

**THE 2003 BUDGET SPEECH
BY THE HONOURABLE MINISTER OF FINANCE
DATUK MUSA HAJI AMAN
AT THE LEGISLATIVE ASSEMBLY
ON 24th OCTOBER 2002**

Mr. Speaker,

1. I beg to table the 2003 Budget for the approval of this Honourable House.
2. I am grateful to the Almighty for being able to table once again the State Budget for the year 2003. In line with the use of the terminology Budget by the Right Honourable Prime Minister, Dato' Seri Dr. Mahathir Mohamad while tabling the National Budget on 20th September 2002, I propose that the same terminology be used during the tabling of the State Budget for the year 2003.
3. The preparation of the State Budget for the year 2003 is a challenging task because Sabah needs to move forward in tandem with the national vision to achieve the hopes of Vision 2020 in a uncertain global environment. As a trustworthy and responsible government, the Barisan Nasional government will endeavour to ensure that the economic fundamentals of the State will continue to expand and be strong, to ensure a stable economic growth so that the people will be able to enjoy quality standard of living, providing opportunities for business and employment, to reduce incidence of rural poverty and equitable distribution of wealth.
4. With depleting resources, the 2003 Budget will be an important financial instrument to pioneer and strengthen strategic existing and new fields. At present Sabah is still over dependent on commodity-based economy especially agriculture. Our forest resources have

also depleted. Under this condition, it is imperative for us to explore new sources of wealth amongst others, biodiversity, biotechnology, tourism products and application of ICT in the various services sector. As an example, based on biodiversity alone we will be able to develop rainforest knowledge and bioeconomy. In agriculture we should be prepared to practise precision agriculture. In my view, to be successful in these new fields, we have to plan our future creatively, innovatively and with diligence. All these will expand the revenue base and increase prosperity of the State in future.

5. Operationally, this budget will continue to take into account these important aspects; firstly, accountability in public administration to strengthen financial management; secondly, to ensure that utilization of public fund will be done efficiently, effectively and prudently; and thirdly, able to contribute and address critical socio-economy and political issues.

CONTEMPORARY

Mr. Speaker,

6. On this occasion, I wish to thank the Right Honourable Dato' Seri Dr. Mahathir Mohamad, Prime Minister and Minister of Finance, Malaysia for tabling a budget that will stimulate and accelerate progress and thereafter socio-economy and political prosperity of the nation. This Budget has also provided various opportunities and incentives for the State Government to streamline its development strategies so as to be in line with the nation's strategies. To ensure its success, close rapport between state and federal agencies will be vital. Every agency will need to play its role proactively. The situation now does not permit us to serve ordinarily.

7. Also close political rapport between state and federal leaders will play an important role. We, Malaysian citizens domiciled in Sabah, are fortunate to have national leaders who are sensitive and authoritative enough to be able to make policy changes and formulate new strategies in the management of economic and political affairs of the nation. This wisdom has brought benefits in the form of political stability, socio-economy progress, peace and prosperity to Malaysia and this region.

Mr. Speaker,

8. With the prevailing of political stability and dynamic socio-economy development, we in Sabah will be able to focus on formulating policies and strategies to strengthen the state economic fundamentals. The State Government, assisted by its huge machinery will ensure that development in the strategic sector will continue smoothly and progressively. Among the incentives for these sectors are - land inventory development, site preparation, development of agriculture land and forestry inventory. The preparation of infrastructure and socio-economy infrastructure, including low cost housing and reduction of digital gap programme, development of the service sector including tourism will be also enhanced.
9. At present our nation is heading towards knowledge based economy or K-economy. Information and knowledge and skilful application of knowledge will be the basis for generating new wealth. Thus this economy requires human resources who are knowledgeable and highly skilled. It is important for us, in Sabah, to ensure that the peoples' intellectual asset be developed in order to develop knowledge workers.

10. At the same time, skilled workers should also be knowledgeable and skilful in the utilization of the latest technology especially ICT and biotechnology. Both of these have been identified as the pillar for nation development in the era of K-economy. In this context, once again the members of the civil service should be prepared to provide efficient and precise service so that the aspiration of the state and nation will be realised. The shift towards electronic delivery should be capitalised to assist those who are facing competition in the global market. I believe our public sector will be prepared to face this challenge.

Mr. Speaker,

11. It is important for all of us, to take a lesson from the fact that the state financial resources are limited. On the other hand our expenditure trend seem to keep on increasing each year. Therefore the State Budget for the year 2003 will continue to be the proponent on redressal policy on this expenditure trend in particular on privatisation programme, among others, privatisation of the Water Supply Concession, Management Consultancy Services (MCS) that manage the enhancement of water revenue and privatisation of vehicle under Angkatan Hebat Sdn. Bhd. Negotiation and revision of terms and conditions of agreement, particularly those which are not beneficial to the government, has resulted in positive results based on mutual agreement. As an example, the cost of vehicle privatisation was reduced from RM43.0 million to RM12.0 million per year. For the MCS Agreement where an average fee of not less than 20 per cent on annual revenue collection were imposed for five (5) years, from 1998 to 2003, this agreement has been successfully terminated earlier and gradually with effect from 1st November 2002.

