

THE 2008 BUDGET SPEECH
BY
THE RIGHT HONOURABLE
DATUK SERI PANGLIMA MUSA HAJI AMAN
CHIEF MINISTER AND MINISTER OF FINANCE
AT THE STATE LEGISLATIVE ASSEMBLY
ON 16 NOVEMBER 2007 (FRIDAY)

“CONTINUOUS STABILITY AND PROGRESS”

“In the name of Allah, the most gracious and the most merciful”

Mr. Speaker,

1. I beg to table the 2008 Budget for the approval of this Honourable House.

Mr Speaker,

2. I am grateful to Allah SWT, with His blessing and grace once again I have this opportunity to perform the responsibility entrusted upon me to table the 2008 State Budget in this Honourable House.

Mr Speaker,

3. The cheers of Independence to commemorate Malaysia’s Independence last August is still fresh in our memory, and the sacred word has created the feelings of responsibility and raise the nation’s fighting spirit. The MERDEKA cheers has all along been our source of strength, harmony and success in bringing our nation together towards developing our beloved country and state. Progress after progress had been achieved, and while there is still room for us to explore and improve, unity among the people is an achievement of the highest value and has become the thrust of our strength, stability, and success.

4. The credibility and wisdom among federal and state leaders in the formulation of the various national and state development policies had benefited and given impact on the quality of life of the people, which we are able to enjoy now. Overall development in various fields, such as provision of basic amenities, rural development, human capital development, culture, welfare, development of ICT, natural resources and bio-diversity development will continue to be the core to propel the economic and social development in the state. The quality of life especially in the rural areas, has become better. Political stability with effective management as well as the cooperation from all levels of leaders and the people, has further strengthened the ties to achieve a bigger

objective in the future, that is more opportunities and progress for everyone. The planning of Sabah Development Corridor to be launched soon, will bring about more comprehensive and holistic development encompassing the western, middle and eastern regions of Sabah. I am confident that the Sabah Development Corridor will have an impact on two main factors, firstly, increase awareness as well as confidence amongst the people as the source of manpower to step up their participation and productivity. Secondly, a conducive development environment will be the catalyst for both public and private sector involvement in developing the state's economy through value added as well as providing various services, businesses and job opportunities.

Mr. Speaker,

BUDGET STRATEGY

5. In the 2007 State Budget, I had outlined the State Budget strategies for the first 3 year-period of the 9MP that is, until the Mid-Term Review, next year. The 2008 Budget, therefore is to ensure continuous progress, through an efficient and effective government delivery system, and strengthening of state financial resources in support of the State *Dasar Halatuju dan Pembangunan* to turn State of Sabah into an excellent and outstanding state by year 2015.

6. Hence, the country's stable political environment and the commitment as well as integrity of the leadership at the federal and state government level, is the main source of encouragement for us to uplift our performance and productivity. The year 2008 will bring about overall implementation of the development programs under 9MP, continuing the current momentum, and this process is expected to move fast with the involvement of the private sector. In line with this effort and supported by human capital program geared towards the establishment of social capital which is highly critical, will bring about impact on the achievement and realisation of development agenda objectives. Based on the five thrusts of the National Mission which are (1) To move the economy up the value chain; (2) To raise the capacity for knowledge and innovation and nurture first class mentality; (3) To address persistent socio-economic inequalities constructively and productively; (4) To improve the standard and sustainability of quality of life, and (5) To strengthen institutional and implementation capability; the State Budget strategies are as follow:

Firstly: To ensure effectiveness in the public service institutions through rationalisation and coordination measures as well as strengthening corporate and financial management in supporting the delivery system and enhancing competitiveness;

Secondly: To expedite and consolidate the development in the provision of infrastructures and basic amenities towards stimulating economic and social expansion and private sector involvement;

Thirdly: To ensure development and utilisation of natural resources in a sustainable manner and effective protection of natural environment;

Fourthly: To develop a human capital program as catalyst and agent of growth as well as to participate in the economy; and

Fifthly: To ensure the people enjoy continuous prosperity and quality of life.

Mr. Speaker,

7. In our endeavour to achieve the goals of *Dasar Halatuju*, the government will always encounter various challenges and obstacles in view that the holistic development plan that have to be achieved by the year 2015, require close monitoring of the utilisation of resources and provision of effective services. With a smooth running of the public administrative machinery, **prudent** expenditure and **concerted** effort shown, the government has been able to redevelop its assets, and also benefited from the encouraging commodity market. This is not a new idea or element, but it is the assimilation of management and resources development by the state government of today, which places greater state interest over individual interest. As a result, the state government was able to consolidate the state financial position, in which the State Reserve has increased from RM845.7 million in 2005, to RM1,184.46 million in 2006. As at September 2007, the State Reserve has increased further to RM2,330.61 million. Similarly the total assets in the 2006 Balance Sheet has increased to 44.4 percent, that is from RM927.62 million in 2005 to RM1,339.71 million in 2006. For the first time in the year 2006, the state revenue collection had surpassed RM 2 thousand million (RM2.0 billion) in the form of cash. This trend is achievable this year and is expected to continue next year, *InsyaaAllah*. Even though achievement of the present state financial performance is encouraging, I wish to stress that the government will continue to practise prudent spending without jeopardizing the provision of services to the people but will always give priority to their well being and progress especially those in the rural area. Apart from prudent spending, the state government will ensure better management of the state assets and wealth such as land, forestry and environment, indigenous development so as to continue to experience increase and growth in revenue.

