in rural areas, create job opportunities, to improve skills in business and as well as to eradicate rural poverty. The allocation also includes operational expenditure for all districts and sub-districts. As from next year, the government will set aside an allocation to create awareness to the rural community with regards to information technology and communication through mobile 'internet' programme. The Ministry of Resources and Information Technology Development and its department and agencies will receive a sum of RM17.01 million to enable the Ministry to carry out training of staff, employment attachment programme and other activities related to the human resources development. A sum of RM14.27 million is provided for the office of Yang Di-Pertua Negeri, State Legislative Assembly, Public Services Commission, State Attorney General and State Syariah Court.

46. Although repeated reminders were given at each budget session, weaknesses are still found among the controlling officers and in the government agencies, in matters pertaining to financial regulations and control of public funds. For instance, neglect of responsibilities on control in the usage of government vehicles have resulted in government having to bear high maintenance costs every year. As a user, one should treat public property as his own. This rule applies to all government properties. A civil servant should strive to attain higher financial discipline and integrity that will bring pride to the civil service and gain public endorsement.

The Role of Public Agencies

Tuan Speaker,

47. The Government will continue to provide assistance and support to public agencies that are involved in socio-economic projects. A sum of RM49.5 million has been allocated for this purpose for the year 2001. This

sum is 3.34 percent higher as compared to this year which totalled RM47.9 million. Nevertheless, a new approach needs to be taken. The active involvement of the private sector in providing similar services will lead to duplications and inefficient usage of resources. Hence, the proposal that YUM be merged into Sabah Credit Corporation next year will bring mutual benefits to both agencies. This approach will strengthen the micro-financing programme for the rural community in support of the caring society policy. Such move will become a feature in our efforts to consolidate the function of the state agencies in future. Up to the end of the 1999, arrears in repayments of loan amounted to RM1.15 billion. This amount is not acceptable to be left as such. Therefore a restructuring on the equity and loan of these agencies is needed to enable them to function as a new entity. The government believes that these agencies have roles to play in stimulating the State economic activities.

Development Budget 2001

Tuan Speaker,

48. The twin objectives of the State's new economic policies under the 7th Plan will continue to be pursued under the 8th Malaysia Plan, 2001 - 2005, which are as follows:-

- to speed up economic growth as well as to achieve a higher growth rate in the State;
- to eradicate hard-core poverty while reducing relative poverty and at the same time reducing the disparities in economic development between regions and between urban and rural areas in the State.

49. The Development Budget for 2001 will give due emphasis to the above objectives. In the selection of projects and allocation of development funds, various development strategies have been taken into account which are as follows:

- To strengthen our economic base and encourage foreign investment;
- To develop infrastructures and public facilities both in the urban and rural areas; and
- To improve the social status and the quality of life of the rakyat particularly those in the rural areas.

50. Specifically in the assignment of allocation to projects in our proposed development expenditures for 2001 the following criterias have been adhered to:

- to give priority to continuation projects and to new projects that are ready to take off;

- Projects which could help increase our state revenue and foreign exchange earnings;
- Programmes or projects that could contribute to addressing the imbalances between regions and districts;
- poverty eradication programmes;
- programmes/projects that could help to develop and promote the involvement of bumiputras and women in the various sectors of the economy.

Tuan Speaker,

51. With an allocation ceiling of RM3,242.59 million for the 7th Malaysia Plan, involving a total of 1,182 development projects, a sum of RM1,844.20 million or 56.87 percent was spent during the first 4 years in that period. Of that number 489 was completed, 381 under various stages of implementation and 312 are yet to be implemented. For the 8th Plan the ceiling approved is RM3,754.77 million. This involves 1,184 development projects, consisting of 381 continuation projects and 803 new projects representing an increase of 15.79 percent from the total ceiling for 7th Malaysia Plan.