12. Other than this, as a result of prudent spending, the government was able to reduce expenditure on transport and travelling by Members of the Administration, and expenditure on usage of helicopter as proposed by the Right Honourable Chief Minister. The transport and travelling expenditure by Members of the Administration has decreased from RM15.5 million in the year 2001 to RM12.6 million this year (2002).

13. We should be moderate, open and frugal in managing public fund. As an example, when the state hosted the 9th SUKMA recently, the physical preparation cost on the Likas Sport Complex and other restoration works was able to be reduced from the original planned cost of RM168.0 million to RM80.3 million. Despite this cost reduction, the event was held smoothly and satisfactorily.

Mr. Speaker,

14. My Ministry is in the midst of looking at various proposals for the total privatisation of water supply that involve production, distribution and billings, not the privatisation of water production alone. At present, we spend about RM240 million per annum on this. As a result, government is burdened with debt that has increased to more than RM500 million. I wish to emphasise here that for the year 2003 the main agenda of the State Government is to resolve the problem with regard to the management of water supply. Notwithstanding this, efforts are currently being taken to address the problems.

Mr. Speaker,

15. The redressal exercise is of paramount importance because the State Government should no longer be burdened with debt as a

result of privatisation programme. Privatisation was undertaken to reduce the burden of the government while at the same time to provide efficient services and not otherwise. Now, the limited financial resources had to be distributed in support of an important agenda to ensure our survival in facing globalisation, the impact of science and technology and global competition. We must build up the capacity of the strategic sectors through the development of infrastructure and infostructure and make local authorities more efficient. Similarly, we need to formulate strategies, including restructuring the organisations especially in the manufacturing and services sectors so that their competitiveness can be enhanced. At the same time, the State Government is hopeful that this redressal exercise will strengthen the State Government's capability to enhance delivery and effectiveness of the socio-economy programmes for those who are in need.

THE WORLD ECONOMY

Mr. Speaker,

16. The World economy continued on its downward trend in 2001. In 2002 and 2003, growth of the world economy is forecast at 2.8 per cent and 3.9 per cent respectively. Major economies like the U.S., E.U and Japan have not shown signs that they have overcome economic slowdown. However, there are signs that show that these economies are on a sustained recovery path for the future.
17. For the U.S., its economy is projected to grow at 2.2 per cent (in 2002) to 2.6 per cent for the year 2003. For the E.U., its economic growth is slow at around 1.1 per cent in 2002. However, it is projected to grow at 2.3 per cent in 2003.

18. The Japanese economy contracted by 0.3 per cent in 2001 and forecast to contract by 0.5 per cent in 2002 brought about by weakened global demand for its manufactures. In 2003, the Japanese economy is forecast to recover with a projected GDP expansion of 1.1 per cent.
19. China and India performed rather strongly. Growth in China is expected to increase to 7.5 per cent in 2002 due to robust domestic demand. In 2003, China's economy is forecast to expand at 7.2 per cent.
20. In the case of India, a modest pick up in growth to 5.0 per cent is expected in 2002 due to robust service sector activity and a projected record level of agricultural output helping to offset lingering weakness in external demand and industrial production. In 2003, the economy of India is forecast to expand at 5.8 per cent.

THE MALAYSIAN ECONOMY

Mr. Speaker,

21. With better world economic outlook anticipated, the Malaysian economy is projected to grow by 4.0 per cent in 2002, and 6.0 to 6.5 per cent in 2003.
22. Encouraging growth in the Malaysian economy is anticipated to emanate from increased in domestic demand. Private investment is expected to grow by 16.5 per cent while consumption is envisaged to grow by 10.0 per cent. The public sector on the other hand will continue to play its role as facilitator to growth, supporting the private sector and the growth engine. Public investment is

estimated to rise marginally by 2.4 per cent while public consumption by 10.1 per cent.

23. It is the strategy of the Federal Government to develop other growth sectors particularly the services sector so as not to be over dependent on the manufacturing sector. As such, greater emphasis will be given to develop the tourism, transportation, education and health sectors. Efforts to develop the agriculture sector especially in increasing food production will reduce the nation's food import bill.
24. The Federal Government financial position will also be strengthened by reducing the overall budget deficit to 3.9 per cent of GDP in 2003 from 4.7 per cent in 2002. The aim is to achieve a balanced budget at the end of the Eighth Malaysia Plan.
25. Overall, the economic fundamentals of the economy remain strong. International reserves rose to RM130 billion at the end of August 2002. This reserve is 5.1 times the short-term foreign liabilities and sufficient to finance 5.6 months of retained imports. Trade balance surplus is registered for 57 consecutive months since November 1997. The gross national savings remain high at about 33 percent of GNP.
26. The banking sector is healthy with risk-weighted capital ratio (RWCR) of 13.1 per cent and non-performing loans (NPL) at 8.0 percent in August 2002. Short-term foreign debt liabilities remain low at 7.5 per cent of GDP.
27. With subdued inflation and low interest rates environment coupled with support from the government and the banking sector, the domestic sector is expected to be further strengthened. Unemployment rate is only 3.4 per cent in 2002. This will increase

the purchasing power of the people. The income per capita is expected to increase to RM14,100 in 2003 from RM13,400 in 2002.