Mr. Speaker,

Public Service

8. Public service as the main backbone or prime mover of government policies and development programs has and will be given training for the enhancement of skills, ability and better leadership capability. I am confident that public service personnel have the capability and credibility in performing and improving delivery system. This approach is not only able to have bearing on their productivity but also be able to optimize use of resources through effective rationalisation and better coordination.

9. Sabah is the first state to announce the revision of salary of the members of the civil service in line with the salary hike as announced by the Right Honourable Prime Minister on 21 May 2007 which involved an allocation of RM97.0 million. I am confident, that the salary increase will

encourage the members of the public service to step up their performance for the people and thereby to focus and give a meaningful contribution. Apart from that, the housing loan entitlement for the members of the public service has also been increased to RM350 thousand from the maximum of RM200 thousand. So is the increase of allowance for the rural administrators such as the District Heads, Village Headmen, Chinese Kapitan and Chairman of JKKK. This is in tandem with the expansion of their roles as a communicator between government and the people in the dissemination of information on relevant government policies towards the generation of the human capital among the rural populace.

Mr Speaker,

Management Of The Forest Reserve

10. I would like to stress that the method and approach adopted in the management of State Forest Reserve is one of the best in the country which has resulted in this resource being effectively managed despite irresponsible critics and opinions to belittle the effort and image of the Forestry Department and state government. Even though there has been a decline in the production of timber about 30 per cent, but due to measures to address this depletion, the revenue derived from forest is still able to achieve between RM400-RM500 million per year up to now, which reflected an increase in the recovery return per cubic meter of more than RM100 cubic meter as compare to the previous years. With the expansion of the 'Sustainable Forest Management' (SFM) as practiced in Deramakot to other areas in Ulu Segama-Malua, Tangkulap-Pinangah, Kalabakan-Sapulut and Trusmadi, the present focus is not only on the production of timber, but on carbon trading, bio-diversity, eco-tourism and other products. This is our approach to guarantee generation of new wealth in the long run which will replace the traditional extraction of timber. We will seriously implement this plan by utilising whatever existing instrument we have, as to ensure 53 per cent of the state land continue to be protected through forestry conservation and bio-diversity. At the same time, efforts to redevelop the forest through plantations as well as forest conservation, will be doubled from the area of 270 thousand hectare, to not less than 500 thousand hectares in ten years time.

Mr Speaker,

Rural Development Progress To Resolve Poverty

11. To stimulate growth in the agriculture sector, apart from commercial crops such as oil palm, rubber and cocoa, the government will also give focus as well as encouragement to assist in the successful development of the milk industry in the state, especially in the rural area. The milk industry started in 1982 with production of 8 thousand liters of fresh milk has successfully produced 8.4 thousand liters in 2006. This has made Sabah the highest producer of quality milk in the country. The state government is concern about the increased cost of production faced by the farmers. Hence, to ensure the industry is not jeopardised, the subsidy incentive has been revised to 85 sen per liter from 50 sen per liter, subject to the quality of milk. The increase of this subsidy will involve an

amount of RM20.3 million in year 2008 as compared to the estimated amount of RM16.5 million this year. Nonetheless, the government call upon these farmers to step up their level of cost efficiency and not to depend solely on the government assistance.

Mr Speaker,

12. Resolving poverty in Sabah is a responsibility which can not be compromised. The state government together with the federal government, will tackle poverty from all aspects be it from the provision of basic needs such as the housing for the people, water and electricity supply or economic activities which can generate income and reduce expenditure. This noble effort can be implemented through economic programs which are viable and sustainable, through clusters, especially for the hard core and the poor with the involvement agencies to lead in the various program within the agriculture, fishery, animal husbandry and small scale business sectors, as well as human resource development. The *Mini Estet Sejahtera* program (MESEJ) which is handled by the Sabah Ministry of Rural Development is considered to be amongst the most effective program to resolve poverty problem, whereby nine (9) out of thirty (30) programs are in the various stages of implementation. Next year, an amount of RM14 million is allocated for MESEJ. In the area of education for the rural students, an amount of RM13 million has been allocated for the scholarship program. As sign of determined government effort to develop the rural community, an amount of RM36 million is allocated for the various minor development programs. The government is confident that poverty can be overcome through pragmatic realistic and persistent approach. This is one prominent agenda with noble values, which requires the cooperation from all within each level of the state.

Mr Speaker,

Enhancing The Roles Of Agencies

13. The redressal step that was emphasized five (5) years ago together with the effort towards improving the management capacity of state agencies, are critical in the economic participation, so that they can play an active role in the socio-economic development to overcome poverty especially in the rural areas. Currently, state agencies are given the opportunity to manage federal funds totalling RM180.48million (from Economic Planning Unit, Prime Minister's Department and Sabah Felda fund) throughout 9MP, of which, a sum of RM66.06 million has already been provided. This is a accreditation for the state agencies that possess good governance practices and are up-to-date in their annual accounts. At the same time, the state government will provide grants to state agencies totalling RM103.00 million for their operation and RM54.33 million for development programs next year. Among the state agencies that will be receiving their grants are Sabah Tourism Board, Sabah Parks, Rural Development Corporation, Ko-Nelayan, SAFODA, Sabah Rubber Industry Board, Yayasan Usaha Maju, Sabah Sports Board, and Sabah Cultural Board.