52. With that, an allocation of RM516.59 million is proposed for development in the year 2001. As the first year of the 8th Malaysia Plan, this amount is considered appropriate and in accordance with our implementation capacity. Of the amount, RM275.96 million or 53.42 percent is earmarked for continuation projects which are carried forward from the 7th Malaysian Plan, and RM240.63 million or 46.58 percent for new projects. The distribution of the proposed fund by sectors are as follows:-

	<u>RM (Million)</u>	<u>%</u>
Economic	322.49	62.4
Social	153.47	29.7
Administration utilities	40.63	7.9

53. Out of RM240.63 million earmarked for new projects proposed in 2001, RM143.91 million or 59.81 percent is for the economic sector, RM90.59 million or 37.65 percent for social and RM6.13 million or 2.54 percent for administration. Under the economic sector, RM75.32 million has been earmarked for Agriculture and Land Development and another RM37.59 million for public utilities. Among the major components under the social sectors are RM41.0 million for community and rural development, RM30.0 million for culture and sports and RM16.7 million for the development of township and housing. The Industrial sector is no less important for the state

growth. An allocation of RM5.94 million is made available for this field which will be supplemented vide loan in line with the new approach.

54. I wish to bring to the attention of this Honourable House that with the sum of allocation proposed, the government will ensure that the implementation plan of our main programme in our development agenda will be able to go on smoothly.

Tuan Speaker,

55. I am full of confidence that the Federal Government will continue to provide assistance to the State Government as they have always done in the past. Following the tabling of the Federal Budget on October 27, 2000, the above assistance for development projects totalled RM111.81 million consisting of RM34.06 million as federal reimburseable grants, and RM77.76 as loan. Expenditures under federal reimburseable grants consists of projects under various departments such Drainage and Irrigation RM12.54 million, Agriculture RM14.24 million, and Veterinary Services RM7.28 million. As for the federal loan RM30.00 million is for KKIP project, RM0.76 million for low cost housing, RM10 million for sports and RM37.00 million for water supplies.

56. On top of that programme like rural water supplies, rural electricity and other public infrastructure facilities will continue to be enjoyed by the people of this state. A sum of RM609.34 million, under the supervision of Federal Government, has been made available for this purpose. Such a substantial sum of assistance shows that the state has always been accorded due attention and recognition by the Central Government. This indicates the Central Government's concern and willingness in providing socio-economic developments required by Malaysians in this state. I would therefore like to put on record our deep appreciation on behalf of the State Government to the Federal Leadership for their continued moral support and financial assistance.

Conclusion

Tuan Speaker,

57. It is indeed very important for us to give serious attention the impact of the budget on the performance of the state economy, in the allocations and how we used our resources because as we progress into the 8th Malaysia Plan, we must be vigilant not to repeat making unwise decisions that could jeopardize the well-being of our state and the people. We need to ensure a smooth coordination on the relations between policy formulation and planning and, implementation and the budgeting process. We are aware that the performance of the state's economy is influenced by external elements, uncertainties in the world economy and a financial system outside the control of the government. Given the lessons of 1997/1998, a fresh financial crisis could come and go without any warning and unpredictable in the present information era. In the same vein a computer virus can appear and severely

destroy the wealth of many countries in days. In this regards and based on the recent financial crisis, it becomes necessary for us to have our own economic agenda, to be self-reliance and free from the risks of the 'new' economy. In view of this, our current structure would need to be reshifted to a knowledge-based structure to enable us to be competitive and to continue our agenda with vigour in order to survive in the new world of globalization.

58. Honourable members of the house, we are the trustees of the people. We are also the focus on which they place their hopes and appeal for solutions.

59. We are responsible in ensuring that the state administration and the handling of development is run smoothly and efficiently as well to refrain from repeating mistakes causing wastage of resources and energy.

60. We should be strong and matured enough in handling current issues and challenges at all levels. Besides, we should also be rational and wise in handling current issues that could undermine the unity of the people. Unity is such an important tool for the development of the country and its people towards achieving excellence, and in our own efforts to realize the vision of a progressive and a developed nation by the year 2020.

61. I am confident that with the support of the people and all concerned, especially Honourable Members, government officers, business groups in the private sector, and community leaders at all levels, together we can bring the State of Sabah to a higher plane.

Tuan Speaker,

I beg to propose.