SABAH ECONOMY

Mr. Speaker,

28. For the year 2002/2003, the State's economy is forecast to improve. The growth of 3.7 per cent in 2001 is forecast to increase to 4.0 per cent in 2002 and 4.3 per cent in 2003.

29. The agriculture sector, which contributes 35 - 40 per cent to the State's GDP, will remain the main contributor with palm oil being the main income earner of the state export. For the first half of 2002, the export value of palm oil alone reach RM2.3 billion or 33 per cent of the State's total export of RM6.9 billion. This figure is expected to rise as a result of low contribution from timber based export products. The reduction of import duties of palm oil by China and India from 75 per cent to 65 per cent coupled with the increase of the import quota for this commodity to China to 2.4 million tons is expected to boost the export of palm oil. Strengthening of palm oil price is expected to continue in the short to medium term due to reduction of stock at international level and due to increased demand by consuming countries.

30. The emergence of new palm oil markets such as Saudi Arabia, Netherlands and the Russian Federation contributes to the optimistic outlook for the palm oil sector. Other agriculture sub-sectors such as cocoa and rubber are not expected to show significant increase because investment in these sectors is less attractive compared to the investment in the palm oil sub-sector.

Investment in food production will continue to be encouraged and promoted at state level to reduce our food import bill in line with the Second State Agriculture Policy and the Third National Agriculture Policy.

31. The outlook of the timber industry on the other hand is not so encouraging as the State continues to face shortages of raw material supply. The volume of log production in 2001 was recorded at 2.59 million m³. This is 31 per cent less than the production in 2000 amounting to 3.73 million m³. According to the Forestry Department, the volume of log production is projected at 2.2 million m³ in 2003. In the first half of 2002, the volume of log production is estimated at 1.20 million m³. The timber industry in Sabah currently required about 6.37 million m³ to meet its installed input capacity for wood-processing.
32. Other than raw material supply problem, the timber industry in Sabah is also facing other structural problem while at the same time facing competition from producers of softwood, temperate wood, tropical wood, synthetic wood and wood substitute materials. Demand transition of softwood from Japan and China is a fact. Now, China emerged as the timber based manufacturing centre in Asia due to its economies of scale and low cost of labour.
33. As a result these challenges, the Forestry Department will increase its efforts towards strengthening the resource base, broadening products range to produce higher value added products, enhancing technological capability and identifying niche markets.
34. The manufacturing sector which is mainly dominated by the timber based industry is not envisaged to improve significantly in the next couple of years. This is shown by the trend on export of timber

products which is not encouraging. In the first half of 2002, the value of export of sawn timber decreased by 23 per cent to RM257.2 million. The value of export of plywood decreased by 11.9 per cent to RM515.5 million. The value of export of veneer decreased by 27.4 per cent to RM62.8 million and the value of export of mouldings decreased by 9.8 per cent to RM30.5 million compared to the same period in 2001.

35. Efforts to attract investments into the manufacturing sector especially those that involves small and medium industry (SMI) will be stepped up. Public investment will focus on improving the supporting infrastructure facilities and services to make the State more cost competitive to some other states in Malaysia and the fast emerging cheaper cost producing countries like China and Vietnam. The State's industrialisation process will concentrate in developing its resource-rich comparative advantage commodity by developing high value added knowledge intensive palm oil-based, cocoa-based and seaweed-based products.
36. The tourism sector will remain one of the key growth sectors for the State as the potential to further develop the industry is vast. In the year 2001, income (foreign and domestic) from the tourism sector increased by 6 per cent to the RM992 million, compared to RM936 million in the year 2000. Income from the tourism sector is expected to increase from RM1.2 billion in the year 2002 to RM1.4 billion in the year 2003.
37. The tourism sector will be strategically developed to seize vast opportunities such as 'silver hair programme', golf tour, eco-challenge, sport tourism and others. Under the 8th Malaysia Plan, the State Government will continue to identify and develop new indigenous products to further boost the tourism industry. The State

Government will continue to push for increase in air-accessibility into the State while at the same time improving the facilities and services at the various tourism destinations in the State.

38. Efforts to increase air accessibility via direct international flights and chartered flights to the State is an important development agenda of the government to bring in more tourists into Sabah. Marine accessibility through vehicular ferry services from Menumbok, Sabah to Serasa, Brunei Darussalam will be introduced. The existence of land accessibility via the Trans Borneo Highway will increase the tourist arrivals from Sarawak and Brunei Darussalam.
39. As result of the 11th September 2001 incident, higher flow of tourists from the Asian region is anticipated. The successful hosting of SUKMA IX, Sabah International Exhibition 2002, Asia-Pacific International Conference and numerous international events in the State have enhanced Sabah's image as an attractive tourism destination capable of providing services of international standard. Promotion to attract domestic tourists will also be enhanced as a result of the recent cut in MAS domestic flights and increase in Air-Asia's KL - Tawau and KL - Labuan flights.
40. There is statistical evidence to show that there is an increase of 12 per cent in tourist arrival (both foreign and domestic) into Sabah in the first eight months of 2002 totalling 704,961 compared to 626,935 for the same period in 2001. From this figure, 391,417 were domestic tourists while 313,544 were foreign tourists. The number of domestic tourists and foreign tourists increased by 22.0 per cent and 2.5 per cent respectively.
41. We are indeed proud of the success of the State in the tourism industry. The efforts by the State Government to develop this sector

has indeed bore fruit of success as indicated at the Tourism Malaysia Award (2001/2002) where the State won several awards in i.e. Best Tour Programme, Most Promising Tour Operator, Excellence In Hotel Services, and Best Four Star City Hotel through travel companies and the respective hotels. I wish to take this opportunity to congratulate the Right Honourable Chief Minister as the Minister of Tourism Development, Environment, Science and Technology.