14. Successful and financially sound government agencies such as Yayasan Sabah, Sawit Kinabalu Berhad, Sabah Development Bank, Sabah Credit Corporation, Warisan Harta Sabah Bhd, Progressive Insurance Bhd, SEDCO Group, Sabah Energy Corporation and Lembaga Pembangunan Perumahan dan Bandar, in year 2006, are capable of paying dividend and state loans amounting RM155 million. These agencies also have been playing their social roles where many of them have already practiced Corporate Social Responsibility (CSR). I recommend that their CSR program gives priority, amongst others, on the training of bumiputera entrepreneurs and welfare programs. Other GLCs such as KKIP Sdn. Bhd., is beginning to register profit exceeding RM 1 million since 2005 and POIC Sdn. Bhd. will continue to play their role in the industrial and service sectors growth.

Mr. Speaker,

Human Capital Development And Youth Advancement

15. The success experienced by developed countries is determined by the level of knowledge, skill, innovation and efforts of its people which include high integrity as well as noble ethics. All of these are reflected in the Islam Hadhari approach which emphasise on moral strength, intellect, self-sufficiency, ability to compete, forward looking, innovative, and efficient in addressing the challenges in a rational and practical manner. Towards this end the government will continue its effort in the provision of infrastructure such as equipping sites with public amenities like Sandakan Education Hub covering an area of 1,356 acres for higher learning institutions, research center and private colleges. In this respect, a sum of RM200.00 million is allocated in the 9MP, where an amount of RM15.0 million is provided next year. In addition, the organisation structure of the Technical and Trade Training Institution in Papar, is currently being reviewed with the objective of upgrading it to a higher level as a preparatory effort towards enhancing the technical skills that is needed in the future. At the same time, mobile and rural branch libraries, and the completion of the construction of the eight (8) storey Kota Kinabalu Library will continue. A total sum of RM13.83 million is provided for all of these facilities next year. Also, under the Human Resource Development program, many more skill training programs will be organised in order to enable primary and secondary school-leavers be gainfully employed or self-employed. I hope through this rationalisation approach, the Ministry of Youth and Sports will cooperate in carrying out whatever youth development programs being organised. In another aspect of development, healthy body and mind is also a requirement in our daily lives. With that, sports programs are encouraged, particularly for the youths. For this purpose, the government is providing an allocation of RM6.8 million. Whereas, skill training programs will be extended to rural youth groups, including the disabled and single mothers, so that they can be independent and live a more meaningful life in the mainstream of development.

Mr Speaker,

Women In Development Mainstream

16. The state government is appreciative and fully aware of the women's role as the heart of development in the state aptly coined in the slogan "*Pemuda Harapan Bangsa, Pemudi Tiang Negara*" It cannot be denied that with the trust given, women have proven their capabilities in carrying out and implementing heavy and challenging responsibilities for the development of the state. As a proof of the government's sincerity to enhance the status of women in this state, a study to come up with a Master Plan for Women Development for a period of ten (10) years has been approved. The purpose of this Master Plan is to prepare the *halatuju* and the framework of actions in enhancing the advancement of Sabah women in the mainstream of development towards achieving the gender equality objective. For this purpose, a sum of RM500 thousand has been allocated.

17. From the aspects of economic development, credit should be given to the rural women for their willingness to take up the challenge in making the micro credit scheme a success. This scheme is managed by Yayasan Usaha Maju with the objective to overcome poverty in the rural areas. The women have taken full advantage of the financial facilities provided to uplift the status and quality of life of their families, and have been able to repay the loans given with a good performance of up to 96 per cent. Our congratulations to Sabah women especially to those who have participated in the micro credit scheme. The cumulative loans which have been given out up to end of September 2007 amounted to RM15.69 million involving 3,825 borrowers, of which, 1,547 of them are from the poor and hardcore poor groups.

Mr Speaker,

ICT Development

18. ICT development will continue to be intensified and diversified through ICT programs and activities towards developing a system to upgrade and improve the public sector management with the purpose to enhance the delivery system as well as to reduce the digital divide among the people. ICT development will also become the contributor towards the creation of k-economy by giving focus to strategic sectors like tourism, agriculture, manufacturing and education. In order to uphold this aspiration, the state government will cooperate with the federal government and private sectors to develop the MSC Cyber Centre and widen the broadband coverage. In addition, incubator facilities, research and development (R&D) will be provided for technopreneurs development. Whereas the indigenous capacity in creativity will be harnessed through Creative Multimedia Content. In order to continue with the state government's commitment in enhancing ICT development for year 2008, a sum of RM17.84 million is allocated.

Mr Speaker,

Bumiputera Participation

19. Bumiputera participation in the mainstream of development is crucial in enhancing their level of socio-economic status. In this regard, the government will continue to give due attention by

providing allocations through the executing agencies to implement the relevant programs particularly to enhance the knowledge and entrepreneur skill. Programs and projects such as training for young students, graduates and women will be intensified. In order to facilitate bumiputera entrepreneurs to market their products as well as to carry out their trading activities, trading and industrial premises particularly in small and medium enterprises (SME), will be provided. In addition to the allocation from the federal government, and through the direct roles of the state agencies, a sum of RM12.97 million is provided by the state government for this purpose.

Mr Speaker,

ECONOMIC PROSPECT

World Economy

20. The world economy is forecast to moderate to 5.2 per cent in 2007 and 4.8 per cent in 2008 amid problems in the US economy related to sub-prime mortgage market which is expected to be resolved in the later part of this year. The United State's economy is forecast to grow at 1.9 per cent in 2008, while growth in the European Union is expected to moderate slightly to 2.1 per cent in 2008. As for Asia, economic growth in China and India is expected to moderate with the growth at 10.0 per cent and 8.4 per cent respectively in 2008. Meanwhile Japan's economic growth is expected to weaken slightly, declining from 2.0 per cent in 2007 to 1.7 per cent in 2008.

21. Despite moderate growth forecast for the world economy, the Malaysian economy is expected to remain resilient as growth in the Malaysian economy is increasingly driven by strong domestic demand spurred by government spending, hikes in civil service salaries, infrastructure development, construction activities and development in the various development corridor. The special incentives given to the various development corridor will attract greater investments into the economy. And with macro economic stability as shown by benign inflation rate and strong government finances, the economy is expected to grow by about 6 per cent this year and 6.5 per cent next year. Nonetheless, looking ahead, the main challenge facing the Malaysian economy is in transforming the economy into a higher phase of development through raising productivity, competitiveness and innovation in order to move towards a knowledge-based economy or K-Economy.

Mr Speaker,

Sabah Economy

22. For the economy of Sabah, the external sector will continue to be the main driver. Exports grew by 10 per cent in the first quarter of this year and this growth momentum is expected to continue in 2008 as world trade is forecast to pick up by 7.9 per cent from 7.1 per cent this year. With the world's two fastest growing nations namely China and India as the State's largest export

destinations, the State's exports growth will remain robust in the next few years. China, being the State's largest export destination consumed about 20 per cent of the state's total exports of RM6.7 billion in the second quarter of 2007, while India absorbed about 11 per cent (RM1.63 billion). In the second quarter of 2007, the state's trade surplus has already reached about RM2.4 billion. Exports of palm oil alone amounted to RM5.0 billion representing 34.6 per cent of total exports of RM14.4 billion in the second quarter of 2007. Exports of palm oil alone rose to RM8.1 billion, an increase of 14.1 per cent from the year before buoyed by rising palm oil prices. The second highest item exported was crude petroleum valued at RM7.6 billion or 20 per cent of the state's total exports. This was followed by exports of primary timber products, hot briquetted iron, methanol, rubber and cocoa beans.

23. Apart from export sector, growth will also be supported primarily by private consumption. In the second quarter of 2007, imports of consumption goods including food, beverages, tobacco and vegetable oil grew by 17.1 per cent to reach RM1.3 billion. The recent hike in civil servants' salaries will further boost domestic consumption and as a result the inflation rate is likely to edge up marginally from the current 2 per cent recorded in the first eight months of this year.

Mr Speaker,

24. Consistent with favourable growth prospects, investors' sentiments strengthen as reflected by the 12.3 per cent rise in loans extended by all commercial banks in the first half of 2007. Most of these investments were seen in the landed property sector, plantation sector, agro-based industry, wholesale and retail trade, and restaurants and hotels sector, and the construction sector. The landed property sector alone comprised about 28.7 per cent (RM7.0 billion) of the total loans by commercial banks of RM24.4 billion. Commercial loans extended to the wholesale, retail, hotels and restaurants sectors amounted to RM2.9 billion while loans extended to the plantation sector and the agro-based industry sector amounted to RM2.0 billion and RM1.8 billion respectively. The construction sector absorbed RM1.6 billion of the total loans given out in the first half of this year. With the relaxation on foreign ownership on residential house valued above RM250 thousand, the exemption from real property gains tax effective 1 April this year and the EPF relaxation for payment of housing loans effective 1 January 2008, investments into the residential sector is envisaged to escalate.

Mr Speaker,

25. With improved investment climate, the manufacturing sector has managed to attract more investments this year. In the first half of 2007, approved manufacturing investments amounted to RM2.7 billion as compared to RM632 million for the whole year of 2006. The bulk of the investments were channeled to the bio-diesel, biomass, palm oil and food (seafood) industries.

26. To support the private sector's initiatives, public investment will focus on provision of basic infrastructure facilities and utilities. At the same time, the government will continue its efforts

to reduce poverty and narrow the development gap within the regions in the state. With a total amount of RM839.28 million proposed for development including the additional RM4 billion from the Federal Government for 2008, the pace of project implementation is expected to gather speed. Public investment to support the development of the Sabah Development Corridor and its flagship projects will be given emphasis.

Mr Speaker,

27. Public consumption is projected to remain firm following anticipated increase in expenditure as part of ongoing efforts to further improve the government delivery system and enhance capacity building for civil servants. On the supply side, the composition of growth is expected to come from the agriculture sector, manufacturing sector, construction sector and the services sector. The services sector continues to be one of the key drivers of growth in 2007 and is expected to expand at a steady pace led by the tourism industry, wholesale and retail trade sector and restaurants and hotels sector. Dominated by the oil palm sector, prospect in the agriculture sector is encouraging. Production of crude palm oil rose by 82,000 tonnes to reach 3.4 million tonnes in the first eight months of 2007 as compared to the same period last year. Prices of oil palm is expected to remain bullish above RM 2 thousand per tonne as prevailing strong demand anticipated from consuming countries. With prices of rubber reaching RM7 per kg, the export volume of rubber grew by 25.3 per cent while the export value achieved a record high of RM488.7 million in 2006 as compared to RM282.9 million in the previous year. The bright outlook in rubber is expected to generate more investment into the rubber plantation sector.