42. For the year 2002/2003, upward trend in petroleum price outlook is anticipated to continue due to turmoil in the Middle East and confrontation between the United States and Iraq. The prices of petroleum have risen significantly from US \$19.0 per barrel in January to US \$29.0 per barrel in September this year. The major importers of crude petroleum from Sabah are Korea, India and Peninsular Malaysia.
43. Construction activities of infrastructure and infostructure by the Federal and State Governments are expected to increase into the third year of 8th Malaysia Plan. The bulk of the public expenditure will be spent on the construction of schools; computer labs; training institutions; naval base and the North Grid, East Coast Grid and East-West Grid Connection. Preparation for SUKMA IX appeared to be the main construction activity for this year. The public spending will need to be reciprocated by the private sector. The private sector will have to shift their focus from property development only.
44. Public consumption is expected to increase with the announcement of bonus and salary increase to civil servants coupled by the salary adjustment under the new scheme Sistem Saraan Malaysia. Inflation rate is not expected to rise. In the first seven months of this year, the inflation rate was only 0.6 per cent.

45. The labour market is also expected to improve with more vacancies in the various sectors. However, it remains to be seen whether the locals will seize the opportunities available in the construction, plantation, wholesale and retail sectors, and the domestic household sector (housemaids). As at March 2002, the unemployment rate was 5.2 per cent compared to 5.9 per cent last year.
46. Although better economic outlook is expected for this year and next year, the State Government can further improve the future outlook by tackling the main challenges as follows:
- Strengthening the State Government financial position;
 - Diversifying the State's commodity base; for example shifting forestry resources as source of timber to biodiversity resources as the main source for biotechnological advancement;
 - Reducing dependence on foreign workers;
 - Developing indigenous small and medium industries to reduce the outflow of skilled workers from Sabah and to attract those from abroad;
 - Strengthening domestic industries to face AFTA and WTO and effects of globalisation;
 - Further improving the Government's role as facilitator to socio-economy growth and political stability.
47. All those mentioned above are important for the transition of the State's economy to move gradually from an economy over dependent on commodity, to an economy base on industrialisation, services and knowledge and high technology-based products.

STATE REVENUE ESTIMATES 2003

Mr. Speaker,

48. State revenue for next year is estimated to reach RM1,560.00 million as against the revised revenue for this year of RM1,566.80 million representing a drop of only 0.43 per cent.
49. For this year, these are extraordinary items contributing to the increase in revenue under two revenue sources namely "Proceeds, Dividends and Interest", and "Miscellaneous Revenue" via income tax refunds related to dividends declarations by Sawit Kinabalu Berhad and Sabah Ports Authority as well as from the sale of government investment to Suria Capital Holdings Berhad respectively. The total revenue involved in such "one off" items is expected to be to the tune of RM410.00 million or 26 per cent of the revised revenue for year 2002.
50. With the declaration of these dividends, the State Government is entitled to claim back the amount deducted as income tax by the Inland Revenue Board on such payments of dividends. The claim in respect of the dividends declared by Sawit Kinabalu Berhad which had been submitted last year was settled early this year whereas for the declaration of dividend by Sabah Ports Authority, the claim that was submitted this year had already been received. As both these claims, amounting to about RM200 million, have not been included in the estimated revenue for year 2002, this should enable the State to enjoy higher revised revenue when compared to the original estimated revenue of RM1,413.67 million. In connection with this, an improved forestry revenue from the original estimate of RM150.79 million to the revised figure of RM208.72 million for this year is the result of the step taken by the Ministry of Finance to revise the royalty rates.

51. For the coming year 2003, the government will give attention to the palm oil industry which is expected to contribute more towards the State Revenue. At the same time sales tax will be imposed on gambling via slot machines for the purpose of monitoring this activity. I wish to state here that about RM205.00 million of the projected revenue for 2003 under the sources "Proceeds, Dividends and Interest" and "Miscellaneous Revenue" will not involve cash receipts. This amount is merely for accounting purposes only as a result of several exercises to convert loans into grants or equity to be several implemented next year.
52. Forest revenue for the year 2003 is expected to decline by 21 per cent from RM208.72 million, based on the revised estimate for the year 2002, to RM164.21 million. Among the main factors that cause the reduction of forest revenue is the declining trend in log output in line with the state government's commitment towards sustainable forest management for the benefit of the future generation. It is projected that log output for year 2003 will be 2.2 million m³ as compared to the expected log output of 2.4 million m³ for the year 2002. Most of the logs are expected to be processed by local mills whilst the volume of logs for exports is not significant being estimated to be around 70,000 m³. With the declining trend in the volume of log output, other forest related activities which have been contributing to forest revenue are expected to drop accordingly. The expected revenue from inspection of log import will also be reduced due to the existing policy of the Malaysian Government to stop illegal logs import from neighbouring countries. Nevertheless, the forest revenue will still contribute around 12 per cent of the estimated state revenue for the year 2003.