Mr Speaker,

28. The tourism industry remains upbeat as Sabah is becoming increasingly a popular destination not only for nature and adventure tourism but also for “Meetings, Incentives, Convention and Exhibition (MICE)”. In the first nine months of 2007, visitor arrivals into the State had already recorded an increase of 14.4 per cent (1,749,843 visitors) as compared to the same period in 2006. International arrivals grew by 23.4 per cent (640,788 visitors) while domestic arrivals recorded growth of 9.4 per cent (1,079,055 visitors). Demand for hotel rooms has been encouraging as reflected by the steady rise in hotel room rates. Hotel occupancy rate remains high at an average of 72 per cent in the first five months of 2007. And in the first eight months of this year, 578 hotel rooms have been added into the market with the opening of seven new hotels in the state. Currently, there are two new hotel or resorts under construction while eight more hotels have been planned adding about 2,000 more hotel rooms into the market once completed. The wholesale and retail trade sector has also picked up with the opening of more shopping complexes and increases in occupancy rates of the business premises.

Mr Speaker,

29. As for the manufacturing sector, exports of manufactured goods in 2006 registered a significant growth of 11.4 per cent following stronger demand for timber products. Exports of timber products rose to RM 3 billion in 2006 from RM2.7 billion in 2005. This trend is envisaged to continue as exports of timber products already recorded an increase of 9.3 per cent in the second quarter of 2007 amounting to RM1.6 billion from RM1.5 billion in the same period in 2006.

30. Construction of residential properties, hotels, commercial shop lots and malls will dominate the landscape of the state particularly Kota Kinabalu City in the next two to five years. In the first half of 2007 alone, 13 residential projects and 21 commercial shop lots projects have commenced in the city. In the industrial sector, the bigger projects under construction are the Palm Oil Industrial Cluster in Lahad Datu and KKIP's Small and Medium Industry (SMI) Ready Build Factories.

31. The civil engineering sub-sector is expected to pick up further as the state enters into its third year 9MP. Some of the major infrastructure projects include the Karamunsing flyover, Sepulut-Kalabakan Road, Sipitang-Tenom Road, Sandakan Northern Ring Road and upgrading of Sukau-Kinabatangan Road. The huge water supply projects under construction are in Kota Belud, Sandakan, Kudat and Papar. Against a backdrop of improved domestic demand, brisk construction activities and stable external environment, the state's economy is expected to grow by around 6 per cent in 2007 and 2008.

Mr Speaker,

State Revenue

32. The state revenue is estimated at RM2,333.19 million for the year 2008. This amount compared to the revised estimate of RM2,265.69 million shows an increase of RM67.50 million. The state government is fully confident that the new target can be achieved considering the encouraging performance this year where the original state revenue estimate of RM1,899.49 million is now revised to RM2,265.69 million, an increase of RM366.20 million or 19 per cent. The breakdown of the revenue estimates for the year 2008 according to the three main categories are: RM882.26 million or 38 per cent from Tax Revenue, RM1,183.96 million or 51 per cent through Non-Tax Revenue and RM266.97 million or 11 per cent of Other Receipts.

Mr Speaker,

33. Sales Tax continues to lead the Tax Revenue category. Last year, the total collection from Sales Tax was RM656.07 million. The revised figure for this year is RM738.00 million as compared to the original estimate of RM579.00 million, showing an increase of about 27 per cent. For the year 2008, RM833.00 million is estimated to be collected from Sales Tax, or almost 36 per cent of the total state revenue.

Mr Speaker,

34. Sales Tax on Crude Palm Oil (CPO) once again is the highest contributor for a single item with an estimate of RM765.00 million, or almost 33 per cent of the total state revenue for next year. With the CPO price expected to remain above RM2 thousand per metric tonne, the estimate for the year 2007 is revised to RM670.00 million, an increase of almost 30 per cent from the original estimate of RM517.00 million. The other two items in this component are Sales Tax on Lottery Tickets and Sales Tax on Sales of Bets through Slot Machines each estimated at RM60.00 million and RM8.00 million respectively.

35. The other significant contributor in the Tax Revenue category is Land Rents. The revised estimate for the year 2007 is RM42.00 million, a slight increase as compared to the original estimate of RM40.00 million. The Land and Survey Department is confident that with new approach and facilities, the collection for the year 2008 can be improved further to around RM48.00 million. A total of RM1.26 million is estimated to be collected from Harbour and Wharf Dues next year, a slight decrease compared to the original estimate of RM1.30 million for this year. With this, the total overall Tax Revenue is estimated at RM882.26 million for the year 2008, an increase of RM101.01 million or almost 13 per cent compared to the revised estimate of RM781.25 million for this year.

Mr Speaker,

36. As in previous years, Royalties continue to be the major contributor in the Non-Tax Revenue category with an estimate of RM708.62 million, or about 30 per cent of the total revenue for the year 2008. A total of RM466.33 million has been estimated by PETRONAS to be paid as Petroleum Royalty to Sabah next year. This amount represents almost 20 per cent of the total state revenue for 2008. The revised estimate for 2007 is RM365.37 million, an increase of more than 10 per cent from the original estimate of RM330.80 million. It is to be noted that three important elements, namely the volume of production, price of crude oil and foreign exchange rates, will determine the actual total payment of Petroleum Royalty to be received.

37. The Forestry Department estimates that only RM235.00 million to be collected from Royalty and Fees on Forest Produce in the year 2008 compared to the revised estimate of RM355.30 million this year. Export Royalty on Timber Products is estimated at RM7.30 million for next year, showing a slight decrease compared to the revised estimate of RM7.58 million for this year. Overall revenue from the forestry sector is expected to be lower because of the anticipated reduction in log production next year to only 3.5 million cubic metres where 3 million cubic metres are to be used for local consumption and the remaining for exports.

38. Premium payment is another important contributor in the Non-tax Revenue category. A total of only RM136.00 million is expected to be collected from Premium next year as compared to the revised figure of RM154.15 million this year. The drop is expected from Premium on Round

Logs where only RM36.00 million is estimated in the year 2008 compared to the revised amount of RM54.00 million for 2007. However, Premium from Land Sales is expected to contribute RM100.00 million next year, about the same as the revised estimate of RM100.15 million for this year.

39. Proceeds from Sales of Goods is expected to bring in about RM137.03 million, a slight increase as compared to the revised estimate of RM135.20 for this year. Sale of Water is the leading contributor with an estimate of RM103.98 million, followed by Sale of Birds Nests with a contribution of RM18.00 million, Sale of Fresh Milk with RM8.50 million, RM2.06 million from Sale of Planting Materials, RM1.28 million from sale of Oil Palm, RM1.20 million from Stationery and RM1.00 million from Sale of Livestock and Produce .

40. A total of RM 120.09 million is expected from Interests and Proceeds from Investment next year. In this component, Dividends (Public Corporation) top the list with an estimate of RM80.00 million for 2008 while the revised estimate for this year is expected to be around RM70.00 million. For next year, Interest on Cash Balances and Short Term Deposits is estimated at RM32.00 million. Others include Interest on Loans Statutory Bodies (RM4.00 million), Interest on Loans to Public Corporation (RM2.00 million) and Interest on Other Loans (RM2.00 million).

41. In the Rents component, only RM15.17 million is estimated for the year 2008, while the revised estimate for this year is RM20.56 million. The decrease is because the prevailing rental contract between the state government and Sime Darby Sdn Bhd over Wisma Sime Darby in Kuala Lumpur will expire in June next year. The new rental contract is expected to worth only about RM10.00 million per year. Rent collection from the Wisma Tun Fuad Building is estimated at RM1.20 million in the year 2008.

42. From Fees and Services Payments, a total of RM13.51 million is estimated for the year 2008, more or less the same as the revised estimate of RM13.73 million for this year. Among the contributors in this component are Forestry Department (RM4.00 million), Printing Department (RM2.30 million), Water Department (RM1.52 million), Public Works Department (RM 1.20 million), Veterinary Department (RM1.20 million) and Railway Department (RM690 thousand).

43. A total of RM47.91 million is expected from Miscellaneous in the Non-Tax Revenue category, about the same amount of RM47.20 million for the revised figure this year. The largest item under this component is Proceed from Transfer of Loans to Statutory and Other Bodies Fund which is expected to contribute around RM20.00 million this year as well as in the year 2008. Other miscellaneous items include revenue from Forestry (RM13.00 million), Land and Survey (RM8.00 million), Water (RM2.50 million), and Over payments Recovered (RM1.00 million).

Mr Speaker,

44. The final category of the state revenue being Other Receipts is expected to contribute RM266.97 million, or about 11 per cent of the total state revenue for next year. This category constitutes mainly the Federal Grants and Contributions provided for under the Federal Constitution with the balance of RM303 thousand from Reimbursements. Federal grants and contributions include Grant in aid of Operating Expenses for Departments Under the Concurrent List with RM50.60 million, Capitation Grant (RM42.95 million), Special Grant (RM26.70 million), Contributions Towards Implementation Cost of Federal Development Projects (RM20.95 million), Revenue Growth Grant (Part I) (RM4.00 million) and Grant in aid of Operating Expenses of Sabah Museum (RM1.4 million).

45. Regarding the Grant to replace Import and Excise Duty on Petroleum products which was abolished in the year 2000, the federal government has agreed that a sum of RM120.00 million per year would be paid to the state government beginning this year. This is an improved amount compared to the RM50.00 million per year previously allocated for this item. The State Government is still very much in negotiation with the Federal Government to have the Special Grant in the Federal Constitution be revised. The Special Grant has been the same amount of RM26.70 million since 1973. The positive response given by the Federal Treasury in the last meeting is encouraging and I am confident that this matter will be resolved in due time.

46. Starting from next year, two new codes have been created, namely Bond and Contribution From Specific Entities under the Other Receipts category. This is to cater for the likely proceeds received through bond and contributions or donations from specific entities. This measure will strengthen the state financial capacity.

Mr. Speaker,

2008 SUPPLY EXPENDITURE

47. I propose a sum of RM2,301.15 million to be allocated for the 2008 Supply Expenditure. With the Revenue Estimate for 2008 amounting to RM2,333.19 million, the State Estimate for next year will face a surplus amount of RM32.04 million. Alhamdulillah, with the current strength and stability of the State's financial position, I am able to propose the largest allocation in the history of Sabah's State Budget to continue with its development towards **Continuous Stability and Progress**.

Mr. Speaker,

48. The proposed estimate for Emolument amounting to RM596.41 million involves an increase in expenditure amounting to RM28.56 million or 5.02 percent increase as compared to the 2007 revised estimate which amount to RM567.85 million. Apart from the annual increment and revision of salary effective July 2007, the increase is also due to the filling of vacant posts and creation of new posts in consistent with the Sistem Saraan Malaysia (SSM) structure and for

departments with critical roles. Whereas an allocation of RM730.84 million is proposed for the Recurrent Expenditure, an increase of RM20.42 million or 2.87 percent as compared to this years' estimate of RM710.42 million. Further on, an amount of RM973.90 million is proposed for Special Expenditure.