53. Contributors from the Federal government in respect of charged Federal Grants; Reimbursements and Assigned Revenue will continue to be a major financial source to the state for the year 2003 amounting to RM362.52 million or 23 per cent of the total estimated revenue. The State Government is hopeful that the compensation requested following the abolishment of import and excise duties on petroleum products since the year 2000 will be made available to Sabah even though no final decision has been made. If all runs smoothly, Sabah is expected to obtain RM231.5 million in respect of this compensation for the year 2003.
54. Following the Federal government's decision to increase the rates applied in the computation of Capitation Grant, the amount of this grant will increase to RM36.77 million and RM37.78 million for the years 2002 and 2003 respectively. Other grants such as Special Grant, Revenue Growth Grant and Grants in aid of Operating Expenses are not expected very much. Besides that, the state government is expecting to receive RM23 million from Contributions towards implementation cost of Federal development projects next year. With the revised estimated revenue for this year from this category amounting to RM305.94 million, this means the State of Sabah will receive an increase of 18 per cent of contribution in the year 2003.
55. Sales tax is also expected to increase next year. The revenue from this source is anticipated to reach RM276.00 million an increase of 38 per cent as compared to the revised estimate for the year 2002 of RM200.00 million. The amount of RM220 million from the estimated revenue for 2003 is expected to come from sales tax on crude palm oil. The government is confident that this amount can be achieved given that the price of crude palm oil is stable at the moment and is forecast to continue to increase. New formula will be

adopted to compute sales tax on crude palm oil beginning 1st January 2003. As a result of the decision to revise the existing sales tax formula of RM50.00 per metric ton to the new formula based on 5 per cent of sales value, the state revenue is expected to increase next year. Sales tax on lottery tickets is expected to maintain at RM50.00 million, which is the same amount as for the year 2002. Sales tax on sales of betting through slot machines will be introduced by 1st January 2003 with an expected collection of RM6.00 million. On the whole, sales tax is expected to contribute to as much as 18 per cent of the estimated revenue next year.

56. Land revenue is expected to continue as one of the main contributor to the state with the amount of RM181.98 million or 12 per cent of the estimated revenue for year 2003. This is an increase of 37 per cent compared to the revised revenue for the year 2002 of RM132.39 million. An amount of RM40.72 million from the land revenue expected next year is in the form of land premium in respect of the Nusantara Steel Corporation Sdn Bhd's project which will not involve any cash receipts because the same amount will be invested as government's equity in the project. Besides this, land revenue is projected to be higher because of the enforcement of the collection of arrears of land revenue up to the process of auctioning, increase in processing of conversion of land titles as well as enforcement in respect of breach of title conditions. The collection of revenue from lands for quarry purposes is also expected to be increased.
57. Petroleum royalty, being one of the vital contributors to the state revenue is estimated to distribute an amount of RM153.66 or 10 per cent of the state revenue for year 2003. This is a drop of 8 percent compared to the contribution for year 2002 amounting to RM166.54 million. This estimated revenue is based on the forecast by

Petronas. Taking into account the present condition which shows that the price of crude oil is moving upwards, the State Government is hopeful that the actual revenue collection for next year will be better.

58. Water revenue is expected to increase slightly. The projected collection next year will be RM79.02 million which is an increase of 9 per cent compared to the revised revenue of RM72.81 million this year. As stated last year, the government has, and is still making efforts to improve the management of water supply (including privatising specific components such as distribution and billings).
59. Revenue from "Proceeds, Dividends and Interest" for the year 2003 is estimated to reach only RM87.05 million, a reduction of 60 per cent compared to this year's expected amount of RM217.55 million. The reduction is due to the fact that no major payments from dividends is foreseeable next year. In respect of "Miscellaneous Revenue", it is projected that this category of revenue will contribute about RM201.74 million where a substantial amount of RM174.64 million is related to accounting adjustments necessitated by the conversion of loans into grants or equities. This category of revenue is expected to contribute a lower amount when compared to the revised revenue for the year 2002 amounting to RM233.47 million.
60. Revenue from Sewerage is expected to reach RM21.67 million in 2003, which is far higher than this year's revised figure of RM100,000 only. This is in tandem with the decision made where all Local Authorities must pay up their sewerage rentals to the Public Works Department next year. Before this, the State Government has written off arrears owed up to the year 1999 which had accumulated to the tune of RM112 million. With this write off it is

the hope of the government that the Local Authorities will upgrade their management on this aspect and abide with the ruling on the payments of sewerage rental to avoid accumulation of outstanding payments in the future.

61. Other revenues contributing to the State revenue for 2003 consist of Revenue from government property (RM24.6 million); Licences (RM2.8 million); Ports and Harbours (RM1.9 million); Receipts for and in aid of specific government services (RM1.8 million) and Railways (RM1.09 million).