Mr. Speaker,

49. Among the focus of the 2008 Budget will be the strengthening of capacity management by departments contributing to collection of revenues like Forestry Department, Water Department, Land and Survey Department and others. In the 2008 Budget, a sum of RM83.70 million is allocated to Forestry Department as compared to the revised estimate of 2007 amounting to RM78.47 to finance its programmes among others: Development and Conservation of Forest; Promotion of Forest Revenue; Extension and Education of Forest; Conservation Education Programme; Research of Natural Forest Sector; Forest Plantation and Forest Products Sector. The Water Department is allocated a sum of RM281.84 million to finance for its programmes like Water Production Operation; Maintenance Operation; Ensconcing of the Revenue Collection System; Enforcement, Consumer Services and Natural Disaster Services. The Land and Survey Department is allocated a sum of RM62.70 million to implement its programmes like Land Management and Enforcement; Cadastral Surveying; Mapping; Spatial Data Infrastructure; Maintenance and Development of Resources.

Mr. Speaker,

50. The government also emphasizes on capacity management by the local authorities and government agencies to ensure that the beautification and cleanliness of the environment be upgraded to meet with the needs of the people. Under the Ministry of Local Government and Housing, a total of RM44.21 million is made available for contributions and grants and other expenditure among others; lieu of rates, contribution for upkeep of grounds, sewerage schemes, street light expenses, construction of urban drainage, maintenance of parks and public amenities, maintenance of common walkway and others. Kota Kinabalu City Hall is allocated an amount of RM11.8 million as contribution for its management and operation.

Mr. Speaker,

51. The Sabah State Native Affairs office under the Ministry of Local Government and Housing that will be tasked to manage and administer the State Native Courts from all the Districts Offices is allocated a sum of RM18.16 million. Besides strengthening the Sabah State Native Affairs office, this is also aimed to facilitate the payment of allowances to all Districts Chiefs, Heads of Native Chief; Native Chief Representatives, Heads of Chinese Community and Village Headmen. Following this, the Government also values role of Chairman of Village Development and Security Committees by raising its allowances from RM100.00 to RM200.00 a month. For this purpose, a sum of RM7.2 million is allocated to Ministry of Rural Development. This effort is taken as recognition

and to further strengthen the institution of both Native Courts and Village Development and Security Committees in line with Government awareness that leadership at grass root level is important in bringing about development to the rural communities.

Mr. Speaker,

52. Knowledge level, to possess and increase skill levels to produce workers who are multi-skilled and multi-talented, is our hope and vision. Hence, as an important element to produce knowledgeable generation, able to sustain its competitiveness edge, Program of Human Resource Development as Human Capital is allocated a sum of RM55.8 million. This allocation covers among others, RM25.0 million for scholarship; RM10.0 million for in-service training and courses; and grant to private schools amounting to RM8.0 million. An allocation of RM9.8 is also provided for manpower training through vocational and skill training which is undertaken by Agriculture Department, Forestry Department and Development of Human Resource Department.

Mr. Speaker,

53. The government is always aware of its responsibility towards the unfortunates and also to those in need of support and assistance. As such, social and welfare programs will be continued through general assistance, old age assistance, assistance to orphans and children in need and others with an allocation amounting to RM29.03 million. The building for center for the blind in Sandakan worth RM5.0 million is also in progress. Beside that, a sum of RM26.07 million is provided for community development programs in which a sum of RM23.0 million is for distribution of free milk to students in primary schools as well as provision of stationaries, school uniforms and shoes. Assistance to needy people amounting to RM50 thousand to each of the state constituencies will also be continued.

Mr. Speaker,

54. The appropriation of the Supply Expenditure for 2008 according to ministries is as follows:

No.	Ministry	2008 (RM Million)	Percentage
1	Ministry of Finance	721.87	31.37
2	Ministry of Infrastructure Development	497.07	21.60
3	Chief Minister's Department	354.97	15.43
4	Ministry of Agriculture and Food Industry	241.18	10.48
5	Ministry of Community Development and Consumer Affairs	93.08	4.04
6	Ministry of Tourism, Culture and Environment	86.40	3.75
7	Ministry of Rural Development	53.73	2.33

8	Ministry of Local Government and Housing	73.83	3.20
9	Ministry of Resource Development and Information Technology	49.44	2.15
10	Ministry of Youth and Sports	28.67	1.24
11	Ministry of Industrial Development	8.27	0.35
12	Expenditure not listed under Ministry	22.74	0.99
13	Charged Expenditure	69.90	3.04
	Total:	2,301.15	100.00

Mr Speaker,

Development Expenditure

55. State Development Expenditure for 2008 shows an increase of RM83.64 million or 11.07 percent which totalled RM839.28 million as compared to the original estimates amounting RM755.64 million for 2007. Of that amount RM442.18 million is for continuation projects, whereas RM397.10 million is for new projects.

56. In terms of distribution by sector, a sum of RM539.74 million or as much as 64.31 per cent is for the implementation of development programs and projects under the Economic Sector. The Social Sector will receive a sum of RM219.42 million or as much as 26.14 percent, whereas RM67.12 million or about 8.0 percent is proposed for the Administration Sector. The balance of RM13.0 million or 1.55 percent is set aside for Contingencies. The distribution of this fund is consistent with the state development agenda as outlined in the state *halatuju*.

57. The Economic Sector which is given the top priority includes the development of infrastructures, transportation and other public utilities such as water supply and sewerage is allocated a substantial sum amounting RM330.78 million. Agriculture and Land Development which is also under this sector is allocated a sum of RM176.60 million. With this allocation it is hope that our state agricultural development will be carried out in line with the new Agriculture Policy. Allocation given to other items under this sector are tourism development totalling RM9.03 million, and various items under Industry and Finance totalling RM23.28 million.

58. Of the RM219.42 million allocated to the Social Sector, a substantial sum of it totalling RM100.66 million is meant for Community and Rural Development. Specific projects under this programme are poverty eradication, village rehabilitation, minor and special development projects. With these projects, the government hopes to realise its objective of lowering the level of poverty in the rural areas and at the same time lessen the economic imbalances between region. Other programs under the social sector such as culture, sports, library and welfare services, religious related program and development program under the city hall and local authorities is provided a sum of RM89.02 million.

59. The General Administration Sector is allocated a sum of RM67.12 million. A bulk of this allocation will be used in the acquisition and settlement of land problems that will be required by the government for development purposes. Of the above sum an amount of RM4.82 million is set aside for the construction of government quarters in various district such as Nabawan, Beluran, Pitas, Sook and Telupid. RM1.8 million is also allocated to complete the Syariah Court buildings in Nabawan and Kota Marudu.

Mr Speaker,

60. The distribution of the 2008 Development Budget by Ministries is as follows:

No.	Ministry	2008 (RM Million)	Percentage
1	Ministry Of Infrastructure Development	313.22	37.32
2	Chief Minister's Department	160.71	19.15
3	Ministry Of Agriculture and Food Industry	156.53	18.65
4	Ministry of Rural Development	62.06	7.39
5	Ministry Of Local Government and Housing	40.70	4.85
6	Ministry Of Youth and Sports	23.90	2.85
7	Ministry Of Industrial Development	21.88	2.61
8	Ministry Of Social Development and Consumer Affairs	17.19	2.05
9	Ministry Of Finance	15.00	1.79
10	Ministry Of Tourism, Culture and Environment	12.71	1.51
11	Ministry Of Resource Development and Information Technology	2.38	0.28
12	Contingency	13.00	1.55
	Total:	839.28	100.00

I will leave it to my Cabinet colleagues to provide further details and purposes of their allocation.

Mr Speaker,

Federal Government's Contribution

61. Aside from the State development allocation totalling RM839.28 million, Sabah state government will also be getting federal development allocation amounting RM1,563.56 million consisting of RM95.38 million Federal Reimbursable Grant, RM449.60 million Federal Loans, and RM1,018.58 million Direct Grant. I am sure with such a substantial sum the state will be able to achieve and undergo rapid development. On behalf of the state government I would like to express our sincere gratitude and thanks to the Right Honourable Datuk Seri Panglima Abdullah Hj Ahmad Badawi, the Prime Minister of Malaysia for his sincerity in assisting the state.

Mr Speaker,

CONCLUSION

62. The implementation of the Sabah Development Corridor will open avenues for new industries which will require workers who are knowledgeable in science and technology to ensure innovation, productivity and competitiveness. Success in these fields has to be ensured to reduce the dependence on foreign labour. This means employment opportunities are abundantly available for Malaysian citizens domiciled in this state either in the urban or rural areas.

Mr Speaker,

63. The increase in prices of goods as a consequence of the increase in fuel prices last year are now felt by the consumers. We have to accept this reality and be continuously vigilant to make adjustment especially in our manner of spending. The benefit that we can draw as lesson from this matter is that we can avoid wastage as a consequence of over consumption. As reminded by the Right. Honourable Prime Minister recently, we should be prepared to face the reality of life under certain circumstances.

Mr Speaker,

64. To ensure continuous stability and progress, cooperation and team work among all parties are imperative, be it between the leaders and the people at the grassroot level or between the public officials and the people as the Malay saying, **Berat Sama Dipikul, Ringan Sama Dijinjing, Ke Bukit Sama Didaki, Ke lurah Sama Dituruni**. As leaders we will ensure that development policies will be intensified apart from formulating new policies. While leaders at the grass root level are responsible to disseminate accurate information so that the sincere intention of the government to develop and prosper this state will be known by the people, the public officials on the other hand, are required to support the desire and policies of the government so that all can be implemented skillfully, speedily and efficiently. We must always be cautious of those people who incessantly strive to belittle the sincere effort of the government and exaggerate trifle matters for their own interests. In carrying out responsibilities entrusted to us, we must be honest and sincere. Truly Allah SWT will always be with the party who is right. Those people who have intention to cast baseless accusations and spread slanders regarding the efforts of the government leadership should wake up and realise, and return to the right track in fighting for the rights of the people for progress and prosperity of all. Today the people are smart and know how to evaluate what is right and what is wrong, what is worthless and what is priceless.

Mr Speaker,

65. As a result of effective effort, prudent and strong financial management as well as positive external economy and encouraging commodity prices, the state financial position has improved.

However, the strong financial position of the state alone is not sufficient, we must double our efforts to increase revenue and to explore new fields in the economy. We must be prepared to face whatever possibilities that will jeopardise progress and affect adversely the time frame that has been fixed for us to achieve the status of a developed state. The economic growth of 10 percent at the first quarter of this year should convince us that the potential of achieving double digit growth rate can be realised to spur progress of Sabah so as to be equal in status with other developed states in this nation. For this to happen, we must strive with determination and act positively and adopt, a delivery system that is always effective at its best. We must be confident with our own capability and resourcefulness and to remove whatever perception that will impede unity as a basis for continuous progress. Guided by the **Dasar Halatuju Pembangunan dan Kemajuan Negeri** and the planned Sabah Development Corridor, we have to boost meaningful participation in the planning of development. Hence, I wish to invite all the people in this State to work together regardless of their ethnicity, religious and political affiliations to support the aspiration of transforming Sabah as one of the leading state in Malaysia that we together can be proud of.

Mr Speaker,

I beg to propose.