SUPPLY EXPENDITURE

Mr. Speaker,

62. The proposed allocation for 2003 for Operating Expenditure is estimated at RM1,674.87 million. This allocation shows an increase of RM345.02 million or 25.94 per cent as compared to the original estimate of RM1,329.85 million for the year 2002.
63. The Supply Expenditure for 2003 is divided into 3 categories such as Emoluments, Other Charges Annually Recurrent and Special Expenditure. The allocation amounting to RM440.22 million made available for Emolument represents an increase of RM24.57 million or 5.91 percent as compared to the total provision of RM415.65 million for the year 2002. The increase is due to additional provision allowed for 10 percent increase in basic salary hike for civil servants as well as for the yearly increment.
64. The human resource and intellectuals not only represent as the most valuable assets but will greatly contribute towards productivity as well as clean, efficient and trustworthy culture. The Government

decision to implement 10 per cent salary increase in the public sector with effect from this year is as a recognition to the contribution and dedication of the Public Service who help the private sector to propel the State economic development. This recognition should therefore encourage the public service to strive further and accept the challenges to realise the state and national development agenda.

65. A sum of RM388.78 million is provided for other charges annually recurrent. This represents an increase of RM34.59 million or 9.77 per cent as compared to RM354.19 million in 2002.
66. The major portion of the increase is due to the transfer of expenditure from the development to supply vote for expenses related to general workers (labourers). This will enable the staff of the respective department and agencies concerned to enhance their enforcement duties especially in revenue collection. For example sufficient fund is required for the maintenance of vehicles, motorboats and technical equipment both for the Forest Department as well as the Land and Survey Department; Replacement/maintenance of pipelines, purchase of chemicals, replacement of water supply equipment and others for Water Department. These three Departments play a very important role in generating State Revenue. This allocation will also be channelled to maintain railway, bridges, landslides and other infrastructure in order to ensure safety and ease of transportation to the public. The State government will also continue to provide grants to several State Statutory Bodies. The disbursement of grants will be based on their performance.
67. For 2003, a sum of RM845.87 million is provided as Special Expenditure. This figure represents an increased of RM285.36

million or 51.04 percent as compared to the estimate provided for the year 2002 amounting RM560.01 million

68. A major portion of this allocation of RM312.29 million is set aside for contribution to Statutory Funds. Another RM345.43 million is provided under the expenditure heads of Treasury General Services of which the allocations include RM20 million for the development of Non-Muslim Religious Organizations whereas RM8 million is set aside as grants to schools, and RM12 million for rental of private vehicles. A sum of RM76.58 million is provided for the Water Department for the management of Water Supply Projects. The State Government will also provide a sum of RM20 million for social services programmes such as free supply of milk for primary school pupils, school uniforms and shoes especially for pupils in the rural school.
69. A sum of RM254.50 million is also provided for loan conversion to grant or equity for government agencies such as Sabah Land Development Board Sabah, KKTP Sdn. Bhd., Permodalan Bumiputera Sabah dan KKIP Sdn Bhd. This transaction does not involve cash but for financial accounting procedure.
70. The distribution to various ministries are as follows:

	Ministry	RM Million	%
1	Ministry of Finance	712.10	42.52
2	Ministry of Infrastructure Development	302.26	18.05
3	Chief Minister's Department	236.78	14.14
4	Ministry of Agriculture and Food Industry	149.54	8.93
5	Ministry of Social Development and Consumer Affairs	75.69	4.52
6	Ministry of Tourism, Environment, Science and Technology	48.82	2.91
7	Ministry of Rural Development	44.21	2.64
8	Ministry of Culture, Youths and Sports	23.57	1.41

9	Ministry of Local Government and Housing	24.90	1.49
10	Ministry of Resource and Information Technology Development	13.81	0.82
11	Ministry of Industrial Development	5.44	0.32
12	Charge Expenditure	23.70	1.41
13	Expenditures not under Ministries	14.05	0.84
	Total	1,674.87	100.00

DEVELOPMENT EXPENDITURES

Mr. Speaker,

71. The State Development Expenditures which is no less important to the State is controlled through a separate Budget more often called the Development Budget. Funds for this Budget are derived from contribution from the Supply Budget, and from federal sources that may come in the form of grants and loans.
72. Our Development Budget is directed towards strengthening our socio-cultural and economic base. Giving priority to development of the growth sectors, continuing to develop our infrastructures and Public Facilities, intensifying our efforts in improving the social status, safety and the quality of life of the people especially those in the rural areas, and to reduce the incidence of poverty.
73. In consideration of the above, for the year 2003 our Development Fund will be allocated a total sum of RM 556.75 million consisting of RM 433.64 million from state sources, RM 93.80 million Federal loan, and RM 29.31 million Federal reimbursable grants. This sum represents a reduction of RM 34.04 million or 5.76% as compared to the 2002 revised allocation amounting RM 590.79 million.

74. Of the RM433.64 million State Fund provided, a sum of RM 431.64 million is direct grant, and the balance of RM 2 million, State loan. The State loan is allocated to the Ministry of Local Government and Housing for their Low Cost Housing projects in Kota Marudu and Tenom.
75. The Loan component from the Federal Government is for various projects under the Water Department, totalling RM 86.00 million, and the Housing and Township Development Authority, RM 7.80 million. The Federal Reimbursable grants, totalling RM 29.31 million, is for various projects of departments and agencies under the Ministry of Agriculture and Food Industry.

Mr. Speaker,

76. Consistent with our main thrust, a sum of RM 303.04 million or 69.9 per cent is allocated to the development of the Economic Sector. Under this sector the development of Infrastructures, transportation and other public utilities is given the major share amounting RM 194.15 million. This allocation is made in consideration of its major role as catalyst for development of the other sectors. Agriculture and Land Development is provided a sum amounting RM84.80 million to ensure that its development is in line with the new National new agriculture policy. Allocation given to other items under this sector are as follows:

	<u>RM Million</u>
Tourism	12.95
Industry and Finance	7.83
Research and Manpower Development	3.30

77. The Social Sector is allocated a sum of RM90.50 million or as much as 20.9% of the total sum. Of that amount RM35.15 million is set-aside especially for Community and Rural development. Priority will continually be given to these two areas as a Society that is balance and develop in terms of material, emotion and spiritual can guarantee the welfare of the State and Nation.
78. This allocation is specifically set-aside for rural development and poverty eradication programmes such as Special Development projects; minor development project, poverty Eradication and Rehabilitation of Villages.
79. With this allocation coupled with the pre-emptive programmes provided by the Federal Government this year, totalling RM140 million for the 20 parliamentary seats, the Government hopes that its objective to reduce the incidence of poverty in the rural areas, and the economic imbalance between regions will be realized. Aspects on poverty and imbalances need to be looked at from different dimensions in line with a holistic approach and perspectives on development.
80. Assistance and firm support from the Government will enable all honourable members of this house to intensify their efforts to develop and stimulate the economy in their individual areas. Such sizeable allocation also will provide opening for local contractors to grab opportunities for development, and for their welfare as well as the local people.

Mr. Speaker,

81. Other areas provided under the Social Sector are as follows:-

RM Million

Housing and Township	29.30
City Development and Local Authority	11.35
Library and Welfare Services	10.20
Culture and Sports	2.40
Women In Development	.30

82. The Federal Government's policy to upgrade the role of women through a variety of programmes and facilities in the 2003 Budget, to enable Government Agencies, private sectors and NGO's to work jointly is indeed welcome. This recognition is a step that truly recognized the contribution of women to the economic and social development of the nation. In this respect the State Government will also contribute a sum of RM 1 million to programmes specifically tailored for the development of women in the state aside from the allocations that has already been provided to the other Ministries.
83. Besides that, the Government will also be undertaking an effort to achieve a zero squatters index, and to establish an aesthetic Urban setting that provides the most basic needs of modern living yet comfortable. This plan is in line with the process of modernization of cities and villages. In this context the State Government with the cooperation of the Federal Government, through the Syarikat Perumahan Negara, will built more low cost houses to house those who needed them.
84. The State Government had also identified various areas in the municipalities and districts concerned to be turned into a properly planned kampung reserve for the resettlement of local squatters. Clearing and surveying of lots had been done in areas that had been

identified in phase I of this project. Surveying is also presently being carried out in those areas identified under phase II.

85. With the support of the Federal Government, a sum of RM38 million will be spent on providing infrastructures, and other facilities such as water supply, electricity, catwalks and roads.
86. The Administration Sector has been allocated a sum of RM35.10 million or 8.1% for administration development. While a sum of RM 5 million of the development allocation is set aside for contingency.
87. The distribution of the 2003 Development Budget expenditure by ministries is as follows:

	RM <u>(Million)</u>	<u>%</u>
Ministry of Infrastructure Development	196.13	45.24
Ministry of Agriculture and Food Industry	75.27	17.36
Chief Minister's Department	63.13	14.56
Ministry of Local Government and Housing	26.60	6.13
Ministry of Rural Development	20.65	4.76
Ministry of Tourism Development, Environment, Science and Technology	12.95	2.99
Ministry of Social Development and Consumer Affairs	10.50	2.42
Ministry of Finance	8.00	1.84
Ministry of Industrial Development	7.33	1.69
Ministry of Resource and Information Technology Development	5.68	1.31

Ministry of Culture, Youth and Sport	2.40	0.55
Contingency	5.0	1.15
	<u>433.64</u>	<u>100.00</u>
	=====	=====

88. We will also be getting direct grants from the Federal Government for projects under the concurrent list of the State Constitution. Implementation of projects under this category is presently under the supervision of the Federal Government. Based on the Federal Budget which was tabled on the 20th of September, 2002, a total of RM725.77 million has been allocated to Sabah next year.

89. The Federal allocation is for the following purposes:

	<u>RM (Million)</u>
Forestry	11.57
Rubber Industry Board	4.25
Agriculture (Extension Services)	0.40
Fisheries	5.60
Roads and Bridges	517.95
Rural Electricity	98.00
Rural Water Supplies	88.00
	<u>725.77</u>

90. Such sizeable amount no doubt would help us tremendously in speeding up the State economic development. It also shows us that the Federal Government indeed cares, and is very much concerned about our welfare. On behalf of the State government, I would therefore like to express our sincere gratitude to the Federal Leadership for their generosity in providing us financial assistance

which I am sure would put the State in a much better position to provide.

SENSITIVE AND RESPONSIBLE MANAGEMENT OF GOVERNMENT AGENCIES

Mr. Speaker,

91. As has been repeatedly said, most of the State Government agencies are weak and facing problems. This reality need to be accepted by the Board of Directors and top management team of the agencies concerned. Excuses that socio-economic responsibilities entrusted on them had become an obstacle to their ability to generate revenue and profit is no longer relevant.
92. Management indicators such as declining in revenue or profit and a big expenditure increase must be carefully analysed in accordance with the saying "forewarned is forearmed". The Management team must always think of the best formula to improve their financial performance and organizational image without having to be told and reminded.
93. We cannot let these agencies to be left as they are. Delay in solving the long outstanding problems will not only result in financial loss to the government and the people but it will also jeopardise the state finances. The Right Honourable Chief Minister's reminder that 'enough is enough', is not only fitting but to be adhered to by all.
94. Board of directors and top management officials of the respective agencies must face reality and whatever risk resulting from their own decisions. I believe such action will make the Board and the

management team to be more responsible and extra careful in making decision in carrying out their routine duties.

95. Close monitoring on the implementation and adjustment to existing privatisation should be given priority. In line with this practice, we have already taken over the control of Angkatan Hebat Sdn Bhd through Warisan Harta Sdn Bhd, a State government company under the Ministry of Finance, by increasing the government share in the equity to 70 per cent. Within such a short period of time the new board and management have taken several measures to reduce cost for the government while at the same time making it to become a 'profit centre'. Similar action is being taken to acquire ownership and control of KPD Holdings Bhd from Empor Holdings Sdn Bhd which all this while have been incurring losses.
96. All measures that are being planned, undertaken and those that have been carried out are for the purpose to minimise continuous losses. We no longer can allow such situation to go on. The time has come for all of us to be firm in line with the principle of accountability and instil an efficient and trustworthy culture. The earlier we resolve this problem together, the brighter the future would be for Sabah and its people. We also need to face the current and future reality that require every corporate body to be competent in facing the challenges of globalisation era.
97. With these measures undertaken by the State Government, we hope that mistakes would not be repeated such as, lop-sided agreements resulting in losses to government and the people, privatisation programme that deviated from its original purpose and board of directors who are irresponsible and untrustworthy as well as inefficient management.

CONCLUSION

Mr. Speaker,

98. Among other issues that I have raised in the earlier part of the Budget Speech is the need to spend according to the availability of our resources. Therefore, all the parties concerned are to give priority to the proper management of economy and financial discipline. This has been emphasised in the Circular issued on expenditures estimate for year 2003. It has been made clear that the strategies for expenditure controls are carefully outlined as a basis for financial requirements for year 2003.
99. I wish to draw the attention of all that financial management and sourcing for new revenue, does not rest solely on the responsibility of a single ministry alone. On the contrary, it has become the collective responsibility and duty of us all, to safeguard the interest of our future generations. The practice of responsibility sharing needs to be enhanced in the public sector. We must realise that no one else will come to our assistance, except ourselves. With strong commitment and sincerity that we uphold, we shall together reap the fruit of our success.
100. The 2003 Budget is a vital redressal instrument to ensure agencies and critical services to become more efficient, productive and that will bring benefits especially to the people at large. This norm will unfold a new chapter for the government to inculcate a modern and effective management culture. All quarters need to enhance their management qualities in order to ensure the need to prepare for the challenges of AFTA, WTO and globalisation process. Emphasis will also be given to the development of new strategic sectors in the

economy as well as the socioculture. Other new sectors shall also have to be explored to broaden the economic base of the state to avoid from being too dependent on the traditional sources. Therefore, emphasis need to be provided on the Research and Development (R & D), application of ICT and others. The role of public machinery has to be revitalised in ensuring a shift from P-economy to K-economy in sectors that are found suitable.

101. We all have to admit that dynamic work culture values has its contributing role in the process of economic development to improve the well-being of this state. In this regard, it is appropriate for me to propose that there is a necessity to reinvent work culture towards excellent achievement-oriented. Work Culture that is easily satisfied with a daily routine schedule without creative and innovative inputs is obsolete. We must perform with new zeal and commitment. Hence, it is imperative for us to improve our status in the knowledge acquisition, skills and competence in individual as well as team efforts respectively. The culture of willingness to learn and the application of new knowledge in our field of work, will undoubtedly succeed in bringing positive transformation. The culture that believes in excellent achievement, dominant values and prudent but efficient, that will enhance the team spirit and dynamism, should be made as our belief.

102. All this while the Government never fails in its responsibility to honour the contribution made by the members of civil service. In appreciation of their contribution, as had been announced by the Right Honourable Chief Minister, the Government has also agreed to pay one month bonus or a minimum of RM1,200 in two instalments beginning in the month of November 2002; as well as the implementation of Malaysian Remuneration System (MRS). With this recognition, we hold in high hope that the civil service as the

government machinery will lead the State of Sabah to a higher plane of success. I, then would like to ask my fellow Members in this Honourable House, the private sectors together with the people to rally behind in support of the goal.

103. Let us therefore continue and be prepared to work harder for the better tomorrow.

Mr. Speaker,

I beg to propose.